APPENDIX 1 – 2010-11

financial statements

Forestry Tasmania

Directors' Report

The Directors present their report, together with the financial report of the consolidated entity, being Forestry Tasmania (the Organisation) and its controlled entities, for the financial year ended 30 June 2011.

Directors

The Directors of the Organisation at any time during or since the end of the financial year are:
Adrian Kloeden (Chairman)
Geoff Coffey
Humphrey J Elliott
Deborah Radford
Miles Hampton
Robert L Gordon (Managing Director)

Principal Activities

Forestry Tasmania's statutory responsibility is to manage 1.5 million hectares of state forest, representing 22% of Tasmania's total land area and 39% of its forested land area. Its main undertaking is the sustainable management of Tasmania's state forests to optimise community benefit, including the sustainable production and delivery of forest products and services, the facilitation of new forest-based industries, the conservation of natural and cultural heritage values and the provision of education, recreation and tourism services.

Operating Results

The net result of the consolidated entity after income tax before other items from continuing operations was $12.090 million loss (2010: $12.261 million loss). The net result of the consolidated entity after income tax from continuing operations was $129.476 million loss (2010: $263.882 million loss).

Going Concern Basis of Preparation of Annual Financial Statements

Forestry Tasmania's operating result, together with the ongoing uncertainty around the Tasmanian Forests Intergovernmental Agreement and the Statement of Principles and their possible impact on the business, have caused the Directors to review the appropriateness of continuing to prepare the accounts on a going concern basis. The current trading outlook presents significant challenges in terms of sales volume and pricing and in these circumstances there are material uncertainties over future trading results and cash flows. In addition, the effect on the business of the Agreement and Principles is yet to be finalised but it is possible that they will lead to a significant reduction in the resource available for harvest and sale.

Also relevant is that the State Government has commenced a strategic review of Forestry Tasmania. The outcome of this review may or may not increase the uncertainties surrounding Forestry Tasmania's operations.

The Directors have concluded from this that the combination of these circumstances represents a material uncertainty on the operations of the business.

However, the Directors note that:

- there are signs of improved demand for forest products, pricing is improving and Forestry Tasmania has reduced its costs significantly;
- measures have been instituted to preserve cash, additional sources of finance have been secured and other initiatives are being considered including asset sales;
- it is likely that assistance will be received in restructuring operations and the balance sheet;
- appropriate enquiries of the relevant ministers have been made and, bearing in mind the uncertainties described above, the Directors have concluded that the Group and the Organisation will receive ongoing support and adequate resources to continue in operational existence for the foreseeable future.

Taking into account all the above factors the Directors have concluded that it is appropriate to continue to adopt the going concern basis in preparing the financial report.

Review of Operations

Dividends

There have been no dividends declared or paid to the shareholder since the end of the previous financial year to the date of this Directors' Report in respect of the year ended 30 June 2010 or 30 June 2011.

Directors' Report

Events Subsequent to Reporting Date

Except for the matters noted above under 'Going Concern Basis of Preparation of Annual Financial Statements', there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

Indemnification and Insurance of Officers

During the financial year the Organisation has paid insurance premiums in respect of Directors' and officers' liability. The insured persons under this policy are defined as all the Directors of the Organisation, the Secretary and executive officers of the Organisation and any related body corporate against a liability incurred as such a director, company secretary or executive officer to the extent permitted by the *Corporations Act 2001*. The terms of the insurance policy prohibit disclosure of the total amount of the premiums and the nature of the liabilities covered. Since the end of the previous financial year, the Organisation has not indemnified or made a relevant agreement for indemnifying against a liability any person who is or has been an officer or auditor of the Organisation or any related body corporate.

Dated at Hobart, this 15th day of August 2011

Adrian Kloeden
Director

Miles Hampton
Director

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statements OF COMPREHENSIVE INCOME

Statements of Comprehensive Income

For the year ended 30 June 2011

		Consolidated		Parent Entity	
		2011	2010	2011	2010
	Note	$'000	$'000	$'000	$'000
Revenue from forest sales	4	**156,459**	135,182	**156,459**	135,182
Other revenue and income	5	**15,793**	20,655	**13,251**	17,537
Tasmanian Community Forest Agreement income – operating activities	6	**3,716**	4,282	**3,716**	4,282
Expense from operations before costs attributable to non-commercial forest zones	7	**(179,307)**	(161,323)	**(177,276)**	(158,741)
Results from operating activities		**(3,339)**	(1,204)	**(3,850)**	(1,740)
Finance income	8	**2,331**	2,023	**2,331**	2,023
Finance expense	8	**(11,544)**	(10,834)	**(10,551)**	(9,828)
Net finance costs		**(9,213)**	(8,811)	**(8,220)**	(7,805)
Share of net profit/(loss) after tax of joint ventures accounted for using the equity method	19	**85**	135	**85**	135
Profit before tax, costs attributable to non-commercial zones and other items*		**(12,467)**	(9,880)	**(11,985)**	(9,410)
Costs attributable to non-commercial forest zones ^	7b	**(5,255)**	(6,390)	**(5,255)**	(6,390)
Profit/(loss) before tax and other items*		**(17,722)**	(16,270)	**(17,240)**	(15,800)
Income tax (expense)/benefit on profits before other items*	10a	**5,632**	4,009	**5,488**	3,867
Profit/(loss) after tax before other items*		**(12,090)**	(12,261)	**(11,752)**	(11,933)
Other items					
Tasmanian Community Forest Agreement income – intensive forest management	6	**7,496**	5,836	**7,496**	5,836
Gain/(loss) in the unfunded superannuation liability	25	**3,232**	(11,131)	**3,232**	(11,131)
Biological asset valuation decrement	9	**(95,253)**	(74,630)	**(95,253)**	(74,630)
Movement in obligations for non-commercial zones ^	24	**8,700**	(65,800)	**8,700**	(65,800)
Increase in the fair value of superannuation investment	20	**1,314**	1,299	**1,314**	1,299
Loss of investment in subsidiary company	20	**-**	-	**(198)**	(471)
Impairment of non current assets – Property, plant and equipment	17	**-**	(1,736)	**-**	(1,736)
Impairment of non current assets – Land	16	**-**	(217,198)	**-**	(217,198)
Income tax (expense)/benefit on these items	10a	**22,541**	111,739	**22,599**	111,881
Derecognition of deferred tax asset on forest land	10b	**(65,416)**	-	**(65,416)**	-
Net profit/(loss) attributable to the owners of Forestry Tasmania		**(129,476)**	**(263,882)**	**(129,278)**	**(263,883)**
Other comprehensive income					
Increase/(decrease) in the revaluation of land and buildings	16, 17	**1,150**	(59,631)	**1,150**	(59,631)
Income tax on revaluation of land and buildings	10a	**(468)**	17,844	**(468)**	17,844
Other comprehensive income/(expense) for the year, net of income tax		**682**	(41,787)	**682**	(41,787)
Total comprehensive income/(expense) for the year attributable to the equity holders of the parent		**(128,794)**	**(305,669)**	**(128,596)**	**(305,670)**

* Other items comprise capital grant income, biological asset valuation adjustment, actuarial movements in the unfunded superannuation liability, movement in superannuation investment and movement in investment of subsidiaries and impairment of assets.

^ Does not include non-commercial obligation costs attributed to general forest zones.

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

statements OF CHANGES IN EQUITY

Statements of Changes in Equity

For the year ended 30 June 2011

Consolidated	Contributed Equity $'000	Forest Revaluation Reserve $'000	Joint Venture Forest Revaluation Reserve $'000	Property & General Revaluation Reserve $'000	Superannuation Reserve $'000	Retained Earnings/ (Accumulated losses) $'000	Total Equity $'000
Balance at 01 July 2010	234,457	-	-	7,192	-	33,423	275,072
Total comprehensive income for the year							
Profit or (loss)	-	-	-	-	-	(129,476)	(129,476)
Other comprehensive income							-
Increase/(decrease) in the revaluation of land and buildings	-	-	-	682	-	-	682
Transfer to retained earnings		-	-	-	-	358	358
Total other comprehensive income	-	-	-	682	-	358	1,040
Total comprehensive income for the year	-	-	-	682	-	(129,118)	(128,436)
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends to equity holders	-	-	-	-	-	-	-
Total contributions by and distributions to owners	-	-	-	-	-	-	-
Total transactions with owners	-	-	-	-	-	-	-
Balance at 30 June 2011	234,457	-	-	7,874	-	(95,695)	146,636
Balance at 01 July 2009	235,457	204,321	21,572	49,941	11,981	58,254	581,526
Total comprehensive income for the year							
Profit or loss	-	-	-	-	-	(263,882)	(263,882)
Other comprehensive income							
Increase/(decrease) in the revaluation of land and buildings	-	(41,949)	-	296	-	-	(41,653)
Income tax on other comprehensive income	(1,000)	-	-	-	-	-	(1,000)
Transfer to retained earnings	-	(162,372)	(21,572)	(43,045)	(11,981)	239,051	81
Total other comprehensive income	(1,000)	(204,321)	(21,572)	(42,749)	(11,981)	239,051	(42,572)
Total comprehensive income for the year	(1,000)	(204,321)	(21,572)	(42,749)	(11,981)	(24,831)	(281,623)
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Funds provided for construction and development of income generating assets	-	-	-	-	-	-	-
Dividends to equity holders	-	-	-	-	-	-	-
Total contributions by and distributions to owners	-	-	-	-	-	-	-
Total transactions with owners	-	-	-	-	-	-	-
Balance at 30 June 2010	234,457	-	-	7,192	-	33,423	275,072

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

statements OF CHANGES IN EQUITY

Parent Entity	Contributed Equity	Forest Revaluation Reserve	Joint Venture Forest Revaluation Reserve	Property & General Revaluation Reserve	Super-annuation Reserve	Retained Earnings / (Accumu-lated losses)	Total Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 01 July 2010	234,457	-	-	7,037	-	33,398	274,892
Total comprehensive income for the year							
Profit or (loss)	-	-	-	-	-	(129,278)	(129,278)
Other comprehensive income							
Increase/(decrease) in the revaluation of land and buildings	-	-	-	682	-	-	682
Transfer to retained earnings	-		-	-	-	362	362
Total other comprehensive income	-	-	-	682	-	362	1,044
Total comprehensive income for the year	-	-	-	682	-	(128,916)	(128,234)
Transactions with owners, recorded directly in equity							
Dividends to equity holders	-	-	-	-	-	-	-
Total contributions by and distributions to owners	-	-	-	-	-	-	-
Total transactions with owners	-	-	-	-	-	-	-
Balance at 30 June 2011	234,457	-	-	7,719	-	(95,518)	146,658
Balance at 01 July 2009	235,457	204,321	21,572	49,786	11,981	58,283	581,400
Total comprehensive income for the year							
Profit or loss	-	-	-	-	-	(263,883)	(263,883)
Other comprehensive income							
Increase/(decrease) in the revaluation of land and buildings	-	(41,949)	-	296	-	-	(41,653)
Transfer TCFA funds received to revenue received in advance	(1,000)	-	-	-	-	-	(1,000)
Transfer to retained earnings	-	(162,372)	(21,572)	(43,045)	(11,981)	238,998	28
Total other comprehensive income	(1,000)	(204,321)	(21,572)	(42,749)	(11,981)	238,998	(42,625)
Total comprehensive income for the year	(1,000)	(204,321)	(21,572)	(42,749)	(11,981)	(24,885)	(281,623)
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Funds provided for construction and development of income generating assets	-	-	-	-	-	-	-
Dividends to equity holders	-	-	-	-	-	-	-
Total contributions by and distributions to owners	-	-	-	-	-	-	-
Total transactions with owners	-	-	-	-	-	-	-
Balance at 30 June 2010	234,457	-	-	7,037	-	33,398	274,892

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

statements OF FINANCIAL POSITION

Statements of Financial Position

As at 30 June 2011

	Note	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent Entity 2011 $'000	Parent Entity 2010 $'000
Current assets					
Cash and cash equivalents	12(a)	**9,365**	29,546	**9,291**	29,270
Trade and other receivables	13	**34,702**	38,540	**34,200**	38,212
Inventories	14	**12,684**	12,189	**12,684**	12,189
Biological assets	15	**6,741**	5,559	**6,741**	5,559
Other investments	20	**7,147**	-	**7,147**	-
Total current assets		**70,639**	85,834	**70,063**	85,230
Non-current assets					
Trade and other receivables	13	**76**	67	**4,060**	3,713
Other investments	20	**570**	14,636	**632**	14,896
Investments accounted for using the equity method	19	**436**	351	**436**	351
Net deferred tax asset	10(c)	**-**	27,467	**-**	26,525
Property, plant and equipment	17	**43,999**	46,385	**23,204**	24,493
Forest estate assets	16	**116,749**	114,654	**116,749**	114,654
Biological assets	15	**224,836**	313,178	**224,836**	313,178
Intangible assets	18	**207**	326	**207**	326
Total non-current assets		**386,873**	517,064	**370,124**	498,136
Total assets		**457,512**	602,898	**440,187**	583,366
Current liabilities					
Trade and other payables	21	**14,976**	20,330	**14,802**	20,054
Revenue received in advance	22	**12,988**	14,191	**12,484**	13,989
Interest bearing liabilities	23	**29,994**	19,979	**29,800**	19,800
Obligations for non-commercial forest zones	24	**1,463**	5,354	**1,463**	5,354
Employee benefits	25	**9,499**	9,727	**9,499**	9,727
Total current liabilities		**68,920**	69,581	**68,048**	68,924
Non-current liabilities					
Trade and other payables	21	**10**	10	**798**	442
Revenue received in advance	22	**34,744**	45,775	**28,076**	38,354
Interest bearing liabilities	23	**22,512**	32,706	**11,000**	21,000
Net deferred tax liability	10(c)	**10,244**	-	**11,161**	-
Obligations for non-commercial forest zones	24	**55,637**	60,446	**55,637**	60,446
Employee benefits	25	**118,809**	119,308	**118,809**	119,308
Total non-current liabilities		**241,956**	258,245	**225,481**	239,550
Total liabilities		**310,876**	327,826	**293,529**	308,474
Net assets		**146,636**	275,072	**146,658**	274,892
Equity					
Contributed equity		**234,457**	234,457	**234,457**	234,457
Reserves		**7,874**	7,192	**7,719**	7,037
Retained earnings / (Accumulated losses)		**(95,695)**	33,423	**(95,518)**	33,398
Total equity		**146,636**	275,072	**146,658**	274,892

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

cash flow STATEMENTS

Cash flow statements

For the year ended 30 June 2011

	Note	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent Entity 2011 $'000	Parent Entity 2010 $'000
Cash flows from operating activities					
Inflows:					
Cash receipts from customers		**161,799**	151,292	**159,452**	147,627
Distributions received – softwood joint venture		**2,250**	1,695	**2,250**	1,695
Interest received	8	**1,796**	2,023	**1,796**	2,023
Outflows:					
Payments to suppliers and employees		**(172,807)**	(165,193)	**(171,428)**	(162,780)
Borrowing costs paid		**(2,386)**	(1,934)	**(2,386)**	(1,934)
Tax equivalents paid		**-**	-	**-**	-
Net cash provided by / (used in) operating activities	12(c)	**(9,348)**	(12,117)	**(10,316)**	(13,369)
Cash flows from investing activities					
Inflows:					
Proceeds from sale of investments		**7,926**	-	**7,926**	-
Proceeds from sale of property, plant and equipment		**690**	6,176	**690**	6,176
Capital proceeds from the Tasmanian Community Forest Agreement		**-**	21,966	**-**	21,965
Outflows:					
Payments to suppliers and employees for plantation forest activities		**(8,094)**	(8,070)	**(8,094)**	(8,070)
Payments for property, plant and equipment and other assets		**(10,185)**	(14,282)	**(10,185)**	(14,287)
Net cash provided by / (used in) investing activities		**(9,663)**	5,790	**(9,663)**	5,784
Cash flows from financing activities					
Outflows:					
Finance lease payments		**(1,170)**	(1,170)	**-**	-
Net cash provided by / (used in) financing activities		**(1,170)**	(1,170)	**-**	-
Net increase/(decrease) in cash and cash equivalents held		**(20,181)**	(7,497)	**(19,979)**	(7,585)
Cash and cash equivalents at the beginning of the year		**29,546**	37,043	**29,270**	36,855
Cash and cash equivalents at the end of the year	12(a)	**9,365**	29,546	**9,291**	29,270

The Cash Flow Statements are to be read in conjunction with the accompanying notes to the financial report.

1 Details of reporting entity

The consolidated financial statements and notes thereto relate to Forestry Tasmania (the "Organisation" or "Parent Entity"), which is a state-owned government business enterprise, the entities it controlled and its interest in joint ventures (together referred to as the "Group"). The Group is primarily involved in the sustainable management of the Tasmanian state-owned forest and the delivery of community service obligations. The Organisation's Head Office is located at 79 Melville Street, Hobart, Tasmania; however, it conducts its operations across Tasmania.

2 Statement of significant accounting policies

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

(a) Statement of compliance

The financial report is a general purpose financial report which 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. The consolidated financial report of the Group and the financial report of the Organisation comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements of Forestry Tasmania for the year ended 30 June 2011 were authorised for issue by the Board of Directors on 12 August 2011.

(b) Basis of preparation

The consolidated financial statements are prepared on the historical cost basis except for the following: Biological assets are measured at fair value less costs to sell; Investments disclosed in note 2(i); Forest land, land under buildings and buildings are all measured at fair value. The methods used to measure fair values are disclosed in note 2(l). Obligations for non-commercial zones are disclosed in note 2(s). The superannuation liability is based on independent actuarial advice.

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

(c) 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.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

– Note 2(e) – Tasmanian Community Forest Agreement treatment
– Note 2(l) (i) – Biological assets – measurement of fair value less costs to sell
– Note 2(l) (iii) – Forest land – measurement of fair value
– Note 2(p) (ii) – Impairment of assets
– Note 2(r) – Provision for workers compensation – measurement of future liability
– Note 2(s) – Obligation for non-commercial zones
– Note 10 – Deferred tax asset on land
– Note 23 – Debt allocation
– Note 25 – Superannuation liability – measurement of defined benefit obligation

(d) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by Forestry Tasmania. Control exists when Forestry Tasmania has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by Forestry Tasmania.

In the Organisation's financial statements, investments in subsidiaries are subject to impairment assessment, carried at cost. Acquisitions are accounted for using the acquisition method. The cost is measured as the aggregate of the fair values at the date of acquisition with movement in any reassessment of the fair values taken immediately to the profit or loss. On an annual basis the movement in the fair value of the net assets is adjusted in the parent entity's financial statements.

(ii) Joint ventures

Joint ventures are those entities in which Forestry Tasmania has joint control over the financial and operating policies. Jointly controlled entities, operations or assets are accounted for by using either the equity method or proportionate consolidation.

– Equity method – The investment in the joint venture is initially recognised at cost. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that joint control commences until the date that joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

– Proportionate consolidation – Forestry Tasmania's interest is brought to account by including its proportional share of the joint venture's assets, liabilities, expenses and revenues from sale of output on a line by line basis. Interest in incorporated joint ventures is brought to account on an equity accounting basis.

(iii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Gains and losses are recognised when the contributed assets are consumed or sold by the equity accounted investees or, if not consumed or sold by the equity accounted investee, when the Group's interest in such entities is disposed of.

(e) Revenue recognition

Sales revenue

Sale of goods

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 are recognised when the ship departs port.

Services

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.

Proponent infrastructure fees

Revenue from site fees from proponents on the Huon and Smithton wood centre sites relates to the Organisation's investment in Newood and is recognised over the period of the initial lease term of 20 years unless it is refundable.

Tasmanian Community Forest Agreement income

The 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 in revenue received in advance until expenditures have been incurred (refer note 22). Ongoing capital commitments under the TCFA funding are disclosed in note 26.

Government grants

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 in recognised in the profit and loss as the conditions attached to the grant are met.

Forestry rights

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

Forest valuation movement

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.

(f) 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.

(g) Dividend policy

Forestry Tasmania pays dividends in accordance with its statutory requirements as determined under Part II, Division 2 of the *Government Business Enterprises Act 1995*.

(h) Leased assets

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

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. 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. At 30 June 2011, the net carrying amount of leased plant, machinery and equipment was $ nil (2010: $ nil).

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.

(i) Financial instruments

(i) Non-derivative 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 or the Group 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.

Subsequent to initial recognition non-derivative financial instruments are measured as follows:

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.

Trade and other receivables – are classified as a loan and receivable and stated at their amortised cost less impairment losses [refer note 2(p)(ii)]. Trade receivables with a short duration are not discounted. Collection terms are generally between 30-90 days for trade receivables.

Deferred income is recognised as follows:

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

Infrastructure fees – Site infrastructure fees are payable by leases at the Huon and Smithton wood centre sites. Fees are paid prior to construction of their specific business on site and as agreed within the terms of their contractual arrangements. Revenue from site fees at the Huon and Smithton wood centre sites is recognised over the period of the initial lease term of 20 years unless it is refundable.

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

Revenue received in advance – Funds received in advance under the TCFA are accounted for as revenue received in advance and will be expended 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 for the establishment of additional and improvement of existing hardwood plantations to compensate for the loss of sustainable forest due to the creation of additional conservation reserves.

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.

Investments in subsidiaries – are accounted for at cost less impairment losses in accordance with AASB 127.

Superannuation investment – The superannuation investment is an investment portfolio comprising cash and equities with independent investment managers. Unrealised capital gains are taken to the Superannuation Revaluation Reserve. The cash and fixed interest components of this portfolio are classified as an available-for-sale financial asset and measured at fair value, with any subsequent changes in fair value taken to profit and loss. Fair value is determined using market prices from fund managers that are from an active and liquid market.

Investment in Ta Ann Tasmania – in August 2006, Forestry Tasmania contributed $2.4 million to Ta Ann Tasmania as an equity contribution through the purchase of 2,400,000 redeemable preference shares. Under the terms of the agreement, Ta Ann Tasmania was required to purchase a tranche of 400,000 shares as at 31 December and 30 June each year until all shares were redeemed. This investment was an available-for-sale financial asset measured at fair value, with any changes in fair value taken to equity (see note 20).

Investment in EcoCentre Trust – Forestry Tasmania is part shareholder in the EcoCentre building located at Scottsdale and valued at cost. Forestry Tasmania receives a distribution from the management trust and occupies the building for administration use for which it pays a market rental for the office space occupied.

(ii) Derivative financial instruments

The Group 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. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Other non-trading derivatives

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.

(j) Inventories (excluding forest assets)

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

(k) Forest estate assets – wholly owned estate

The forest estate assets comprise land and roads. To comply with AASB 141 Agriculture, the biological assets have been separately reported in note 15 of the accounts. The biological asset is separately reported in the Statement of Financial Position from the remaining forest estate assets (land and roads). Refer to note 2(l) below for valuation methodology to arrive at the values for these component assets.

Depreciation and amortisation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of each road. Land is not depreciated. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

The estimated useful life for the current and comparative periods is as follows:

- Roads and road structures – 2 to 20 years

(l) Biological assets

Forest estate valuation methodology

During 2011, Forestry Tasmania engaged James W Sewall Company (Sewall) to establish a valuation for its entire forest estate, inclusive of land and roads. Sewall is a US-based company with international (including Australasian) experience in valuing forest estates.

The methodology applied to estimate the enterprise value and obligations for the biological asset (forest), land and roads involves an income capitalisation approach. The income capitalisation 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 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 used is equivalent to fair value less costs to sell as required by AASB 141 to value the biological assets.

The income capitalisation approach, referred to above, produces a value that is inclusive of the forest land, roads and obligations. Therefore, to arrive at a value for the biological asset (forest), the fair value of the land and roads is deducted from the full value derived from the income capitalisation value. Due to the continued uncertainty surrounding the Tasmanian Forests Intergovernmental Agreement and Statement of Principles process in Tasmania, whereby it is uncertain as to what area may remain available from which Forestry Tasmania can source forest products, the valuation approach included creating a number of scenarios, to which were attached probabilities in arriving at a valuation. The scenarios were:

1. Base case of business as usual, but reflecting the current economic context, with updated prices and costs, including projected sawlog price increases, reduced pulpwood process and revised community service obligations costs.

2. Reduced native forest sawlog supply to 150,000 cubic metres per annum, with additional plantation volumes as they come on stream. Other products were in proportion to this volume.

3. As for scenario 2, but assuming phase-out of native forest harvest after 20 years, as plantation volumes take over.

4. Reduced native forest sawlog supply to 200,000 cubic metres per annum from native forest, with additional plantation volumes as they come on stream.

The downward revaluation that resulted from this approach showed that half was due to adverse market conditions, and the other half a factoring in of the likely Tasmanian Forests Intergovernmental Agreement and Statement of Principles effects.

The valuation methodology divides the current forest under management into the following three areas:

– General forest zone: comprises both native forest and plantation forest zones (couped and uncouped) that are available for production as well as informal reserves.

– Special timbers zone: comprises the forest that has a unique forest management plan and non-profit sustained yield objective (see note 2(s)).

– Formal forest reserves: Those forest areas subject to formal legislation restricting any forest production (forest reserves under Clause 20 of the Forestry Act).

(Special timber zone and Formal forest reserve zone comprise the non-commercial zones)

Due to the different uses and restrictions placed on each of these three areas, separate valuations utilising the income capitalisation approach are derived. Further, given that the valuations for the special timbers zone and formal forest reserves result in negative valuations, these have been separately recognised as obligation liabilities in the Statement of Financial Position. Refer notes 2(s) and 24.

Key assumptions used in the income capitalisation approach

– Forest management and silviculture practices: Assumes the continuation of existing practices with regard to forest management and silviculture.

– Discount rates: For all three wholly owned forest zones, a pre-tax real discount rate of 9.00% (2010: 8.10%) is used. This discount rate is a market-based rate.

– Forest yields/volumes: The native forests values are based on the expected harvest volumes of peeler and veneer logs, sawlogs, and pulpwood. Volume assessments for native forests were reviewed in 2007 as part of the Regional Forest Agreement (RFA) review process and have been updated to take into account the volume losses associated with the change in silviculture alternatives from 2011 in relation to non-clearfell in old growth forests and new conservation reserves under the Tasmanian Community Forest Agreement (TCFA).
Hardwood and softwood plantation volumes are based on inventory data collected from 1998 up to 2007.

– Future rotations: Only the current standing timber crop is valued in accordance with AASB 141. That is, no recognition is made of the costs and returns related to future tree crops, or of the harvest and delivery of logs.

– Costs: The costs included in the discounted cash flow model are directly attributable to the management of the forest estate and include tending costs (pruning, waste thinning, fertilisation, weed control, pest control), fire protection, rates, administration, general forest management, overhead, research and development, tourism (allocated to formal reserves only). The costs directly attributable are allocated to the three forest zones. Generally, all tending costs are allocated 100% to general forest zone, all tourism costs are allocated 100% to formal forest reserves, while others are allocated based on the proportional hectare of each forest zone. Costs associated with harvesting and transporting of timber are excluded given stumpage rates are used to calculate timber revenues. Further, an imputed land rental charge is not included on the basis that the land value recognised in the Statement of Financial Position is deducted from the valuation and recorded separately. It has been assumed that there will be no real increase in costs.

Sewall has reviewed current and historical prices and pricing trends over the full range of products. Assumptions have been made about long-term prices and the time taken to achieve these prices. It has been assumed that all products attain long-term trend prices within five years and thereafter there are no real price increases. Costs were also reviewed using data from the past six years which was adjusted for CPI movements. The valuer then made an assessment of costs and it was assumed that there were no real increases in costs for future years.

– Prices: Stumpage rates are used to determine the revenues. The prices are based on current and historical prices and pricing trends over the full range of products. Assumptions have been made about long-term prices and the time taken to achieve these prices. The valuation model assumes a $5 per m^3 increase in price in the second year and no further increase thereafter.

Sensitivity to key assumptions used in the income capitalisation approach

The forest valuation is sensitive to changes in price, discount rate and cost and the following is noted in regard to these three key areas:

– Price: a 5% increase will increase the valuation of the biological asset by $30 million.
– Discount rate: a 1% increase will decrease the valuation of the biological asset by $19 million and a 1% decrease will increase the valuation by $22 million.
– Cost: a 5% increase will decrease the valuation of the biological asset by $23 million.

(i) Forest

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.

(ii) Roads

The carrying amount of the roads is deducted from the forest estate valuation derived from the methodology described above and recognised separately in the Statement of Financial Position within 'Forest Estate Assets'. While the major and minor roads and road structures are reported at cost less depreciation and any impairment, the Directors are satisfied that the carrying amount materially equates to fair value. Accordingly, this supports the appropriateness of deducting the carrying amount of roads from the forest estate valuation.

(iii) Land

Forestry Tasmania does not hold freehold title over the majority of land but is deemed to control the land as, under the *Forestry Act 1920*, Forestry Tasmania has been given exclusive management rights over state forest. Land held in formal and informal reserves is not valued as these areas will not be used for production forestry and therefore do not provide an economic return to Forestry Tasmania. Under this Act and resultant custom and practice adopted by Forestry Tasmania and the State of Tasmania, Forestry Tasmania is responsible for the management and maintenance of these areas. These obligations have been recognised as a liability (see note 2(s)).

(m) Forest estate valuation – interest in joint ventures

Forestry Tasmania is involved in softwood and hardwood plantation joint ventures.

The joint venture arrangements exist in two forms. One form is for plantations established on privately owned land with Forestry Tasmania providing the management expertise and financing the majority of the other inputs. The second is where plantations are established in state forest with Forestry Tasmania providing varying amounts of management and other inputs as set out in the respective agreements. The agreements provide for the eventual harvest to be shared between the joint venturers in proportion to the discounted value of inputs calculated over the life of the ventures.

In valuing joint venture plantations the same method has been used as that in place for wholly owned forests. Forestry Tasmania brings to account its share of the joint venture.

The crop value of the Forestry Tasmania/GMO Renewable Resources joint venture softwood plantations is based on a discounted cash flow method to derive a net present market value. The valuation was undertaken by an external consultant, Sewall. All prices are adjusted for expected future market trends. The pre-tax real market based discount rate applied to softwood plantation crops is 7.35% (2010: 7.35%).

(n) Property, plant and equipment assets

Recognition and measurement

Land and buildings and leasehold improvements are measured at fair value less accumulated depreciation on buildings and accumulated impairment losses recognised after the date of the revaluation.

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. The valuations completed for specifically identified land and buildings as at 1 July 2006 were undertaken by the Government Valuation Services. 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, site infrastructure works and pre-development costs are stated at cost less accumulated depreciation and accumulated impairment losses. Site infrastructure works and pre-development cost assets are associated with Forestry Tasmania's subsidiary company Newood Holdings Pty Ltd. The assets relate to the infrastructure and development costs associated with the Huon and Smithton wood centre sites.

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.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the 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.

Derecognition and disposal

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.

Depreciation and amortisation

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. Leased assets 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. 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 – 25 to 40 years
- Transmission lines – 25 years
- Plant and equipment – 2 to 15 years
- Pre-development costs – 20 years, and
- Site infrastructure works – 20 years.

Capitalisation threshold

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

(o) Intangible assets

Intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses. The useful lives of intangible assets are assessed to be finite or indefinite. Forestry Tasmania's intangible asset relates to the capitalised costs of software development for software used within the organisation for operational and strategic use.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use. Amortisation methods and useful lives are reviewed at each reporting date.

Intangible assets related to software development are amortised over five years (2010: five years). The remaining lives of intangible assets range between one and five years.

Research and development expenditure is charged to the comprehensive income statement unless it is capable of recognition as an intangible asset. Research and development expenditure that has been charged to the comprehensive income statement during the year totalled $3.104 million (2010: $2.990 million).

(p) Impairment of assets

(i) Non-financial assets

The carrying amounts of the Group'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.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. This reversal will be taken to profit or loss.

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.

(q) Income tax equivalent

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 substantially 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.

(r) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as a personnel expense in profit or loss when they are due.

(ii) Provision for unfunded superannuation liability – defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group'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 Group'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 Group, 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 Group if it realisable during the life of the plan, or on settlement of the plan liabilities.
Forestry Tasmania recognises as an expense in the current period the cost of contributions and the detailed expense figures as advised by the actuary including the actuarial gains and losses for the period.

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.

(iii) Provision for 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.

(iv) Provision for 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.

(v) Provision for 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 2011. The provision also includes an allowance for incurred but unreported claims at 30 June 2011.

(vi) Provision for 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.

(s) Obligations for non-commercial zones

Forestry Tasmania undertakes a number of community service obligations (CSOs) that are currently unfunded. Further, the valuation methodology applied to the forest estate resulted in two areas, formal forest reserve zones and special timber zones, returning negative asset valuations. Together these are recognised as the 'non-commercial zones'. These values are primarily negative on the basis of the CSOs associated with these areas. Forestry Tasmania considers the CSOs as an implied term of its existing forest management rights granted and restrictions imposed, under the *Forestry Act 1920* to sustainably manage the forest. Its CSOs include fire protection, pest control, forest and land management, tourism, development and maintenance of public road access, and conservation of natural and cultural values.

Forestry Tasmania recognises there are also CSO costs associated with the general forest zone (see note 2(l)). These costs have not been separately identified at this time.

Forestry Tasmania has determined that it has both a legal and constructive obligation in respect to the non-commercial forest zones and accordingly has recognised a liability in the Statement of Financial Position. This obligation is split between current and non-current with the current portion representing the present value of the obligation cash flows expected in the next 12 months.

The obligation commitment has been calculated using a discounted cash flow model using the same assumptions as the forest estate valuation noted in note 2(l) above and calculated by independent valuer Sewall. The quantification of attributable costs was based on actual direct costs plus an allocation of relevant direct and indirect costs principally on a percentage of non-commercial land to total land.

The expenses relating to this obligation commitment have been separately disclosed on the face of the Statement of Comprehensive Income, with the comparatives restated to ensure consistency and comparability.

(t) Finance income and expenses

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 Group's right to receive payment is established.

Finance expenses comprise 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 2(n).

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.

(u) 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.

Joint venture forest revaluation reserve - In 2010 this balance was transferred to retained earnings.

Forest revaluation reserve - In 2010 this balance was transferred to retained earnings.

General reserve - In the 1995-96 financial year the retained profits of the former Forestry Commission were transferred into a general reserve. In 2010 this balance was transferred to retained earnings.

Superannuation reserve - The reserve balance is comprised of the value of funds provided by the Government to be invested by Forestry Tasmania for offsetting the unfunded superannuation liability and to be available for the reimbursement of superannuation payments as required. In 2010 this balance was transferred to retained earnings.

All of these reserves except building, have been transferred to retained earnings as the Board determined they are no longer necessary.

3 New standards not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the Group in the period of initial application. They are available for early adoption at 30 June 2011, but have not been applied in preparing this financial report:

AASB 9 'Financial Instruments' was issued in December 2009 and is Phase I of the IASB's comprehensive project to replace IAS 39 (AASB 139). This standard is effective for periods beginning on or after 1 January 2013; however, can be early adopted. The standard represents a significant change in the accounting for financial assets and now only contains two primary measurement categories (fair value or amortised cost) and removes the previous categories of held to maturity, available for sale and loans and receivables. The standard has also been updated for the accounting of financial liabilities. The impacts of these amendments, which become mandatory for the Group's 30 June 2014 financial statements, have not yet been quantified.

AASB 124 'Related Party Disclosures' was revised and amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendments, which become mandatory for the Group's 30 June 2012 financial statements, are not expected to have a material impact on the financial statements and relate to disclosure only.

Amendments to IFRIC 14 - IAS 19 The limit on a Defined Benefit Assets Minimum Funding Requirements and their Interaction. This amendment results in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. The amendments, which become mandatory for the Group's 30 June 2012 financial statements, are not expected to have a material impact on the financial statements.

Improvements to IFRS's 2010 - AASB 7 Financial Instruments Disclosures. These amendments add further qualitative disclosure requirements in respect to exposure to risks arising from financial instruments as well as introducing new disclosure in respect to transfers of financial assets during the reporting periods. The amendments, which become mandatory for the Group's 30 June 2012 financial statements, are not expected to have a material impact on the financial statements and relate to disclosure only.

Improvements to IFRS's 2010 - AASB 101 Presentation of Financial Statements. These amendments clarify the disclosure requirements for items recognised in other comprehensive income. The amendments, which become mandatory for the Group's 30 June 2012 financial statements, are not expected to have a material impact on the financial statements and relate to disclosure only.

AASB 1054 'Australian Additional Disclosures' (applies to annual reporting periods beginning on or after 1 July 2011). This standard sets out the Australian specific disclosures for entities that have adopted Australian Accounting Standards that are additional to the requirements under International Financial Reporting Standards, including disclosures relating to the nature of the financial report, audit fees and the reconciliation of net operating cash flows to profit. The amendments, which become mandatory for Forestry's 30 June 2012 financial statements, are not expected to have a significant impact on the financial statements.

	Consolidated		Parent Entity	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
4 Revenue from forest sales				
Sales revenue	**135,260**	114,136	**135,260**	114,136
Share of GMO joint venture revenue	**21,199**	21,046	**21,199**	21,046
	156,459	135,182	**156,459**	135,182
5 Other revenue and income				
Forest management services income	**5,733**	5,982	**5,733**	5,982
Government grants	**871**	542	**569**	241
Firefighting income	**-**	2,907	**-**	2,907
Nursery and seed sales	**512**	1,144	**512**	1,144
Tourism revenue	**1,672**	2,364	**1,672**	2,364
Proponent infrastructure fees	**150**	150	**-**	-
Other revenue	**6,855**	7,566	**4,765**	4,899
	15,793	20,655	**13,251**	17,537
6 Tasmanian Community Forest Agreement income				
Grant income for operating activities now earned	**3,716**	4,282	**3,716**	4,282
Grant income for intensive forest management plantation activities now earned	**7,496**	5,836	**7,496**	5,836
	11,212	**10,118**	**11,212**	**10,118**

7 Expense from operations before costs attributable to non-commercial zones

	Consolidated		Parent Entity	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
(a) Expenses from operations				
(i) Payments to contractors and other sales costs				
Payments to contractors	**88,556**	80,671	**88,556**	80,671
Other sales costs	**5,937**	3,101	**5,937**	3,101
	94,493	83,772	**94,493**	83,772
(ii) Other expenses				
Share of GMO joint venture expenses	**17,089**	16,689	**17,089**	16,689
Freight	**4,172**	3,979	**4,172**	3,979
Vehicle lease and associated costs	**3,343**	1,583	**3,343**	1,583
Local government rates	**2,774**	2,814	**2,725**	2,765
Property rental	**2,884**	2,147	**2,884**	2,147
Office expenses	**2,422**	2,384	**2,422**	2,383
Consultancies and professional services	**2,065**	1,795	**2,027**	1,739
Property management	**2,543**	1,519	**1,560**	1,448
Minor equipment purchases and rentals	**1,383**	1,173	**1,383**	1,173
Guarantee fees	**889**	746	**889**	746
Information technology expense	**629**	1,184	**629**	1,184
Travel and accommodation	**483**	598	**483**	598
Operating lease rentals	**473**	458	**473**	458
Loss on sale of assets	**8**	53	**8**	53
Impairment of receivables	**10,192**	1,255	**9,798**	975
Expected return on superannuation assets	**(2,281)**	(2,243)	**(2,281)**	(2,243)
Other	**142**	2,981	**672**	1,953
	49,210	39,115	**48,276**	37,630
(iii) Depreciation and amortisation expense				
Plant and equipment	**1,677**	2,629	**1,677**	2,629
Plant and equipment under finance lease	**927**	927	**-**	-
Site infrastructure works	**170**	170	**-**	-
Roads and road structures	**7,084**	7,290	**7,084**	7,290
Buildings and leasehold improvements	**498**	481	**498**	481
Intangibles	**158**	300	**158**	300
	10,514	11,797	**9,417**	10,700

	Consolidated		Parent Entity	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
7 Expense from operations before costs attributable to non-commercial zones (continued)				
(iv) Employee benefits expense				
Salaries and wages	**25,294**	26,366	**25,294**	26,366
Other associated expenses	**215**	377	**215**	377
Contribution to defined contribution superannuation funds	**1,682**	2,661	**1,682**	2,661
Workers compensation costs	**296**	1,003	**296**	1,003
Employee service cost	**2,858**	2,622	**2,858**	2,622
	30,345	33,029	**30,345**	33,029
	184,562	167,713	**182,531**	165,131
(b) Less costs attributable to non-commercial zones	**(5,255)**	(6,390)	**(5,255)**	(6,390)
	179,307	161,323	**177,276**	158,741

Change in presentation of the defined benefit superannuation liability

The treatment of movements in the superannuation liability has been changed from prior years to be consistent with that of other state-owned entities. In prior periods the total movement in the superannuation liability was presented as a non-operating item, however for the year ended 30 June 2011, this has been changed to disclose the interest component within finance costs, the employer service cost within employee expenses and the expected return on plan assets within other operating items. The prior period has also been restated in accordance with the same classifications to provide relative comparisons.

Reconciliation of the 30 June 2011 Profit before tax as per the reporting format presented in the 2009/10 annual accounts.

	Consolidated		Parent Entity	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Revenue from forest sales	**156,459**	135,182	**156,459**	135,182
Other revenue and income	**15,793**	20,655	**13,251**	17,537
Tasmanian Community Forest Agreement income – operating activities	**3,716**	4,282	**3,716**	4,282
Expense from operations before costs attributable to non-commercial forest zones	**(178,730)**	(160,944)	**(176,699)**	(158,362)
Finance income	**2,331**	2,023	**2,331**	2,023
Finance expense	**(3,379)**	(2,940)	**(2,386)**	(1,934)
Share of net profit/(loss) after tax of joint ventures accounted for using the equity method	**85**	135	**85**	135
Profit before tax, costs attributable to non-commercial zones and other items*	**(3,725)**	(1,607)	**(3,243)**	(1,137)
Costs attributable to non-commercial forest zones^	**(5,255)**	(6,390)	**(5,255)**	(6,390)
Profit/(loss) before tax and other items*	**(8,980)**	(7,997)	**(8,498)**	(7,527)

* Other items comprise capital grant income, biological asset valuation adjustment, actuarial movements in the unfunded superannuation liability, movement in superannuation investment and movement in investment of subsidiaries and impairment of assets.

^ Does not include non-commercial obligation costs attributed to general forest zones.

8 Finance income and expense

	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent Entity 2011 $'000	Parent Entity 2010 $'000
Recognised in profit or loss:				
Interest income	**1,796**	1,902	**1,796**	1,902
Foreign exchange gains	**535**	121	**535**	121
Total finance income	**2,331**	2,023	**2,331**	2,023
Borrowing costs	**(2,386)**	(1,934)	**(2,386)**	(1,934)
Finance charge related to finance lease	**(993)**	(1,006)	**-**	-
Employee benefit superannuation interest costs	**(8,165)**	(7,894)	**(8,165)**	(7,894)
Total finance expense	**(11,544)**	(10,834)	**(10,551)**	(9,828)
Net finance income/(expense)	**(9,213)**	(8,811)	**(8,220)**	(7,805)

9 Movement in valuation of standing timber

The impact that the increment/(decrement) in the valuation of the standing timber asset has on the results of the organisation can be reconciled as follows:

	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent Entity 2011 $'000	Parent Entity 2010 $'000
Gross increase/(decrease) in the valuation of the general forest zone (productive native forest and plantation) – Forestry Tasmania	**(101,918)**	(46,151)	**(101,918)**	(46,151)
Gross increase/(decrease) in the valuation of plantation standing timber – GMO Softwood Joint Venture	**14,759**	(20,409)	**14,759**	(20,409)
Less current year plantation establishment costs and future crop expenditure (primarily contractor expenses) incurred during the financial year	**(8,094)**	(8,070)	**(8,094)**	(8,070)
Net impact on operating profit before income tax	**(95,253)**	(74,630)	**(95,253)**	(74,630)

The movement in the valuation of the standing timber asset has no impact on the cash flows of the Group and is accounted for after the results from operating activities as identified in the Statement of Comprehensive Income.

10 Taxation

	Consolidated		Parent Entity	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
(a) Current tax (expense)/benefit				
Current tax	**2,727**	5,651	**2,616**	5,460
Adjustments for prior periods	**8**	797	**8**	796
Increase/(decrease) in deferred tax asset	**(66,664)**	69,811	**(66,542)**	65,836
(Increase)/decrease in deferred tax liability	**26,218**	57,333	**26,120**	61,500
Movement posted direct to equity	**468**	(17,844)	**468**	(17,844)
	(37,243)	115,748	**(37,329)**	115,748
Reconciliation of income tax to comprehensive income statement disclosures				
Income tax (expense)/benefit on profits before other items*	**5,632**	4,009	**5,488**	3,867
Income tax (expense)/benefit on other items	**(42,875)**	111,739	**(42,817)**	111,881
	(37,243)	115,748	**(37,329)**	115,748
(b) Reconciliation between tax expense/(benefit) and pre tax net profit/(loss)				
Profit/(loss) before tax	**(92,233)**	(379,630)	**(91,949)**	(379,631)
Income tax (expense)/benefit using the domestic tax rate of 30% (2010: 30%)	**27,670**	113,889	**27,585**	113,889
Expenditure not allowable for income tax purposes	**(6)**	(7)	**(6)**	(7)
Derecognition of deferred tax asset on forest land	**(65,416)**	488	**(65,416)**	488
Research and development	**313**	319	**313**	319
Less prior year under/over provision	**8**	797	**8**	797
Add non-temporary movement in superannuation investments	**186**	262	**186**	262
Income tax (expense)/benefit on pre tax net profit	**(37,243)**	115,748	**(37,329)**	115,748
(c) Deferred tax balances				
Assets				
Non-current	**61,513**	125,317	**60,524**	124,368
Liabilities				
Non-current	**71,757**	97,850	**71,685**	97,843
Net tax asset/(liability)	**(10,244)**	27,467	**(11,161)**	26,525

* Other items comprise capital grant income, biological asset valuation adjustment, actuarial movements in the unfunded superannuation liability, movement in superannuation investment and movement in investment of subsidiaries and impairment of assets.

10 Taxation (continued)

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

Consolidated – 2011

	Opening balance	Under/Over	Charged to Statement of Compre-hensive Income	Transferred from Subsidiary	Charged to equity	Closing balance
Deferred tax assets						
Employee benefits	**38,715**	-	(234)	-	-	**38,481**
Revenue received in advance	**1,590**	-	(68)	-	-	**1,522**
Receivables and other investments	**365**	-	3,048	-	-	**3,413**
Other provisions	**414**	-	(42)	-	-	**372**
Obligations for non-commercial zones	**19,740**	-	(2,610)	-	-	**17,130**
Property, plant, equipment and land	**56,662**	-	(65,723)	-	(468)	**(9,529)**
Superannuation Investment	**235**	-	(235)	-	-	**-**
Revenue losses	**7,596**	8	2,497	-	-	**10,101**
Transfer of deferred tax liability	**(97,850)**					
Transfer deferred tax asset						**(61,491)**
Total	**27,467**	**8**	**(63,366)**	**-**	**(468)**	**-**
Deferred tax liabilities						
Biological assets	**(94,918)**	-	26,045	-	-	**(68,873)**
Inventories	**(2,824)**	-	177	-	-	**(2,647)**
Other	**(108)**	-	(107)	-	-	**(215)**
Transfer of deferred tax asset						**61,491**
Transfer deferred tax liability	**97,850**					
Total	**-**	**-**	**26,115**	**-**	**-**	**(10,244)**
Net deferred tax assets/(liabilities)	**27,467**	**8**	**(37,251)**	**-**	**(468)**	**(10,244)**

Consolidated – 2010

	Opening balance	Under/Over	Charged to Statement of Compre-hensive Income	Transferred from Subsidiary	Charged to equity	Closing balance
Deferred tax assets						
Employee benefits	**34,843**	-	3,872	-	-	**38,715**
Revenue received in advance	**2,007**	(5)	(412)	-	-	**1,590**
Receivables and other investments	**101**	2	262	-	-	**365**
Other provisions	**333**	-	81	-	-	**414**
Obligations for non-commercial zones	**-**	-	19,740	-	-	**19,740**
Property, plant, equipment and land	**(28,237)**	(121)	67,176	-	17,844	**56,662**
Superannuation Investment	**290**	111	(166)	-	-	**235**
Revenue losses	**2,141**	(196)	5,651	-	-	**7,596**
Transfer of deferred tax liability						**(97,850)**
Transfer deferred tax asset	**(11,478)**					
Total	**-**	**(209)**	**96,204**	**-**	**17,844**	**27,467**

10 Taxation (continued)

Consolidated – 2010

	Opening balance	Under/Over	Charged to Statement of Comprehensive Income	Transferred from Subsidiary	Charged to equity	Closing balance
Deferred tax liabilities						
Biological assets	**(114,777)**	(105)	19,964	-	-	**(94,918)**
Inventories	**(2,782)**		(42)	-	-	**(2,824)**
Other	**(45)**	1,112	(1,175)	-	-	**(108)**
Transfer of deferred tax asset	**11,478**					
Transfer deferred tax liability						**97,850**
Total	**(106,126)**	**1,007**	**18,747**	**-**	**-**	**-**
Net deferred tax assets/(liabilities)	**(106,126)**	**798**	**114,951**	**-**	**17,844**	**27,467**

Parent Entity - 2011

	Opening balance	Under/Over	Charged to Statement of Comprehensive Income	Transferred from Subsidiary	Charged to equity	Closing balance
Deferred tax assets						
Employee benefits	**38,716**	-	(234)	-	-	**38,482**
Revenue received in advance	**58**	-	113	-	-	**171**
Receivables and other investments	**365**	-	2,930	-	-	**3,295**
Other provisions	**330**	-	(42)	-	-	**288**
Obligations for non-commercial zones	**19,740**	-	(2,610)	-	-	**17,130**
Property, plant, equipment and land	**57,329**	-	(65,825)	-	(468)	**(8,965)**
Investments in wholly owned subsidiaries	**(37)**	-	59	-	-	**22**
Superannuation investment	**235**	-	(235)	-	-	**0**
Revenue losses	**7,596**	8	2,386	110	-	**10,100**
Transfer of deferred tax liability	**(97,806)**					
Transfer deferred tax asset						**(60,524)**
Total	**26,525**	**8**	**(63,457)**	**110**	**(468)**	**-**
Deferred tax liabilities						
Biological assets	**(94,919)**	-	26,045	-	-	**(68,873)**
Inventories	**(2,824)**	-	177	-	-	**(2,647)**
Other	**(63)**	-	(103)	-	-	**(166)**
Transfer of deferred tax asset						**60,524**
Transfer deferred tax liability	**97,806**					
Total	**-**	**-**	**26,120**	**-**	**-**	**(11,161)**
Net deferred tax assets/(liabilities)	**26,525**	**8**	**(37,337)**	**110**	**(468)**	**(11,161)**

10 Taxation (continued)

Parent Entity - 2010

	Opening balance	Under/Over	Charged to Compre-hensive Income Statement	Transferred from Subsidiary	Charged to equity	Closing balance
Deferred tax assets						
Employee benefits	**34,844**	-	3,872	-	-	**38,716**
Revenue received in advance	**384**	(5)	(322)	-	-	**58**
Receivables and other investments	**101**	2	262	-		**365**
Other provisions	**227**	-	103	-		**330**
Obligations for non-commercial zones	**-**	-	19,740	-		**19,740**
Property, plant, equipment and land	**(27,599)**	14	67,070	-	17,844	**57,329**
Investments in wholly owned subsidiaries	**(178)**	-	141	-	-	**(37)**
Superannuation investment	**290**	111	(166)	-		**235**
Revenue losses	**2,142**	(198)	5,652	-	-	**7,596**
Transfer of deferred tax liability						**(97,806)**
Transfer deferred tax asset	**(10,211)**					
Total	**-**	**(76)**	**96,352**	**-**	**17,844**	**26,525**
Deferred tax liabilities						
Biological assets	**(114,777)**	(105)	19,963	-	-	**(94,919)**
Inventories	**(2,782)**	-	(42)	-	-	**(2,824)**
Other	**(45)**	1,112	(1,130)	-	-	**(63)**
Transfer of deferred tax asset	**10,211**					
Transfer deferred tax liability						**97,806**
Total	**(107,393)**	**1,007**	**18,791**	**-**	**-**	**-**
Net deferred tax assets/(liabilities)	**(107,393)**	**931**	**115,143**	**-**	**17,844**	**26,525**

11 Dividends

Forestry Tasmania does not propose a dividend for the 2010/11 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*. In prior years, the dividend has been calculated on a formula agreed to by Forestry Tasmania, the Treasurer and the Minister.

No dividend was paid during the 2010/11 financial year in relation to 2009/10 results.

	Consolidated		Parent Entity	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
12 Cash and cash equivalents				
(a) Reconciliation of cash and cash equivalents				
For the purposes of the cash flow statements, cash and cash equivalents comprise the following as at 30 June:				
Cash	**5,057**	27,464	**4,983**	27,188
Share of GMO joint venture cash	**4,268**	2,039	**4,268**	2,039
Floats and advances	**40**	43	**40**	43
	9,365	29,546	**9,291**	29,270
(b) Reconciliation of Comprehensive income/(expense) - after tax before other items				
Comprehensive income after tax	**(12,090)**	(12,261)	**(11,752)**	(11,933)
Add/(less) items classified as investing/financing activities:				
(Profit)/loss on disposal of non current assets	**8**	53	**8**	53
Add/(less) non-cash items:				
Stock adjustments	**797**	-	**797**	-
Share of joint ventures (profit)/loss	**(1,860)**	(2,662)	**(1,860)**	(2,662)
Share of joint venture entities net (profit)/loss	**(85)**	(135)	**(85)**	(135)
Depreciation and amortisation	**10,514**	11,797	**9,417**	10,700
Impairment of receivables	**10,192**	1,256	**9,798**	976
Interest on finance lease	**993**	1,006	**-**	-
Superannuation interest	**8,165**	7,894	**8,165**	7,894
Foreign exchange (gain)/loss	**(535)**	-	**(535)**	-
Tasmanian Community Forest Agreement – operating activities	**(3,716)**	4,282	**(3,716)**	4,282
Income tax	**(5,632)**	(4,009)	**(5,488)**	(3,867)
Changes in assets and liabilities:				
(Increase)/decrease in current receivables	**4,897**	(2,761)	**5,471**	(714)
(Increase)/decrease in non-current receivables	**(9)**	(55)	**(347)**	(2,151)
(Increase)/decrease in inventories	**(484)**	(1,405)	**(484)**	(1,405)
(Increase)/decrease in other current assets	**(334)**	307	**(334)**	307
(Increase)/decrease in other non-current assets	**(85)**	(135)	**(85)**	(135)
Increase/(decrease) in current liabilities	**(8,326)**	4,834	**(8,637)**	1,368
Increase/(decrease) in non-current liabilities	**(11,031)**	(14,378)	**(9,922)**	(10,202)
Increase/(decrease) in current provisions	**(228)**	(724)	**(228)**	(724)
Increase/(decrease) in non-current provisions	**(499)**	(5,021)	**(499)**	(5,021)
Net cash provided by operating activities	**(9,348)**	(12,117)	**(10,316)**	(13,369)

12 Cash and cash equivalents (continued)

	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent Entity 2011 $'000	Parent Entity 2010 $'000
(c) Reconciliation of comprehensive income/(expense) after tax to net cash flows from operations				
Comprehensive income after tax	**(129,476)**	(305,669)	**(129,278)**	(305,670)
Add/(less) items classified as investing/financing activities:				
(Profit)/loss on disposal of non-current assets	**8**	53	**8**	53
Interest on superannuation investment	**(1,314)**	(1,299)	**(1,314)**	(1,299)
Add/(less) non-cash items:				
Foreign exchange (gain)/loss	**(535)**	-	**(535)**	-
Stock adjustments	**797**	-	**797**	-
Share of joint ventures (profit)/loss	**(1,860)**	(2,662)	**(1,860)**	(2,662)
Share of joint venture entities net (profit)/loss	**(85)**	(135)	**(85)**	(135)
Depreciation and amortisation	**10,514**	11,797	**9,417**	10,700
Impairment of receivables	**10,192**	1,256	**9,798**	976
Interest on finance lease	**993**	1,006	**-**	-
Increase/(decrease) in asset revaluations	**-**	41,787	**-**	41,787
(Gain)/loss on subsidiary	**-**	-	**198**	471
Unrealised net forest (increment)/decrement	**87,159**	66,560	**87,159**	66,560
Unrealised obligation non-commercial zones increment/(decrement)	**(8,700)**	65,800	**(8,700)**	65,800
Impairment	**-**	218,934	**-**	218,934
Changes in assets and liabilities:				
Increase/(decrease) in deferred tax liabilities	**10,244**	(47,991)	**(26,158)**	(47,538)
(Increase)/decrease in deferred tax assets	**26,999**	(85,602)	**63,376**	(86,380)
(Increase)/decrease in current receivables	**4,897**	(2,761)	**5,471**	(714)
(Increase)/decrease in non-current receivables	**(9)**	(55)	**(347)**	(2,151)
(Increase)/decrease in inventories	**(484)**	(1,405)	**(484)**	(1,405)
(Increase)/decrease in other current assets	**(334)**	307	**(334)**	307
(Increase)/decrease in other non-current assets	**(85)**	(135)	**(85)**	(135)
Increase/(decrease) in current liabilities	**(6,511)**	4,834	**(6,711)**	4,976
Increase/(decrease) in non-current liabilities	**(11,031)**	9,983	**(9,922)**	10,876
Increase/(decrease) in current provisions	**(228)**	(724)	**(228)**	(724)
Increase/(decrease) in non-current provisions	**(499)**	14,004	**(499)**	14,004
Net cash provided by operating activities	**(9,348)**	(12,117)	**(10,316)**	(13,369)

	Consolidated		Parent Entity	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
13 Trade and other receivables				
Current				
Trade debtors	**38,925**	32,814	**37,902**	32,346
Less provision for impairment	**(11,666)**	(1,265)	**(10,991)**	(985)
Share of GMO JV receivables	**5,423**	5,849	**5,423**	5,849
Accrued revenue	**372**	759	**209**	610
Prepayments	**709**	375	**709**	375
Derivative asset	**433**	-	**433**	-
Net GST refund	**506**	8	**515**	17
Total current receivables	**34,702**	38,540	**34,200**	38,212
Non-current				
Other	**76**	67	**4,060**	3,713
Total non-current receivables	**76**	67	**4,060**	3,713
14 Inventories				
Gravel stocks at cost	**3,225**	3,359	**3,225**	3,359
Seed and seedlings at cost	**5,313**	5,725	**5,313**	5,725
Timber at cost	**3,609**	2,433	**3,609**	2,433
Share of GMO JV timber at cost	**147**	136	**147**	136
Stores general at cost	**390**	536	**390**	536
	12,684	12,189	**12,684**	12,189
15 Biological assets				
Current				
Standing timber at valuation	**6,741**	5,559	**6,741**	5,559
Non-current				
Standing timber at valuation	**139,186**	242,287	**139,186**	242,287
GMO joint venture timber resource at valuation	**85,650**	70,891	**85,650**	70,891
	224,836	313,178	**224,836**	313,178
	231,577	318,737	**231,577**	318,737

15 Biological assets (continued)

Reconciliation of biological assets ($000)	Consolidated $'000	Parent Entity $'000
Carrying amount at 1 July 2010	318,737	318,737
Additions (note 9)	8,094	8,094
Reallocation to Statement of Comprehensive Income (note 9)	(8,094)	(8,094)
Work in progress	-	
Revaluation/(devaluation):	(87,160)	(87,160)
Carrying amount at 30 June 2011	**231,577**	**231,577**
Carrying amount at 1 July 2009	385,297	385,297
Additions (note 9)	8,070	8,070
Reallocation to Statement of Comprehensive Income (note 9)	(8,070)	(8,070)
Work in progress	-	-
Revaluation/(devaluation):	(66,560)	(66,560)
Carrying amount at 30 June 2010	**318,737**	**318,737**

Commitments associated with the development of biological assets

As noted in note 2(e) funds have been received in advance under the TCFA, which is an agreement signed by the State and Commonwealth to supplement the provisions of the Regional Forest Agreement (RFA). All TCFA funds have been received by Forestry Tasmania and will be used for the establishment of additional, and improvement of existing, hardwood plantations to compensate for the loss of sustainable forest due to the creation of additional conservation reserves.
As at 30 June 2011, there remains $10 million (30/06/2010 : $15 million) of works to be acquitted against the TCFA intensive forest management program.

	Consolidated		Parent Entity	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000

16 Forest estate assets

	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent Entity 2011 $'000	Parent Entity 2010 $'000
Roads and road structures at cost	**265,972**	256,895	**265,972**	256,895
Less provision for depreciation of roads	**(149,223)**	(142,241)	**(149,223)**	(142,241)
	116,749	114,654	**116,749**	114,654

Reconciliation of forest estate assets ($000)

	Consolidated			Parent Entity		
	Forest Land	Roads and Structures	Total	Forest Land	Roads and Structures	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Carrying amount at beginning of year 1 July 2010	0	114,654	114,654	0	114,654	114,654
Additions	-	9,801	9,801	-	9,801	9,801
Disposal/reallocation	-	(35)	(35)	-	(35)	(35)
Net movement in work in progress	-	(586)	(586)	-	(586)	(586)
Depreciation	-	(7,085)	(7,085)	-	(7,085)	(7,085)
Carrying amount at 30 June 2011	**0**	**116,749**	**116,749**	**0**	**116,749**	**116,749**
Carrying amount at beginning of year 1 July 2009	277,127	115,295	392,422	277,127	115,295	392,422
Additions	-	10,069	10,069	-	10,069	10,069
Disposal/reallocation	(2)	(3,018)	(3,020)	(2)	(3,018)	(3,020)
Net movement in work in progress	-	(402)	(402)	-	(402)	(402)
Impairment	(217,198)	-	(217,198)	(217,198)	-	(217,198)
Revaluation/(devaluation)	(59,926)	-	(59,926)	(59,926)	-	(59,926)
Depreciation	-	(7,290)	(7,290)	-	(7,290)	(7,290)
Carrying amount at 30 June 2010	**0**	**114,654**	**114,654**	**0**	**114,654**	**114,654**

The independent valuation conducted by Sewall determined in the year ended 30 June 2010 that no positive 'commercial in use' value could be attributed to forest land given the constraints applied under the Forestry Act. In addition, title for this land rests with the Crown, not with Forestry Tasmania. Based on this information, the Directors impaired the forest land asset to a zero carrying value as 30 June 2010 (see note 2(l)(iii)). The 2011 valuation reconfirmed this treatment.

	Consolidated		Parent Entity	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
17 Property, plant and equipment				
Land under buildings at fair value	**2,510**	2,488	**2,170**	2,148
Buildings at fair value	**12,270**	11,262	**12,270**	11,262
Transmission line asset at fair value	**14,811**	14,811	**-**	-
Plant and equipment at cost	**19,536**	20,442	**19,536**	20,442
Site infrastructure at cost	**6,886**	6,886	**-**	-
Pre-development works at cost	**3,405**	3,405	**-**	-
Capital work in progress	**326**	1,187	**326**	1,187
Less accumulated depreciation	**(14,104)**	(12,385)	**(9,457)**	(8,835)
Less accumulated impairment losses	**(1,641)**	(1,711)	**(1,641)**	(1,711)
Total property, plant and equipment	**43,999**	46,385	**23,204**	24,493

Valuation of land and buildings

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 1 July 2006 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.

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

	Consolidated							
	Land	Buildings	Trans-mission line	Plant & equipment	Site infra-structure works	Pre-develop-ment costs	Capital work in progress	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Carrying amount at 1 July 2010	2,488	11,222	12,984	9,935	5,688	2,880	1,187	46,384
Additions	-	434	-	546	-	-	1,171	2,151
Disposals	-	(400)	-	(322)	-	-	-	(722)
Reallocation	-	-	-	-	-	-	16	16
Revaluation	91	1,469	-	-	-	-	-	1,560
Impairment	(70)	-	-	-	-	-	-	(70)
Movement in work in progress	-	-	-	-	-	-	(2,048)	(2,048)
Depreciation	-	(498)	(592)	(1,677)	(335)	(170)	-	(3,272)
Carrying amount at 30 June 2011	**2,509**	**12,227**	**12,392**	**8,482**	**5,353**	**2,710**	**326**	**43,999**
Carrying amount at 1 July 2009	1,495	19,529	13,576	11,740	6,023	3,050	3,062	58,475
Additions	480	1,753	-	2,176	-	-	4,213	8,622
Transfers	-	(6,928)	-	6,503	-	-	425	-
Disposals	(10)	(62)	-	(6,161)	-	-	(6)	(6,239)
Reallocation	-	-	-	(74)	-	-	(8)	(82)
Revaluation	523	157	-	-	-	-	-	680
Impairment	-	-	-	(1,535)	-	-	-	(1,535)
Movement in work in progress	-	(1,015)	-	(9)	-	-	(6,498)	(7,522)
Depreciation	-	(2,212)	(592)	(2,705)	(335)	(170)	-	(6,014)
Carrying amount at 30 June 2010	**2,488**	**11,222**	**12,984**	**9,935**	**5,688**	**2,880**	**1,188**	**46,385**
Original cost of assets at 30 June 2011	**2,195**	**20,455**	**14,811**	**23,306**	**6,868**	**3,405**		**71,040**

17 Property, plant and equipment (continued)

	Land	Buildings	Trans-mission line	Plant & equipment	Site infra-structure works	Pre-develop-ment costs	Capital work in progress	Total
	Parent Entity							
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Carrying amount at 1 July 2010	2,148	11,222	-	9,935	-	-	1,187	24,493
Additions	-	434	-	546	-	-	1,171	2,151
Disposals	-	(400)	-	(322)	-	-	-	(722)
Reallocation	-	-	-	-	-	-	16	16
Revaluation	91	1,469	-	-	-	-	-	1,560
Impairment	(70)	-	-	-	-	-	-	(70)
Movement in work in progress	-	-	-	-	-	-	(2,048)	(2,048)
Depreciation	-	(498)	-	(1,677)	-	-	-	(2,175)
Carrying amount at 30 June 2011	**2,169**	**12,227**	**-**	**8,482**	**-**	**-**	**326**	**23,204**
Carrying amount at 1 July 2009	1,155	19,529	-	11,739	-	-	3,062	35,485
Additions	480	1,753	-	2,176	-	-	4,213	8,622
Transfers	-	(6,928)	-	6,503	-	-	425	-
Disposals	(10)	(62)	-	(6,161)	-	-	(6)	(6,239)
Reallocation	-	-	-	(74)	-	-	(8)	(82)
Revaluation	523	157	-	-	-	-	-	680
Impairment	-	-	-	(1,535)	-	-	-	(1,535)
Movement in work in progress	-	(1,015)	-	(8)	-	-	(6,498)	(7,521)
Depreciation	-	(2,212)	-	(2,705)	-	-	-	(4,917)
Carrying amount at 30 June 2010	**2,148**	**11,222**	**-**	**9,935**	**-**	**-**	**1,187**	**24,493**
Original cost of assets 30 June 2011	**1,855**	**20,455**	**-**	**23,306**	**-**	**-**		**45,616**

Impairment of assets

Forestry Tasmania has completed impairment testing of its property, plant and equipment assets. No impairment loss has been recognised in the profit and loss during 2011 (2010: $1.736 million).

	Consolidated		Parent Entity	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
18 Intangible assets				
Forestry Tasmania's intangible assets relate to the development costs of internally produced software.				
Software development	**2,861**	2,815	**2,861**	2,815
Capital work in progress	**-**	11	**-**	11
Less provision for amortisation	**(2,654)**	(2,500)	**(2,654)**	(2,500)
	207	326	**207**	326

Forestry Tasmania

18 Intangible assets (continued)

	Consolidated			Parent Entity		
	Software $000	Work in Progress $'000	Total $'000	Software $000	Work in Progress $'000	Total $'000
Carrying amount at 1 July 2010	315	11	326	315	11	326
Additions	-	25	25	-	25	25
Disposal/reallocation	-	14	14	-	14	14
Net movement in work in progress	50	(50)	-	50	(50)	-
Amortisation	(158)	-	(158)	(158)	-	(158)
Carrying amount at 30 June 2011	**207**	**-**	**207**	**207**	**-**	**207**
Carrying amount at 1 July 2009	534	26	560	534	26	560
Additions – internally developed	81	91	172	81	91	172
Disposal/reallocation	-	-	-	-	-	-
Net movement in work in progress	-	(106)	(106)	-	(106)	(106)
Amortisation	(300)	-	(300)	(300)	-	(300)
Carrying amount at 30 June 2010	**315**	**11**	**326**	**315**	**11**	**326**

19 Investments accounted for using the equity method

	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent Entity 2011 $'000	Parent Entity 2010 $'000
Investments in Hollybank Treetops Adventure Pty Ltd	**436**	351	**436**	351
	436	351	**436**	351

Forestry Tasmania own a 50% share in Hollybank Treetops Adventure Pty Ltd, which is an incorporated joint venture with Australian Treetops Canopy Tours Pty Ltd. The principal activity of the joint venture is a tourism adventure activity located in the Hollybank forest reserve.

	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent Entity 2011 $'000	Parent Entity 2010 $'000
(a) Results of joint venture entities				
Revenues from ordinary activities	**612**	590	**612**	590
Expenses from ordinary activities	**(528)**	(455)	**(528)**	(455)
Profit/(loss) from ordinary activities	**85**	135	**85**	135
Income tax expense relating to ordinary activities	**-**	-	**-**	-
Net profit/(loss) – accounted for using the equity method	**85**	135	**85**	135
(b) Statement of financial position				
Current assets	**58**	96	**58**	96
Non-current assets	**467**	436	**467**	436
Total assets	**524**	532	**524**	532
Current liabilities	**(33)**	(19)	**(33)**	(19)
Non-current liabilities	**(55)**	(162)	**(55)**	(162)
Total liabilities	**(88)**	(181)	**(88)**	(181)
Net assets	**436**	351	**436**	351

	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent Entity 2011 $'000	Parent Entity 2010 $'000

19 Investments accounted for using the equity method (continued)

(c) Reconciliations

	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent Entity 2011 $'000	Parent Entity 2010 $'000
Share of post-acquisition retained profits attributable to joint venture entities				
Share of joint venture entities' retained profit/(losses) at beginning of year	**351**	(244)	**351**	(244)
Share of joint venture entities' net profit/(losses)	**85**	379	**85**	379
Share of joint venture entities' retained profit/(losses) at end of year	**436**	135	**436**	135
Movement in carrying amount of joint ventures				
Carrying amount at beginning of year	**351**	216	**351**	216
Investment in joint ventures acquired during the year	**-**	-	**-**	-
Share of joint venture entities' net profits/(losses)	**85**	135	**85**	135
Carrying amount at end of year	**436**	351	**436**	351

20 Other investments

	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent Entity 2011 $'000	Parent Entity 2010 $'000
Current				
Superannuation investment	**7,147**	-	**7,147**	-
Non-current				
Investment in Ta Ann Tasmania	**-**	400	**-**	400
Investment in infrastructure assets – Eco Centre trust	**570**	570	**570**	570
Investment in subsidiary companies	**-**	-	**62**	260
Superannuation investment	**-**	13,666	**-**	13,666
	570	14,636	**632**	14,896
	7,717	14,636	**7,779**	14,896
Reconciliation of superannuation investment account ($000)				
Opening balance 1 July 2010	**13,666**	12,280	**13,666**	12,280
Realisation of investments	**(7,926)**	-	**(7,926)**	-
Earnings on cash investments	**93**	87	**93**	87
Movement in fair value	**1,314**	1,299	**1,314**	1,299
Closing balance 30 June 2011	**7,147**	13,666	**7,147**	13,666

There were no movements in the other investments during the current and previous year.

21 Trade and other payables

	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent Entity 2011 $'000	Parent Entity 2010 $'000
Current				
Trade creditors	**9,030**	11,589	**9,025**	11,531
Share of GMO JV payables	**1,587**	1,633	**1,587**	1,633
Accrued expenses	**4,359**	7,108	**4,190**	6,890
Total current payables	**14,976**	20,330	**14,802**	20,054
Non-current				
Trade creditors	**10**	10	**798**	442
	10	10	**798**	442

	Consolidated		Parent Entity	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000

22 Revenue received in advance

	2011	2010	2011	2010
Current	**12,988**	14,191	**12,484**	13,989
Non-current	**34,744**	45,775	**28,076**	38,354
	47,732	59,966	**40,560**	52,343
Reconciliation of revenue received in advance ($000)				
Opening balance 1 July 2010	**59,966**	55,946	**52,343**	47,873
New revenue received in advance	**1,548**	20,901	**1,548**	20,901
Recognised in comprehensive income				
Tasmanian Community Forest Agreement income – operating activities	**(3,716)**	(4,282)	**(3,716)**	(4,282)
Tasmanian Community Forest Agreement income – intensive forest management	**(7,496)**	(5,836)	**(7,496)**	(5,836)
Other activities	**(1,621)**	(3,837)	**(1,170)**	(3,387)
Transfer to offset assets	**(949)**	(2,926)	**(949)**	(2,926)
Closing balance 30 June 2011	**47,732**	59,966	**40,560**	52,343

23 Interest bearing liabilities

	2011	2010	2011	2010
Current				
Borrowings	**29,800**	19,800	**29,800**	19,800
Finance lease	**194**	179	**-**	-
	29,994	19,979	**29,800**	19,800
Non-Current				
Borrowings	**11,000**	21,000	**11,000**	21,000
Finance lease	**11,512**	11,706	**-**	-
Total	**22,512**	32,706	**11,000**	21,000
Financing Arrangements				
The Group has access to the following lines of credit:				
Total facilities available:				
Credit cards	**800**	800	**800**	800
Loan facility – secured	**60,800**	45,000	**60,800**	45,000
	61,600	45,800	**61,600**	45,800
Facilities used at balance date:				
Credit cards	**74**	69	**74**	69
Loan facility – secured	**40,800**	40,800	**40,800**	40,800
	40,874	40,869	**40,874**	40,869
Facilities not utilised at balance date:				
Credit cards	**726**	731	**726**	731
Loan facility – secured	**20,000**	4,200	**20,000**	4,200
	20,726	4,931	**20,726**	4,931

Credit Cards

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% (2010: 17.24%), payable monthly.

Foreign Currency Overdraft Limit

Forestry Tasmania has a US$2.0 million foreign currency overdraft to facilitate foreign currency dealings (2010: $2.0 million).

23 Interest bearing liabilities (continued)

Loan Facility - Secured

Forestry Tasmania has long-term fixed borrowings of $11.0 million (2010: $21.0 million). The fixed component bears interest on a fixed rate with the interest charged on a six-monthly basis. Current borrowings are at call and are charged at the applicable daily rate. The loans are secured by a floating charge over Forestry Tasmania's trade and other receivables. Refer to note 13 for the carrying amount of trade and other receivables which Forestry Tasmania has pledged as security.

Forestry Tasmania's interest bearing liabilities are a combination of fixed and at call loans held with Tascorp. Loans that are due to be repaid or renegotiated in the ensuing 12-month period are classified as current.

In 2009/10 the Treasurer provided support by way of a Letter of Comfort to Tascorp while revised funding arrangements were being negotiated. The Letter of Comfort, which was extended through to December 2011, has subsequently been extended without expiry.

Finance Lease

The finance lease between Newood Holdings Pty Ltd and Transend Networks Pty Ltd is related to the construction of the power transmission line onto the Huon wood centre site. The construction of the line has been funded through a finance lease agreement with Transend.
The agreement covers the annual payment of operating, maintenance and a capital component for the term of the agreement, which is to May 2033. The interest rate is fixed at 8.4% per annum.

	Consolidated		Parent Entity	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
24 Obligations for non-commercial forest zones				
Current	**1,463**	5,354	**1,463**	5,354
Non-current	**55,637**	60,446	**55,637**	60,446
	57,100	65,800	**57,100**	65,800

Identified costs and revenues associated with formal reserves and special timber zones, were analysed by Sewall as part of its valuation project in 2010. These two zones are together referred to as 'non-commercial zones'. Sewall's discounted cash flow analysis determined an 'Obligation Liability' based on the net costs incurred by Forestry Tasmania in maintaining these zones in accordance with the Forestry Act.

25 Employee benefits

	2011	2010	2011	2010
Current				
Annual leave	**1,317**	1,269	**1,317**	1,269
Long service leave	**2,647**	3,141	**2,647**	3,141
Superannuation (see note below)	**4,556**	4,187	**4,556**	4,187
Workers compensation	**979**	1,130	**979**	1,130
	9,499	9,727	**9,499**	9,727
Non-current				
Long service leave	**911**	1,080	**911**	1,080
Superannuation (see note below)	**117,898**	118,228	**117,898**	118,228
	118,809	119,308	**118,809**	119,308

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

	2011	2010
Assumed rate of increase in wages and salaries rates	**4.5%**	4.5%
Discount rate used in the calculation of the long service leave provision ranges from 4.78% to 5.24% (2010 range 4.37% to 5.41%).		
Settlement terms (years) – long service leave	**10-15 years**	10-15 years

25 Employee benefits (continued)

(a) Superannuation liability

	2011 $'000	2010 $'000
Key assumptions		
Discount rate:		
Gross of tax	**5.55%**	5.80%
Net of tax	**5.50%**	5.70%
Salary rate	**4.50%**	4.50%
Expected return on plan assets (net of tax)	**7.50%**	7.00%
Inflation (pensions)	**2.50%**	2.50%

The expected return on plan assets (net of tax) has been based on the expected long-term returns for each of the major asset classes in which the plan invests.

	2011 $'000	2010 $'000
Plan assets – asset disclosure		
Australian equities	**25.00%**	26.00%
Overseas equities	**22.00%**	22.00%
Fixed interest securities	**13.00%**	12.00%
Property and infrastructure	**19.00%**	20.00%
Alternatives	**18.00%**	14.00%
Other	**3.00%**	6.00%
Statement of Financial Position results – net liability		
Defined benefit obligation	**154,723**	155,728
Contributions tax liability	**-**	-
Total defined benefit obligations	**154,723**	155,728
RBF contributory scheme assets	**(32,269)**	(33,313)
Total net liability	**122,454**	122,415
Current net liability	**4,556**	4,187
Non-current net liability	**117,898**	118,228
Total net liability	**122,454**	122,415
Movement in net liability		
Net liability/(asset) in Statement of Financial Position at end of prior year	**122,415**	109,075
Expense recognised in Statement of Comprehensive Income	**5,510**	19,404
Actual employer contributions	**(5,471)**	(6,064)
Net liability/(asset) in Statement of Financial Position at end of year	**122,454**	122,415
Statement of Comprehensive Income results		
Employer service cost	**2,858**	2,622
Contribution tax expense	**-**	-
Total employer service cost	**2,858**	2,622
Interest cost	**8,165**	7,894
Expected return on plan assets	**(2,281)**	(2,243)
Recognised actuarial (gains)/losses	**(3,232)**	11,131
Expense recognised in Statement of Comprehensive Income	**5,510**	19,404

Movement in the superannuation related employee benefits is recognised in the Statement of Comprehensive Income against the line item '(Increase)/decrease in unfunded superannuation liability'.

25 Employee benefits (continued)

	2011 $'000	2010 $'000
Reconciliations		
Changes in the fair value of plan assets		
Fair value of plan assets at end of prior year	**33,313**	32,572
Estimated employer contributions	**5,471**	6,064
Estimated participant contributions	**884**	868
Estimated operating costs	**(323)**	(310)
Estimated benefit payments	**(8,115)**	(8,161)
Expected return on assets	**2,281**	2,243
Actuarial (gain)/losses	**(1,242)**	37
Fair value plan assets at year end	**32,269**	33,313
Changes in the defined benefit obligation (inclusive of contributions tax for disclosure purposes)		
Defined benefit obligations at end of prior year	**155,728**	141,647
Employer service cost	**2,858**	2,622
Interest cost	**8,165**	7,894
Actual participant contributions	**884**	868
Actual operating costs	**(323)**	(310)
Actual benefit payments contributions tax	**(8,115)**	(8,161)
Expected defined benefit obligations at year end	**159,197**	144,560
Actuarial (gain)/losses	**(4,474)**	11,168
Actual total defined benefit obligations at year end	**154,723**	155,728
Contributions tax		
Defined benefit obligations at end of prior year	**154,723**	155,728
Fair value Plan assets at end of prior year	**(32,269)**	(33,313)
Net obligation	**122,454**	122,415
Contributions tax at end of prior year	**1**	1
Contributions tax expense	**-**	-
Expected contributions tax at year end	**1**	1
Actuarial (gain)/loss on contributions tax	**-**	-
Actual contributions tax at year end	**1**	1
Reconciliation of actuarial (gain)/loss		
Unrecognised unactuarial (gain)/loss at end of prior year	**-**	-
Actuarial (gain)/loss on assets	**1,242**	(37)
Actuarial (gain)/loss on liabilities	**(4,474)**	11,168
Actuarial (gain)/loss on contributions tax	**-**	-
Amount recognised during year in Comprehensive Income Statement	**3,233**	(11,130)
Unrecognised actuarial (gain)/loss at end of year	**-**	-

25 Employee benefits (continued)

	2011 $'000	2010 $'000
Interest cost		
Defined benefit obligations at end of prior year	**155,728**	141,646
Actual benefit payments	**6,211**	6,305
Weighted for timing	**(3,106)**	(3,153)
Average benefit obligations	**152,622**	138,493
Discount rate	**5.4%**	5.7%
Calculated interest cost	**8,165**	7,894
Interest cost used in calculation	**8,165**	7,894
Expected return on assets		
Fair value of plan assets at end of prior year	**33,313**	32,572
Actual employer contributions	**4,187**	4,685
Weighted for timing	**2,094**	2,343
Actual participant contributions	**884**	868
Weighted for timing	**442**	434
Actual operating costs	**(323)**	(310)
Weighted for timing	**(162)**	(155)
Actual benefit payments	**(6,211)**	(6,305)
Weighted for timing	**(3,106)**	(3,153)
Average expected assets	**32,581**	32,041
Assumed rate of return	**7.0%**	7.0%
Calculated expected return on assets	**2,281**	2,243
Expected return on assets used in calculation	**2,281**	2,243
Net liability/(asset) at year end		
Actual defined benefit obligations at year end	**154,723**	155,728
Actual contributions tax at year end	**1**	1
Total defined benefit obligation at year end	**154,724**	155,729
Actual assets at year end	**(32,269)**	(33,313)
Deficit/(surplus)	**122,455**	122,416
Unrecognised past service cost	**-**	-
Unrecognised net (gain)/loss	**-**	-
Net liability/(asset)	**122,455**	122,416

History

The amounts for the current annual reporting period and the previous four reporting periods are shown below.

	30 June 2011	30 June 2010	30 June 2009	30 June 2008	30 June 2007
Total defined benefit obligation at year end	**154,723**	155,728	141,647	134,093	139,662
Actual assets at year end	**(32,269)**	(33,313)	(32,572)	(34,603)	(38,470)
Deficit/(Surplus)	**122,454**	122,415	109,075	99,490	101,192
Experience adjustment on liabilities	**(1,340)**	1,112	17,588	517	(356)
Experience adjustment on assets	**1,242**	(37)	3,788	5,333	(3,144)

	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent Entity 2011 $'000	Parent Entity 2010 $'000
26 Expenditure commitments				
Operating expenditure commitments				
(a) Operating leases				
Leases as lessee				
Not longer than one year	**3,957**	2,728	**3,957**	2,728
Longer than one year but not longer than five years	**11,640**	12,566	**11,640**	12,566
Later than five years	**14,949**	14,480	**14,949**	14,480
	30,546	29,774	**30,546**	29,774

Forestry Tasmania leases property and equipment under non-cancellable operating leases expiring from one to 10 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.

(b) Finance lease

Finance lease liabilities of the Group are payable as follows:

	Consolidated ($000) Future minimum lease payments	Interest	Present value of minimum lease payments
2011			
Not longer than one year	1,170	976	194
Between one and two years	2,340	1,900	441
Between three and five years	3,511	2,694	816
Later than five years	18,626	8,371	10,255
	25,647	**13,941**	**11,706**
2010			
Not longer than one year	1,170	992	179
Between one and two years	2,340	1,935	405
Between three and five years	3,511	2,760	751
Later than five years	19,796	9,245	10,550
	26,817	**14,932**	**11,885**

The finance lease is between Newood Holdings Pty Ltd and Transend Network Pty Ltd and relates to the construction of the power transmission line onto the Huon wood centre site. The construction of the line has been funded through a finance lease agreement with Transend.

The Organisation does not have any finance lease liabilities.

26 Expenditure commitments (continued)

	Consolidated		Parent Entity	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
(c) Capital expenditure commitments				
Plantation establishment				
Not longer than one year	**9,007**	9,438	**9,007**	9,438
Between one and five years	**25,745**	28,000	**25,745**	28,000
Later than five years	**-**	5,121	**-**	5,121
	34,752	42,559	**34,752**	42,559
Road construction				
Not longer than one year	**266**	258	**266**	258
Construction contracts				
Not longer than one year	**1**	4	**1**	4

27 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 2011.

28 Controlled entities

	Country of incorporation	Percentage of Shares 2011	2010
Parent Entity – Forestry Tasmania			
Controlled Entities – Newood Holdings Pty Ltd, incorporated 19 December 2002	Australia	**100%**	100%
Controlled Entities – Newood Huon Pty Ltd, incorporated 19 December 2002	Australia	**100%**	100%
Controlled Entities – Newood Smithton Pty Ltd, incorporated 19 December 2002	Australia	**100%**	100%
Controlled Entities – Newood Energy Pty Ltd, incorporated 3 March 2008	Australia	**100%**	100%

All of the above entities are consolidated and form part of the Consolidated Entity. Forestry Tasmania is an entity that is 100% owned by the Crown of Tasmania.

29 Related party information

	Sales to related parties		Purchases from related parties		Amounts owed by related parties		Amounts owed to related parties	
	2011	2010	2011	2010	2011	2010	2011	2010
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Consolidated								
Softwood joint venture	**5,732**	5,982	**-**	-	**12**	12	**-**	-
Hollybank Treetops Adventure Pty Ltd	**-**	-	**-**	-	**6**	225	**-**	-
Parent								
Softwood joint venture	**5,732**	5,982	**-**	-	**12**	12	**-**	-
Hollybank Treetops Adventure Pty Ltd	**-**	-	**-**	-	**6**	225	**-**	-
Newood Holdings Pty Ltd	**196**	70	**89**	110	**3,984**	2,977	**10**	10

Softwood joint venture sales are comprised of roading services and silvicultural work under a services agreement. 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.

30 Interest in joint venture operations

Forestry Tasmania has joint venture plantation establishment operations with other organisations. Its share of the value of the biological asset is included in note 15.

Forestry Tasmania holds a 50% share in a softwood joint venture with GMO Renewable Resources. In addition to the biological asset, included in the assets and liabilities of the Organisation are items that represent Forestry Tasmania's interest in the joint venture.

	Consolidated		Parent Entity	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Current assets				
Cash	**4,268**	2,039	**4,268**	2,039
Receivables	**5,423**	5,849	**5,423**	5,849
Inventories	**147**	136	**147**	136
Total current assets	**9,838**	8,024	**9,838**	8,024
Non-current assets				
Biological assets	**85,650**	70,891	**85,650**	70,891
Total non-current assets	**85,650**	70,891	**85,650**	70,891
Total assets	**95,488**	78,915	**95,488**	78,915
Current liabilities				
Payables	**1,587**	1,633	**1,587**	1,633
Total current liabilities	**1,587**	1,633	**1,587**	1,633
Total liabilities	**1,587**	1,633	**1,587**	1,633

31 Key management personnel compensation and other disclosures

During the year, the Board of Directors of Forestry Tasmania comprised the following individuals: Messrs A. Kloeden, H.J. Elliott, M.Hampton, G.W.Coffey, R.L. Gordon and Ms D. Radford. 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.

Other key management personnel are determined to be the members of the General Management Team of Forestry Tasmania (10 members: 2011) (9 members: 2010). The Remuneration Committee of the Board is responsible for determining and reviewing compensation arrangements for members of the General Management Team.

Compensation for Directors and key management personnel of Forestry Tasmania amounted to the following:

Short-term employee benefits	**2,272**	2,033	**2,272**	**2,033**
Post-employment benefits	**217**	197	**217**	**197**
Other long-term employee benefits	**37**	31	**37**	**31**
Termination benefits	**60**	-	**60**	-
Total	**2,586**	2,261	**2,586**	**2,261**

With the exception of the following, Forestry Tasmania has not made any loans to or entered into any other transactions with any member of the Board of Directors or their related parties: Dr H.J. Elliott is an independent director of Forestry Tasmania. Dr H.J. Elliott chaired the Giant Trees Consultative Committee during 2010/11. During 2010/11 Dr Elliott was paid $1,500 (2010: $1,500). As at the reporting date there were no balances outstanding (2010: $nil).

32 Auditors' remuneration

Amounts paid and payable to the Tasmanian Audit Office for auditing the financial statements of Forestry Tasmania	**105**	107	**105**	107
Amounts paid and payable to other service providers for internal and other regulatory audit services	**157**	190	**157**	190

33 Events subsequent to balance date

Forestry Tasmania's operating result, together with the ongoing uncertainty around the Tasmanian Forests Intergovernmental Agreement and the Statement of Principles and their possible impact on the business, have caused the Directors to review the appropriateness of continuing to prepare the accounts on a going concern basis. The current trading outlook presents significant challenges in terms of sales volume and pricing and in these circumstances there are material uncertainties over future trading results and cash flows. In addition, the effect on the business of the Agreement and Principles is yet to be finalised but it is possible that they will lead to a significant reduction in the resource available for harvest and sale.

Also relevant is that the State Government has commenced a strategic review of Forestry Tasmania. The outcome of this review may or may not increase the uncertainties surrounding Forestry Tasmania's operations.

The Directors have concluded from this that the combination of these circumstances represents a material uncertainty on the operations of the business.

However, the Directors note that:

- there are signs of improved demand for forest products, pricing is improving and Forestry Tasmania has reduced its costs significantly
- measures have been instituted to preserve cash, additional sources of finance have been secured and other initiatives are being considered including asset sales
- it is likely that assistance will be received in restructuring operations and the balance sheet
- appropriate enquiries of the relevant ministers have been made and, bearing in mind the uncertainties described above, the Directors have concluded that the Group and the Organisation will receive ongoing support and adequate resources to continue in operational existence for the foreseeable future.

Taking into account all the above factors the Directors have concluded that it is appropriate to continue to adopt the going concern basis in preparing the financial report.

34 Financial instruments disclosure

Forestry Tasmania and the Group have exposure to the following risks from their use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, their 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 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 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.
In 2008/09 Forestry Tasmania conducted a review of its business risks, which incorporated financial risk management issues.

Credit Risk

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

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group'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 Group'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 Group'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.

34 Financial instruments disclosure (continued)

Capital Management

The Board's objective is to achieve a BBB credit rating. In 2007/08 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 the value of non-operating accounting impacts to the net profit before tax and costs attributable to non-commercial forest zones and CSOs. Net debt and interest coverage ratios exclude the movement in and the balance of the unfunded superannuation liability.

(a) Capital risk management

Forestry Tasmania manages its capital to ensure that entities in the Group 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 23, the unfunded superannuation liability disclosed in note 25, cash and cash equivalents and the superannuation investment disclosed in note 20.

		Consolidated		Parent Entity	
		2011	2010	2011	2010
	Note	$000	$000	$000	$000
(b) Categories of financial instruments					
Financial assets					
Fair value through profit or loss – held for trading	20	**570**	14,236	**632**	14,496
Held to maturity investments		**-**	-	**-**	-
Loans and receivables	13	**34,778**	38,607	**38,260**	41,925
Available for sale financial assets	20	**-**	400	**-**	400
Cash and cash equivalents	12(a)	**9,365**	29,546	**9,291**	29,270
Financial liabilities					
Fair value through profit or loss		**-**	-	**-**	-
Financial liabilities measured at amortised cost	21, 23	**(67,492)**	(73,025)	**(56,400)**	(61,296)

(c) Credit risk

Exposure to credit risk

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

		2011	2010
		$'000	$'000
Cash	12	**9,365**	29,546
Trade and other receivables	13	**34,778**	38,607
Other financial assets	20	**570**	14,636
Total financial assets		**44,713**	82,789

Trade receivables

Forestry Tasmania's principal credit risk arises from non payment by 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 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 South Korea. 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.

34 Financial instruments disclosure (continued)

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.

Forestry Tasmania has traditionally had four major customers for the sale of forest products, which together represented 2011: 83% (2010: 79%) of total forest product sales. With the withdrawal of the major customer from the utilisation of native forest products, a shift in this concentration has occurred which will significantly alter this concentration of risk.

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

	Consolidated 2011 $'000				
	Not past due	Past due			
	Current	30 days	60 days	90 days plus	Total
Forest sales trade debtors	**6,185**	**7,538**	**4,880**	**15,047**	**33,650**
General trade debtors	**1,126**	**2,220**	**214**	**1,715**	**5,275**
Total trade debtors	**7,311**	**9,758**	**5,094**	**16,762**	**38,925**
Forest sales provision for impairment	**-**	**-**	**-**	**(10,725)**	**(10,725)**
General trade debtors provision for impairment	**(32)**	**(30)**	**(90)**	**(789)**	**(941)**
Total impairment of receivables	**(32)**	**(30)**	**(90)**	**(11,514)**	**(11,666)**
Total	**7,279**	**9,728**	**5,004**	**5,248**	**27,259**

	Consolidated 2010 $'000				
	Not past due	Past due			
	Current	30 days	60 days	90 days plus	Total
Forest sales trade debtors	8,898	12,343	1,496	4,478	27,215
General trade debtors	2,210	1,878	37	1,474	5,599
Total trade debtors	11,108	14,221	1,533	5,952	32,814
Forest sales provision for impairment	-	-	-	(794)	(794)
General trade debtors provision for impairment	(30)	(28)	(30)	(383)	(471)
Total impairment of receivables	(30)	(28)	(30)	(1,177)	(1,265)
Total	11,078	14,193	1,503	4,775	31,549

Impairment provisioning recognised

Forestry Tasmania has recognised impairment provisions relating to loans and receivables but believes that no impairment allowance is necessary in respect of trade receivables for past due balances.

	Consolidated		Parent Entity	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Balance as at 1 July	**(1,265)**	(9)	**(985)**	(9)
Recovery of prior year impairments	**-**	-	**-**	-
Impairment loss recognised	**(10,401)**	(1,256)	**(10,006)**	(976)
Balance as at 30 June	**(11,666)**	(1,265)	**(10,991)**	(985)

34 Financial instruments disclosure (continued)

(d) Liquidity risk

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 Group'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.

Consolidated $'000

	Weighted average interest rate	Less than 1 month	1-12 months	1-2 years	2-5 years	More than 5 years
2011						
Trade and other payables	0.00%	14,976	-	-	-	10
Finance lease liability	8.40%	-	194	441	816	10,255
Interest bearing liabilities – variable	5.39%	29,994	-	-	-	-
Interest bearing liabilities – fixed	5.71%	-		11,000	-	-
2010						
Trade and other payables	0.00%	20,330	-	-	-	10
Finance lease liability	8.40%	-	179	405	751	10,550
Interest bearing liabilities – variable	4.25%	19,979	-	-	-	-
Interest bearing liabilities – fixed	5.98%	-	-	10,000	11,000	-

Parent Entity $'000

	Weighted average interest rate	Less than 1 month	1-12 months	1-2 years	2-5 years	More than 5 years
2011						
Trade and other payables	0.00%	14,802	-	-	-	-
Interest bearing liabilities – variable	5.39%	29,800	-	-	-	-
Interest bearing liabilities – fixed	5.71%	-	-	11,000	-	-
2010						
Trade and other payables	0.00%	20,054	-	-	-	-
Interest bearing liabilities – variable	4.25%	19,800	-	-	-	-
Interest bearing liabilities – fixed	5.98%	-	-	10,000	11,000	-

Interest bearing liabilities

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 its decisions in relating to interest bearing liabilities.

34 Financial instruments disclosure (continued)

(e) Market risk

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.

	Consolidated $'000				Parent Entity $'000			
	2011		2010		2011		2010	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Available for sale financial assets	-	-	400	400	400	400	400	400
Held to maturity investments	-	-	-	-	-	-	-	-
Financial assets designated at fair value through profit or loss	570	570	14,636	14,636	632	632	14,896	14,896
Loans and receivables	34,778	34,778	38,607	38,607	38,260	38,260	41,925	41,925
Cash and cash equivalents	9,365	9,365	29,546	29,546	9,291	9,291	29,270	29,270
Trade and other payables	(14,986)	(14,986)	(20,340)	(20,340)	(15,600)	(15,600)	(20,496)	(20,496)
Finance lease liability	(11,706)	(11,706)	(11,885)	(11,885)	-	-	-	-
Interest bearing liabilities – variable	(29,800)	(29,800)	(19,800)	(19,800)	(29,800)	(29,800)	(19,800)	(19,800)
Interest bearing liabilities – fixed	(11,000)	(11,000)	(21,000)	(21,000)	(11,000)	(11,000)	(21,000)	(21,000)
Total	**(22,779)**	**(22,779)**	**9,764**	**9,764**	**(8,217)**	**(8,217)**	**24,795**	**24,795**

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 2011, there were A$3.017 million of foreign currency forward exchange contracts in place (2010: A$6.949 million).

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

The USD 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 account to pay export expenses and funds to meet forward exchange contract commitments. The balance in the account as at 30 June 2011 was US$0.070 million (2010: US$1.482 million).

Investments

Forestry Tasmania has funds in an investment portfolio which comprises fixed interest, Australian equities, overseas equities and property. The funds are used to offset the unfunded superannuation liability and to reimburse the Organisation for payments made on an emerging basis in relation to superannuation entitlements to ex-employees transacted during the reporting period. The average earnings of the portfolio in 2010/11 was +8.49% (2010: +11%). If the average earnings of the portfolio had increased +10.49% (2010: -13%), the impact to the asset and profit and loss would have been an additional increase in interest income of $0.331 million (2010: increase in interest income of $0.245 million). Conversely, if the average earnings of the portfolio had increased by +6.49% (2010: +9%), the impact income statement would have been a decrease of $0.331 million (2010: decrease of $0.245 million).

Interest bearing liabilities – variable

Borrowings undertaken by the Organisation are in a variable and fixed interest portfolio. The average variable interest rate was 5.39% (2010: 4.42%). If the annual average variable interest rate increased to 6.39% (2010: 5.42%), the impact to the profit and loss would have been a decrease in profit of $0.197 million (2010: decrease in profit of $0.090 million). Conversely, if the interest rate decreased to 4.29% (2010: 3.75%), the impact to the profit and loss would have been an increase in profit of $0.197 million (2010: increase in profit of $0.090 million).

34 Financial instruments disclosure (continued)

(f) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows::

– Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
– Level 2: inputs other than quoted prices included within 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), quoted prices (unadjusted) in active markets for identical assets or liabilities

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Consolidated				
30 June 2011				
Financial assets designated at fair value through profit or loss	-	-	-	-
Financial assets held for trading	7,147	-	-	7,147
Derivative financial assets	-	-	-	-
	7,147	-	-	7,147
Derivative financial liabilities	-			
	7,147			7,147
30 June 2010				
Financial assets designated at fair value through profit or loss	-	-	-	-
Financial assets held for trading	-	-	-	-
Derivative financial assets	-	-	-	-
	-	-	-	
Derivative financial liabilities	-	-	-	-
	-	-	-	-
Parent Entity				
30 June 2011				
Financial assets designated at fair value through profit or loss	-	-	-	-
Financial assets held for trading	7,147	-	-	7,147
Derivative financial assets	-	-	-	-
	7,147	-	-	7,147
Derivative financial liabilities	-	-	-	
	7,147	-	-	7,147
30 June 2010				
Financial assets designated at fair value through profit or loss	-	-	-	-
Financial assets held for trading	-	-	-	-
Derivative financial assets	-	-	-	-
	-	-	-	-
Derivative financial liabilities	-	-	-	-
	-	-	-	

During the year there were no financial assets or liabilities that transferred from one fair value category to another.

certification OF FINANCIAL STATEMENTS

Certification of Financial Statements

It is the opinion of the directors of Forestry Tasmania:

a) the financial statements and notes of the organisation and of the Group 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 2010-11 financial year and the financial position as at 30 June 2011 of the organisation and the Group;
(ii) subject to the Treasurer's Instructions and complying with Australian Accounting Standards;
(iii) complying with Australian equivalents to International Financial Reporting Standards; and

b) there are reasonable grounds to believe that the organisation 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 Managing Director and the Chief Financial Officer of the organisation:

(i) the financial records of the organisation for the 2010-11 financial year have been properly maintained in accordance with Section 51 of the *Government Business Enterprises Act 1995*;
(ii) the financial statements and notes for the 2010-11 financial year have been prepared in accordance with Section 52 of the *Government Business Enterprises Act 1995*; and
(iii) the financial statements and notes for the 2010-11 financial year give a true and fair view.

Signed in accordance with a resolution of the directors.

…………………………………	…………………………………
Adrian Kloeden	Robert L Gordon
Chairman	**Managing Director**
15 August 2011	15 August 2011

Tasmanian Audit Office

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INDEPENDENT AUDITOR'S REPORT

To Members of the Parliament of Tasmania

FORESTRY TASMANIA

Financial Report for the Year Ended 30 June 2011

Report on the Financial Report

I have audited the accompanying financial report of Forestry Tasmania, which comprises the statements of financial position as at 30 June 2011, the statements of comprehensive income, changes in equity and cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the statement by the directors on the financial report of the consolidated entity comprising Forestry Tasmania and the entities it controlled at the year's end or from time to time during the financial year.

Auditor's Opinion

In my opinion:

(a) Forestry Tasmania's financial report:

(i) presents fairly, in all material respects, the consolidated entity's financial position as at 30 June 2011, and its financial performance, cash flows and changes in equity for the year then ended; and

(ii) is in accordance with the *Government Business Enterprises Act 1995* and Australian Accounting Standards.

(b) the consolidated financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).

Emphasis of Matter

I draw attention to Note 33 to the financial report which describes circumstances giving rise to uncertainties as to the operations of Forestry Tasmania, the assessment by the directors and their conclusion that it is appropriate for Forestry Tasmania to continue to adopt the going concern basis in preparing this financial report. My audit opinion is not qualified in respect of these matters.

The Responsibility of the Directors for the Financial Report

The directors are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and Section 52(1) of the *Government Business Enterprises Act 1995*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report complies with International Financial Reporting Standards.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based upon my audit. My audit was conducted in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial report is free of material misstatement.

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

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

Independence

In conducting this audit, I have complied with the independence requirements of Australian Auditing Standards and other relevant ethical requirements. The *Audit Act 2008* further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of State Entities but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Tasmanian Audit Office are not compromised in their role by the possibility of losing clients or income.

My independence declaration provided to the directors dated 12 August 2011 and included in the Annual Report, would be unchanged if provided to the directors as at the date of this audit report.

TASMANIAN AUDIT OFFICE

H M Blake
AUDITOR-GENERAL
HOBART
17 August 2011

To provide independent assurance to the Parliament and Community on the performance and accountability of the Tasmanian Public sector.
• Professionalism • Respect • Camaraderie • Continuous Improvement • Customer Focus •

Making a Difference

auditor's INDEPENDENCE DECLARATION

Tasmanian Audit Office

STRIVE | LEAD | EXCEL | *TO MAKE A DIFFERENCE*

Level 4, Executive Building
15 Murray Street
Hobart Tasmania 7000

Postal Address
GPO Box 851
Hobart Tasmania 7001

Phone: 03 6226 0100
Fax: 03 6226 0199
Email: admin@audit.tas.gov.au
Web: www.audit.tas.gov.au

12 August 2011

The Board of Directors
Forestry Tasmania
49 Melville Street
HOBART TAS 7000

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 2011, 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; and

b) any applicable code of professional conduct in relation to the audit.

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

Yours sincerely

H M Blake
AUDITOR-GENERAL

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Making a Difference

corporate GOVERNANCE

The Board of Directors of Forestry Tasmania comprises five independent non-executive directors and the Managing Director. It is responsible for the overall corporate governance of the organisation.

This includes setting strategic direction, overseeing financial performance and business affairs, setting management goals and monitoring management's performance.

As a fully state-owned government business enterprise, the Board of Directors is responsible directly to the Minister for Energy and Resources and the Treasurer for its operations.

All current directors have been appointed in accordance with the Forestry Act and their responsibilities are outlined in the *Government Business Enterprises Act 1995*. As a result of recent changes in legislation future appointments will be in accordance with the *Government Business Enterprises Act 1995*. Remuneration fees for non-executive directors are set by government.

The Board aspires to a high degree of ethical behaviour and accountability and has developed a set of policies and procedures to govern its operations in accordance with these principles.

Monthly reports on operations and finance are supplied to the Board about the outputs of the organisation. This is reviewed monthly with senior managers, who also regularly contribute advice on strategic issues to the Board.

The Board visits operating sites and major customers as part of its corporate governance role. The Chairman of the Board has meetings from time to time with the Minister for Energy and Resources and Forestry Tasmania reports its' quarterly financial performance to the Treasurer.

Board of Directors
Adrian Kloeden (Chairman) – MSc (BusStudies) Lond, BSc For (Hons) ANU, FAICD.
Deborah Radford – BEc LaTrobe, GradDipFin&Inv SecInstAust.
Humphrey J Elliott – BScFor ANU, DipAgricEnt Syd, PhD Syd.
Miles Hampton – BEc (Hons) Tas, FCPA, FCIS, FAICD.
Geoff Coffey – FCPA, ACIS ACIM, GAICD, Dip FP.
Robert L Gordon – BSc, MIFA, MAICD.

Secretary to the Board
Sue Shoobridge – BComm FCPA, FAICD.

The following is also noted in respect to the Board:

- All the Directors are soundly experienced in corporate law and governance issues.
- The combined skills of the Directors include international marketing, corporate management, marketing, finance and forest management.
- The Directors adhere to the Forestry Tasmania Corporate Governance Policy and Human Resources Policies and Procedures.

The Directors have fully reviewed the set of Guidelines for Tasmanian Government Businesses produced by the Department of Treasury and Finance in October 2008 and have considered their application to the governance of Forestry Tasmania.

board COMMITTEES

The Board of Directors holds special ad-hoc meetings as required, and has four sub-committees. Board sub-committees are governed by individual charters and membership is based on expertise. These committees make informed recommendations on corporate issues to the Board, which then makes final decisions to guide Forestry Tasmania's operations.

Audit and Risk Management Committee

This committee monitors Forestry Tasmania's overall control procedures, external financial reporting and business risks. It provides direct oversight and liaison, on behalf of the Board, with the internal auditors (KPMG) and the Tasmanian Audit Office. The committee meets the independent internal auditors privately at least once a year to review the performance of the organisation and obtain assurances on the adequacy of financial and accounting controls.

Members: M Hampton (chair), A Kloeden, G Coffey
Attendees: R Gordon, S. Shoobridge, and representatives from KPMG and the Tasmanian Audit Office

Remuneration and Board Nominations Committee

This committee oversees remuneration policies, and reviews and approves remuneration arrangements for the senior executives.
It also carries out the functions related to Board nominations as contained in the government's guideline document on Board Appointments for Tasmanian Government Businesses.

Members: A Kloeden (chair), D Radford, H Elliott, G Coffey, M Hampton

Environmental, Safety and Health Committee

This committee monitors implementation of the organisation's environmental, occupational health and safety policies, and forest management systems. It reviews any related strategic issues.

Members: H Elliott (chair), M Hampton, R Gordon
Attendee: H Drielsma

Finance Committee

This committee provides guidance to the Board on financial policy, proposals and strategies.

Members: G Coffey (chair), A Kloeden, D Radford
Attendees: R Gordon, S. Shoobridge

		Board Meetings		Audit Risk and Management Committee		ES&H Committee		Finance Committee		Remuneration and Board Nominations Committee	
	Director since	Eligible	Number	Eligible	Number	Eligible	Number	Eligible	Number	Eligible	Number
A Kloeden	Jul 2000	14	14	5	5	–	–	4	4	5	5
H Elliott	Nov 2001	14	14	–	–	5	5	–	–	5	5
D Radford	Jul 2003	14	14	–	–	–	–	4	4	5	5
G Coffey	Jul 2007	14	13	5	5	–	–	4	3	5	5
M Hampton	Jul 2007	14	13	5	5	5	5	–	–	5	5
R Gordon	Jan 2007	14	14	5	4	5	5	4	3	5	5

Non-committee member directors attend committee meetings on a regular and consistent basis.

legislative AND POLICY COMPLIANCE

Forestry Tasmania operates in accordance with the following statutes and policies:

- *Anti Discrimination Act 1998*
- *Forest Practices Act 1985*
- *Forestry Act 1920*
- *Forests & Forest Industry Strategy 1991*
- *Freedom of Information Act 1991*
- *Government Business Enterprises Act 1995*
- *New Forestry Initiatives 1999*
- *Public Land (Administration & Forests) Act 1991*
- *The Forestry Growth Plan 1998*
- *The Tasmanian Regional Forest Agreement 1997*
- *Timber Promotion Act 1970*
- *Trade Practices Act 1974*
- *Tasmanian Community Forest Agreement 2005*
- *Vocational Education and Training Act 1994*
- *Workers Rehabilitation and Compensation Act 1988*
- *Workplace Health and Safety Act 1995*

Statement of Corporate Intent

1. Business overview

Forestry Tasmania's fundamental statutory responsibility is to manage 1.5 million hectares of state forest, representing 22 percent of Tasmania's total land area and 39 percent of its forested land area. Its main undertaking is the sustainable management of Tasmania's state forests to optimise community benefit, including the sustainable production and delivery of forest products and services, the facilitation of new forest-based industries, the conservation of natural and cultural heritage values and the provision of education, recreation and tourism services.

This responsibility is delivered through the following key activities:

(a) management of native forests, hardwood plantations and softwood plantations, including the planning, conduct, monitoring and review of operations to access, assess, establish, tend, protect, monitor, conserve and/or harvest forests; and

(b) supply of forest products and services under negotiated contracts to businesses in Tasmania, elsewhere in Australia and overseas.

In addition to its main undertakings, and the key activities that support them, Forestry Tasmania engages in the following other activities:

(a) 50 percent part ownership of the Taswood Growers softwood joint venture, comprising a 70-year forestry right over 45,000 hectares of radiata pine plantations on state forest, with GMO Renewable Resources owning the other 50 percent share, and part ownership of various other softwood plantation and hardwood plantation joint ventures, e.g. with Plantation Platform Tasmania, Gunns Limited ("Gunns") and Norske Skog;

(b) ownership of Newood Holdings Pty Ltd, established to develop new forest industry infrastructure at the Huon and Smithton Wood Centres;

(c) ownership of Adventure Forests brand and portfolio of commercial tourism properties, Tahune AirWalk and Maydena Adventure Hub, are wholly owned by Forestry Tasmania, Hollybank Treetops Adventure is 50 percent owned by Forestry Tasmania and Tarkine Forest Adventures is leased to a private operator; and

(d) ownership of Forest Technical Services, providing external consultancy services based on Forestry Tasmania's international reputation as a leader in forest research, forest assessment, forest management and forest product development.

Forestry Tasmania's underlying ethos is sustainability and stewardship. Its forest management activities are certified under the internationally recognised Australian Forestry Standard. Forestry Tasmania operates under specified criteria, in relation to its targets for environmental, economic and social sustainability. These criteria are published in Forestry Tasmania's Sustainability Charter. Forestry Tasmania reports its performance against each of these criteria in its annual Stewardship Report.

2. Operating environment

The forest industry in Tasmania, including Forestry Tasmania, is experiencing significant difficulties at present. The current operating environment represents the most difficult trading conditions that Forestry Tasmania has encountered, and there is a great deal of uncertainty about the future. Each of these observations is equally true for almost all of Forestry Tasmania's customers, and for most other businesses operating in the forestry sector in Tasmania.

The difficult trading conditions arise as a result of:

(a) the ongoing effects of the global financial crisis on global trade and on domestic spending patterns;

(b) the relative strength of the Australian dollar;

(c) strategic decisions by Forestry Tasmania's largest customer;

(d) the impact of the March 2011 earthquake and tsunami on woodchip markets in Japan (and China); and

(e) the cessation of operations at the Triabunna woodchip mill in April 2011, which now appears to be a permanent closure.

These conditions have resulted in dramatic reductions in the demand and/or prices for key forest products produced by Forestry Tasmania. In addition, many of Forestry Tasmania's customers (including most of its major customers) have been unable to maintain normal trading terms, and overdue debts to Forestry Tasmania have increased accordingly.

The uncertainty about the future arises because, until very recently, there have been few signs of improvement in the factors to which the previous paragraphs refer. In addition, there is ongoing uncertainty arising from the Statement of Forest Principles (14 October 2010) and as an outcome from that, the Tasmanian Forests Intergovernmental Agreement (7 August 2011) which proposes further removal of native forest from production.

In addition, the ongoing uncertainty about the prospects of the proposed Bell Bay pulpmill is having a destabilising effect throughout the industry.

Forestry Tasmania's proposed response to the current business environment and to the uncertainty about the future business environment is founded on the key premises that the forest products industry is a key long-term contributor to the economic health and wellbeing of Tasmania and that the current circumstances are an aberration, resulting from extreme market conditions that will pass. Nonetheless, the business environment in which Forestry Tasmania has operated since its inception in 1994 has changed fundamentally, and new strategies are required to meet the new circumstances that have emerged over the past two years.

3. Strategic directions

Forestry Tasmania's response to the prevailing operating environment can be described in three phases:

(a) an immediate consolidation phase, during which all reasonable opportunities to reduce costs and to maintain or increase revenues from existing and new markets will be identified and implemented;

(b) an immediate and ongoing market development phase, during which opportunities to establish market demand for new forest products will be pursued;

(c) strategic decisions by Forestry Tasmania's largest customer; and

(d) an investment phase, during which the focus will be on achieving new investment in Tasmania, representing local employment and the generation of local wealth based on the production of the new forest products for which demand has been established in the second phase.

Community Service Obligations

Forestry Tasmania is required to deliver a number of Community Service Obligations (CSOs) in accordance with the *Forestry Act 1920*, which is currently not subject to separate funding arrangements. Forestry Tasmania undertakes a variety of activities which reflect its public ownership, the constraints and/or requirements of the Forestry Act, and its commitment to long-term sustainability. In our view, these activities are unlikely to be undertaken by a privately owned entity with a focus on short-term profit and share value. These are discussed in detail in the *Stewardship Report*–however, broadly they include:

Conservation of flora, fauna, land forms and cultural heritage

- Management of forest reserves for conservation, including costs related to pest, disease and fire control and weed management activities
- Provision and maintenance of forest roads and other facilities for public access in both productive and non-productive forests for recreation and tourism including walking tracks, picnic sites and other related infrastructure
- Provision of public information and education programs
- Provision of fire protection measures in accordance with the State Fire Management protocol
- Assistance to a range of industry economic development activities that are beyond Forestry Tasmania's direct commercial mandate and which provide the basis for value added benefits for the state.

The costs incurred in undertaking these activities are carried by Forestry Tasmania and so reduce profits from the commercial operations of the business.

The net costs of providing these obligations on identified non-commercial forest zones for the year ended 30 June 2011 totalled $5.255 million, further detail of which is included in the *Stewardship Report*. Further costs in relation to the general forest zone remain unspecified.

During the year ended 30 June 2011 there were no additional directions given to Forestry Tasmania by the Minister or Treasurer to perform any additional CSOs.

Business performance targets and achievement against these

Sustainable Forest Management Objectives

Consistent with its strategic direction on sustainability, Forestry Tasmania developed a 'Sustainability Charter' which sets out its objectives in respect to sustaining: biodiversity and habitat; jobs for current and future generations; carbon stores, clean air, water and healthy forests; community access and heritage; and science-based stewardship.

Dividend

No dividend is payable for the year ended 30 June 2011.

Performance of business against targets

These sustainable forest management objectives and the performance for the year ended 30 June 2011 are outlined in the *Stewardship Report*. Further, the Chairman's and Managing Director's message in the *Stewardship Report* provides an overview of the operations of Forestry Tasmania and its subsidiaries during that financial year.

managing DIRECTOR'S STATEMENTS

The Superannuation Guarantee

Forestry Tasmania has met its obligations under the *Superannuation Guarantee (Administration) Act 1992* of the Commonwealth, as amended, in respect of any employee who is or becomes a member of a complying superannuation scheme to which the Agency contributes, other than the accumulation scheme or the contributory scheme.

Procurement and Tasmanian businesses

Forestry Tasmania ensures that Tasmanian businesses are given every opportunity to compete for our goods and services contracts. It is our policy to support Tasmanian businesses whenever their services are competitive in terms of quality and price. In 2010–11, Forestry Tasmania paid $139.3 million to Tasmanian businesses. The organisation entered into 212 purchase orders/contracts during 2010–11 valued at more than $50,000, with a total value of $80.5 million. Of these 198 purchase orders/contracts were with Tasmanian suppliers for a total value of $79.1 million.

Bob Gordon
Managing Director