APPENDIX 1 – 2012-13

# financial statements

Forestry Tasmania

# Directors' Report

## 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 2013.

## Directors

The Directors of the Organisation at any time during or since the end of the financial year are:
Mr Robert Annells PSM (Chairman) appointed 24 September 2012
Mr Geoff Coffey
Dr Robert Smith appointed 9 July 2012
Mr Ross Bunyon AM appointed 17 September 2012
Dr Christine Mucha appointed 29 April 2013
Mr Robert Woolley appointed 29 April 2013
Mr Miles Hampton resigned 17 September 2012
Mr Adrian Kloeden retired 30 September 2012
Dr Humphrey J Elliott retired 30 September 2012
Mr Robert L Gordon (Managing Director) retired as a director 31 December 2012

## Principal Activities

Historically, Forestry Tasmania's responsibility under the *Forestry Act 1920* was to manage 1.5 million hectares of State forest; however, with the passing of the *Tasmanian Forests Agreement Act 2013* (TFA Act) which amends the *Forestry Act 1920*, Forestry Tasmania will in future be responsible for the management of approximately 800,000 hectares of State forest that is designated Permanent Timber Production Zone.

The Government has decided responsibility for management of some 220,000 hectares of existing formal forest reserves will transfer to the Department of Primary Industries, Parks, Water and Environment (DPIPWE) prior to 31 December 2013, as these areas transition to become reserves under the *Nature Conservation Act 2002*. In addition, new reserves of approximately 504,000 hectares to be created as part of the TFA process will also in future be managed by DPIPWE.

The main undertaking by Forestry Tasmania is the sustainable management of Tasmania's State forest Permanent Timber Production Zone 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.

## Forestry Tasmania Transition

The Forestry Tasmania Transition process was initiated by the State Government on 29 August 2012, following completion of Stages 1 and 2 of a review of Forestry Tasmania by URS (consultants).

Following this review, work has commenced on the Forestry Tasmania Transition and it has been agreed by the Stakeholder Ministers that Forestry Tasmania will:
a) retain its responsibility for wood production from State forest; and
b) remain the responsible land manager for production State forest.

Further work is being undertaken during 2013 to define the core activities within the above functions and to determine what, if any, non-core functions will transfer to other government agencies. Until this further work has been completed, the Stakeholder Ministers have agreed that the main undertakings of Forestry Tasmania should be as outlined in the previous paragraph.

# Directors' Report

## Results

The net result of the consolidated entity after income tax from continuing operations was $13.4 million loss (2012: $70.929 million loss).

Operating results for the year reflect the significant changes within the Forest industry. The key factors resulting in a negative margin on forest operations were as follows:

1. Revenue from total forest sales reduced by 34% to $56.3 million from the $89.4 million achieved last year. As last year's figure included $10.9 million in revenue from the softwood GMO joint venture sold in January 2012, the comparable reduction this year was down 28.3% on the $78.5 million in Forestry Tasmania sales achieved last year.
2. Cost of sales reduced but not at the same rate as sales, due to the time lag in adjusting to reduced operating levels.
3. The ongoing lack of access to facilities at Triabunna and Burnie for wood chips resulting in loss of markets and increased transport costs.
4. The high value of the Australian dollar relative to the United States dollar throughout the financial year impacting competitiveness in export markets.

Other revenue includes funding from the Government as follows:

**a) Non-commercial activities**

Forestry Tasmania's principal activities include non-commercial activities. The cost of providing certain of these activities has this year been recognised and funded by the Government.

Funds of $20 million have been received from the Government in the form of quarterly payments to Forestry Tasmania for the year ending 30 June 2013 to meet the cost of these non-commercial activities.

**b) Deficit funding**

The Government provided $15 million in deficit funding to enable Forestry Tasmania to meet its obligations during the Transition process.

## Equity

The Government provided equity funding of $10 million to Forestry Tasmania in June 2013, a portion of which was used to enable Forestry Tasmania to reduce its liability to Transend for the capital component of the high voltage transmission line to the Southwood Wood Centre.

## Forest Valuation

Forestry Tasmania engaged James W Sewall Company (Sewall) to establish a valuation for its entire forest estate, inclusive of land, roads and obligations. Sewall is a US-based company with international (including Australasian) experience in valuing forest estates. Forestry Tasmania has used Sewall for this purpose since 2010.

With the passing of the TFA Act, Forestry Tasmania is only responsible for the Permanent Timber Production Zone and the valuation reflects the lower quantities now available for harvest under that Act, that is, 137,000 cubic metres of high quality sawlog, 200,000 tonnes of eucalypt peeler logs and 870,000 tonnes of pulpwood associated with the high quality sawlog volume. These figures are substantially lower than those applicable prior to passage of the TFA Act and will generate lower ongoing revenue, resulting in a consequential reduction in the Forest Valuation at 30 June 2013 which is based on net projected cashflow generation.

Other key components of the valuation are as follows:

1. By 1 January 2014, 220,000 hectares of formal forest reserves are to be transferred to the Parks and Wildlife Service and the costs associated with this responsibility have been excluded from that date.
2. Projected sales revenue is based on the revised quantities available for harvest.
3. Government transition funding to be provided over the next three years has been included as either revenue or cost reduction.
4. The Transition Process referred to above is likely to impact projected costs for administration, forest management, overheads and research and development. As an interim measure, these costs have been included in the valuation by adopting the full current cost of $88.27 per productive hectare in 2013/14, reducing progressively to the target rate of $66.53 per productive hectare over a period of five years.
5. The forest estate is valued as a whole incorporating land and roads. Land is valued at nil, roads at cost less depreciation and impairment; thus the value of the biological asset (trees) is the residual amount.
6. A discount rate of 9.7% has been applied by the valuer to reflect the greater certainty that exists following the passing of the TFA Act compared with the rate of 10.1% used last year.

# Directors' Report



## Going Concern Basis for the Preparation of the Annual Financial Statements

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

It is noted that the current trading outlook continues to present significant challenges in terms of sales volumes and pricing and in these circumstances there are material uncertainties over future trading results and cash flows. The Directors have concluded that under these circumstances there continues to be material uncertainty about the operation of the business.

However, the Directors note that while demand and pricing generally remains challenging, demand and pricing for some products has improved and further, Forestry Tasmania continues to reduce its costs and measures have been instituted to preserve cash.

In addition, the recent depreciation in the value of the Australian dollar relative to the United States dollar will, if maintained, positively impact the competitiveness of exports that are invoiced in United States dollars.

After consideration of these matters the Board resolved that it is appropriate to prepare the financial statements on the basis that Forestry Tasmania is a going concern because:

- as a government business enterprise that is the Crown, the Government will ultimately be liable for Forestry Tasmania obligations in circumstances where it is not able to meet them, and
- if required, the Government would provide deficit funding for Forestry Tasmania to remain solvent.

This support is evidenced by:
- The Government funding support in 2012-13, and
- inclusion of funding of $25 million in the State Budget for 2013-14 and that the forward estimates provide for financial support of up to $25 million in each of the ensuing two years.

## Dividends

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

## Events Subsequent to Reporting Date

Other than the ongoing depreciation of the value of the Australian dollar relative to the United States dollar, 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 Organisation, 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

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, Secretary or executive officer. 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 8th day of August 2013

Signed in accordance with a resolution of Directors:

**Robert Annells**
Chairman

**Geoff Coffey**
Director

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# *statements* OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

### Statements of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2013

| | | Consolidated | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2013 | 2012 | 2013 | 2012 |
| **Revenue** | Note | $'000 | $'000 | $'000 | $'000 |
| **Trading revenue** | | | | | |
| Revenue from forest sales | 2(e), 4 | **56,338** | 89,415 | **56,338** | 89,415 |
| Other income | 2(e), 5 | **16,283** | 13,059 | **13,715** | 11,343 |
| Reimbursement for non-commercial activity costs | 2(e), 5 | **20,000** | - | **20,000** | - |
| Deficit funding | 2(e), 5 | **15,000** | - | **15,000** | - |
| Tasmanian Forest Agreement/World Heritage Area implementation subsidy | 2(e), 5 | **1,742** | - | **1,742** | - |
| Tasmanian Community Forest Agreement Income – operating activities | 2(e), 6 | **885** | 1,010 | **885** | 1,010 |
| Tasmanian Community Forest Agreement Income – intensive forest management | 2(e), 6 | **9,127** | 5,345 | **9,127** | 5,345 |
| Finance income | 2(t), 9 | **1,404** | 2,050 | **1,404** | 2,050 |
| Share of net profit/(loss) after tax of joint ventures accounted for using the equity method | 2(i), 22 | **57** | (10) | **57** | (10) |
| | | **120,836** | 110,869 | **118,268** | 109,153 |
| **Other revenue** | | | | | |
| Movement in obligations for non-commercial zones (does not include non-commercial obligation costs attributed to production forest zones) | 2(s), 27 | **48,000** | 1,800 | **48,000** | 1,800 |
| Decrease in the unfunded superannuation liability | 2(r), 28 | **23,513** | - | **23,513** | - |
| | | **71,513** | 1,800 | **71,513** | 1,800 |
| **Total revenue** | | **192,349** | 112,669 | **189,781** | 110,953 |
| **Expenses** | | | | | |
| **Trading expenses** | | | | | |
| Expense from operations | 7 | **(114,525)** | (133,951) | **(113,320)** | (132,813) |
| Impairment of roads within new reserves | 2(p), 8 | **(27,748)** | - | **(27,748)** | - |
| Finance expense | 2(t), 9 | **(8,749)** | (11,154) | **(7,790)** | (10,178) |
| Reversal of accumulated increments realised on sale of softwood joint venture | 10 | **-** | (17,316) | **-** | (17,316) |
| (Loss) on sale of assets | 2(n), 11 | **(440)** | (3,198) | **(440)** | (3,198) |
| Biological asset valuation increment /(decrement) | 2(l), 12 | **(42,902)** | 1,932 | **(42,902)** | 1,932 |
| Current year plantation costs | 2(l), 12 | **(4,485)** | (6,107) | **(4,485)** | (6,107) |
| Decrease in the fair value of superannuation investment | 2(r), 23 | **-** | (139) | **-** | (139) |
| Gain/(Loss) of investment in subsidiary company | 2(l), 23 | **-** | - | **404** | (280) |
| | | **(198,849)** | (169,933) | **(196,281)** | (168,099) |
| **Other expenses** | | | | | |
| Increase in the unfunded superannuation liability | 2(r), 28 | **-** | (44,219) | **-** | (44,219) |
| | | **-** | (44,219) | **-** | (44,219) |
| **Total expenses** | | **(198,849)** | (214,152) | **(196,281)** | (212,318) |

# *statements* OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

### Statements of Profit or Loss and Other Comprehensive Income (continued)

For the year ended 30 June 2013

| | | Consolidated | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2013 | 2012 | 2013 | 2012 |
| | Note | $'000 | $'000 | $'000 | $'000 |
| **Net profit/(loss) attributable to the owners of Forestry Tasmania** | | **(6,500)** | (101,483) | **(6,500)** | (101,365) |
| Income tax (expense)/benefit on net profit / loss | 13a | **(6,902)** | 30,554 | **(5,178)** | 30,412 |
| **Net profit/(loss) after tax** | | **(13,402)** | (70,929) | **(11,678)** | (70,953) |
| **Other comprehensive income** | | | | | |
| **Items that will not be reclassified to profit or loss** | | | | | |
| Income tax on revaluation of land and buildings | 13a | **338** | (364) | **361** | (354) |
| **Increase/(decrease) in the revaluation of land and buildings** | 2(u), 20 | **(1,126)** | 1,444 | **(1,203)** | 1,410 |
| **Total items that will not be reclassified to profit or loss** | | **(788)** | 1,080 | **(842)** | 1,056 |
| **Total comprehensive income/(expense) for the year attributable to the equity holders of the parent** | | **(14,190)** | (69,849) | **(12,520)** | (69,897) |

The Statements of Profit or Loss and Other 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 2013

| **Consolidated** | Contributed Equity | Property & General Revaluation Reserve | Retained Earnings/ (Accumulated losses) | Total Equity |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| Balance at 01 July 2012 | 234,457 | 8,725 | (166,464) | 76,718 |
| **Total comprehensive income for the year** | | | | |
| Profit or (loss) | - | - | (13,402) | (13,402) |
| *Other comprehensive income* | | | | |
| Increase/(decrease) in the revaluation of land and buildings | - | (788) | - | (788) |
| Transfer to retained earnings | - | - | - | |
| *Total other comprehensive income* | - | (788) | - | (788) |
| ***Total comprehensive income for the year*** | - | (788) | (13,402) | (14,190) |
| **Transactions with owners, recorded directly in equity** | | | | |
| *Contributions by and distributions to owners* | | | | |
| Equity contribution | 10,000 | - | - | 10,000 |
| Dividends to equity holders | - | - | - | - |
| *Total contributions by and distributions to owners* | 10,000 | - | - | 10,000 |
| ***Total transactions with owners*** | 10,000 | - | - | 10,000 |
| Balance at 30 June 2013 | 244,457 | 7,937 | (179,866) | 72,528 |
| | | | | |
| Balance at 01 July 2011 | 234,457 | 7,874 | (95,695) | 146,636 |
| **Total comprehensive income for the year** | | | | |
| Profit or loss | - | - | (70,929) | (70,929) |
| *Other comprehensive income* | | | | |
| Increase/(decrease) in the revaluation of land and buildings | - | 1,080 | - | 1,080 |
| Transfer to retained earnings | - | (229) | 160 | (69) |
| *Total other comprehensive income* | - | 851 | 160 | 1,011 |
| ***Total comprehensive income for the year*** | - | 851 | (70,769) | (69,918) |
| **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 2012 | 234,457 | 8,725 | (166,464) | 76,718 |

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

## Statements of Changes in Equity

For the year ended 30 June 2013

| **Parent Entity** | Contributed Equity | Property & General Revaluation Reserve | Retained Earnings/ (Accumu-lated losses) | Total Equity |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| Balance at 01 July 2012 | 234,457 | 8,546 | (166,311) | 76,692 |
| **Total comprehensive income for the year** | | | | |
| Profit or (loss) | - | - | (11,678) | (11,678) |
| *Other comprehensive income* | | | | |
| Increase/(decrease) in the revaluation of land and buildings | - | (842) | - | (842) |
| Transfer to retained earnings | - | - | - | - |
| *Total other comprehensive income* | - | (842) | - | (842) |
| ***Total comprehensive income for the year*** | - | (842) | (11,678) | (12,520) |
| **Transactions with owners, recorded directly in equity** | | | | |
| *Contributions by and distributions to owners* | | | | |
| Equity contribution | 10,000 | - | - | 10,000 |
| Dividends to equity holders | - | - | - | - |
| *Total contributions by and distributions to owners* | 10,000 | - | - | 10,000 |
| ***Total transactions with owners*** | 10,000 | - | - | 10,000 |
| Balance at 30 June 2013 | 244,457 | 7,704 | (177,989) | 74,172 |
| | | | | |
| Balance at 01 July 2011 | 234,457 | 7,719 | (95,518) | 146,658 |
| **Total comprehensive income for the year** | | | | |
| Profit or loss | - | - | (70,953) | (70,953) |
| *Other comprehensive income* | | | | |
| Increase/(decrease) in the revaluation of land and buildings | - | 1,056 | - | 1,056 |
| Transfer to retained earnings | - | (229) | 160 | (69) |
| *Total other comprehensive income* | - | 827 | 160 | 987 |
| ***Total comprehensive income for the year*** | - | 827 | (70,793) | (69,966) |
| **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 2012 | 234,457 | 8,546 | (166,311) | 76,692 |

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 2013

| | Note | Consolidated 2013 $'000 | Consolidated 2012 $'000 | Parent Entity 2013 $'000 | Parent Entity 2012 $'000 |
|---|---|---|---|---|---|
| **Current Assets** | | | | | |
| Cash and cash equivalents | 15(a) | **1,485** | 12,283 | **1,380** | 12,282 |
| Trade and other receivables | 16 | **24,005** | 25,566 | **21,462** | 24,324 |
| Inventories | 17 | **11,414** | 13,349 | **11,414** | 13,349 |
| Biological assets | 18 | **17,424** | 10,923 | **17,424** | 10,923 |
| **Total Current Assets** | | **54,328** | 62,121 | **51,680** | 60,878 |
| **Non Current Assets** | | | | | |
| Trade and other receivables | 16 | **84** | 76 | **10,977** | 4,959 |
| Other investments | 23 | **575** | 575 | **762** | 575 |
| Investments accounted for using the equity method | 22 | **484** | 427 | **484** | 427 |
| Net deferred tax asset | 13(c) | **13,313** | 19,877 | **14,172** | 18,867 |
| Property, plant and equipment | 20 | **40,419** | 42,998 | **21,738** | 23,295 |
| Forest estate assets | 19 | **86,242** | 116,140 | **86,242** | 116,140 |
| Biological assets | 18 | **87,534** | 136,937 | **87,534** | 136,937 |
| Intangible assets | 21 | **38** | 77 | **38** | 77 |
| **Total Non Current Assets** | | **228,689** | 317,107 | **221,947** | 301,277 |
| **Total Assets** | | **283,017** | 379,228 | **273,627** | 362,155 |
| **Current Liabilities** | | | | | |
| Trade and other payables | 24 | **13,095** | 12,431 | **12,752** | 12,446 |
| Revenue received in advance | 25 | **11,925** | 9,518 | **11,417** | 9,068 |
| Interest bearing liabilities | 26 | **1,102** | 11,228 | **1,000** | 11,000 |
| Obligations for non-commercial forest zones | 27 | **665** | 2,288 | **665** | 2,288 |
| Employee benefits | 28 | **10,088** | 10,644 | **10,088** | 10,644 |
| **Total Current Liabilities** | | **36,875** | 46,109 | **35,922** | 45,446 |
| **Non Current Liabilities** | | | | | |
| Trade and other payables | 24 | **10** | 10 | **1,458** | 1,144 |
| Revenue received in advance | 25 | **22,666** | 31,193 | **16,900** | 24,976 |
| Interest bearing liabilities | 26 | **5,763** | 11,301 | **-** | - |
| Obligations for non-commercial forest zones | 27 | **6,635** | 53,012 | **6,635** | 53,012 |
| Employee benefits | 28 | **138,540** | 160,885 | **138,540** | 160,885 |
| **Total Non Current Liabilities** | | **173,614** | 256,401 | **163,533** | 240,017 |
| **Total Liabilities** | | **210,489** | 302,510 | **199,455** | 285,463 |
| **Net Assets** | | **72,528** | 76,718 | **74,172** | 76,692 |
| **Equity** | | | | | |
| Contributed equity | | **244,457** | 234,457 | **244,457** | 234,457 |
| Reserves | | **7,937** | 8,725 | **7,704** | 8,546 |
| Retained earnings / (Accumulated losses) | | **(179,866)** | (166,464) | **(177,989)** | (166,311) |
| **Total Equity** | | **72,528** | 76,718 | **74,172** | 76,692 |

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

# *statements* OF CASH FLOWS



## Statements of Cash Flows

For the year ended 30 June 2013

| | Note | Consolidated 2013 $'000 | Consolidated 2012 $'000 | Parent Entity 2013 $'000 | Parent Entity 2012 $'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| **Inflows:** | | | | | |
| Cash receipts from customers | | **72,598** | 105,345 | **65,811** | 104,133 |
| Distributions received – softwood joint venture | | **-** | 4,641 | **-** | 4,641 |
| Tasmanian Forest Agreement/World Heritage Area implementation subsidy | 2(e) | **6,498** | - | **6,498** | - |
| Reimbursement for non-commercial activity costs | 2(e) | **20,000** | - | **20,000** | - |
| Deficit funding | 2(e) | **15,000** | - | **15,000** | - |
| Interest received | 9 | **1,263** | 1,995 | **1,263** | 1,995 |
| **Outflows:** | | | | | |
| Payments to suppliers and employees | | **(115,458)** | (136,908) | **(115,398)** | (136,761) |
| Borrowing costs paid | | **(1,657)** | (1,852) | **(698)** | (1,852) |
| **Net cash provided by / (used in) operating activities** | 15(b) | **(1,756)** | (26,779) | **(7,524)** | (27,844) |
| **Cash flows from investing activities** | | | | | |
| **Inflows:** | | | | | |
| Proceeds from sale of investments | | **7,800** | 77,208 | **7,800** | 77,208 |
| Proceeds from sale of property, plant and equipment | | **20** | 820 | **20** | 820 |
| **Outflows:** | | | | | |
| Payments to suppliers and employees for plantation forest activities | | **(4,485)** | (6,107) | **(4,485)** | (6,107) |
| Payments for property, plant and equipment and other assets | | **(6,713)** | (11,286) | **(6,713)** | (11,286) |
| **Net cash provided by / (used in) investing activities** | | **(3,378)** | 60,635 | **(3,378)** | 60,635 |
| **Cash flows from financing activities** | | | | | |
| **Inflows:** | | | | | |
| Equity contribution | | **10,000** | - | **10,000** | - |
| **Outflows:** | | | | | |
| Finance lease payments | | **(5,664)** | (1,138) | **-** | - |
| Repayment of borrowings | | **(10,000)** | (29,800) | **(10,000)** | (29,800) |
| **Net cash provided by / (used in) financing activities** | | **(5,664)** | (30,938) | **-** | (29,800) |
| Net increase/(decrease) in cash and cash equivalents held | | **(10,798)** | 2,918 | **(10,902)** | 2,991 |
| **Cash and cash equivalents at the beginning of the year** | | **12,283** | 9,365 | **12,282** | 9,291 |
| **Cash and cash equivalents at the end of the year** | 15(a) | **1,485** | 12,283 | **1,380** | 12,282 |

The Statements of Cash Flows 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 non-commercial activities. 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 that has been prepared on a going concern basis in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Government Business Enterprises Act 1995* (GBE Act) and applicable Treasurer's Instructions. 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 2013 were authorised for issue by the Board of Directors on 8 August 2013.

**(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.

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

It is noted that the current trading outlook continues to present significant challenges in terms of sales volumes and pricing and in these circumstances there are material uncertainties over future trading results and cash flows. The Directors have concluded that under these circumstances there continues to be material uncertainty about the operation of the business.

However, the Directors note that while demand and pricing generally remains challenging, demand and pricing for some products has improved and further, Forestry Tasmania continues to reduce its costs and measures have been instituted to preserve cash.

In addition, the recent depreciation in the value of the Australian dollar relative to the United States dollar will, if maintained, positively impact the competitiveness of exports which are invoiced in United States dollars.

After consideration of these matters the Board resolved that it is appropriate to prepare the financial statements on the basis that Forestry Tasmania is a going concern because:

- as a government business enterprise that is the Crown, the Government will ultimately be liable for Forestry Tasmania obligations in circumstances where it is not able to meet them, and
- if required, the Government would provide deficit funding for Forestry Tasmania to remain solvent.

This support is evidenced by:

- The Government funding support in 2012-13, and
- inclusion of funding of $25 million in the State Budget for 2013-14 and that the forward estimates provide for financial support of up to $25 million in each of the ensuing two years.

**(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 13 – Deferred Tax Asset on land
- Note 26 – Debt allocation
- Note 28 – 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 financial statements of the Organisation, 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. A letter of credit is entered into for all export sales contracts other than those contracts handled through Japanese trading houses.

*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 25). Ongoing capital commitments under the TCFA funding are disclosed in note 29.

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

*Tasmanian Forest Agreement/World Heritage Area implementation subsidy*

Government funding provided to construct new roads to enable logging to be rescheduled to coupes outside the extended Tasmanian Wilderness World Heritage Area (WHA) of an additional 170,000 hectares. It is also required for the transport of forest residues from the south and the north west of the State and also sawmill processing residues, both of which will assist in the move out of the WHA.

*Reimbursement for non-commercial activity costs*

Government funding provided to enable Forestry Tasmania to undertake non commercial functions. These functions include roading, fire management and forest management activities.

*Deficit funding*

Deficit funding has provided certainty to Forestry Tasmania during the transition and implementation of the Tasmanian Forest Agreement (TFA).

*Forestry rights*

The proceeds received for the allocation of forestry rights is 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 2013, the net carrying amount of leased plant, machinery and equipment was $ nil (2012: $ 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 accordance 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 lessees 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 and TFA 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 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. TFA funding has been received to enable movement out of the proposed new reserve areas and the WHA extension.

**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** – Subsidiaries are accounted for at cost less impairment losses in accordance with AASB 127.

**Superannuation investment** – The Superannuation Investment was an investment portfolio comprising cash and equities with independent investment managers. Unrealised capital gains were taken to the Superannuation Revaluation Reserve. The cash and fixed interest components of this portfolio were 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 was determined using market prices from fund managers that were from an active and liquid market. The investment has now been fully realised.

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 comprises land and roads. To comply with AASB 141 *Agriculture*, the biological assets have been separately reported in note 18 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*

Forestry Tasmania engaged James W Sewall Company (Sewall) to establish a valuation for its entire forest estate, inclusive of land, roads and obligations. Sewall is a US-based company with international (including Australasian) experience in valuing forest estates. Forestry Tasmania has used Sewall for this purpose since 2010.

With the passing of the *Tasmanian Forests Agreement Act 2013* (TFA) Forestry Tasmania is now responsible for the permanent timber production zone and the valuation reflects the quantities available for harvest under that Act, of 137,000 cubic metres of high quality sawlog, 200,000 tonnes of eucalypt peeler logs and 870,000 tonnes of pulpwood associated with the high quality sawlog volume. These figures are substantially lower than those applicable prior to passage of the new legislation and will generate lower ongoing revenue, resulting in a consequential reduction in the Forest Valuation at 30 June 2013, which is based on projected cashflow generation.

Other key components of the valuation are as follows:

1. By 1 January 2014, 220,000 hectares of formal forest reserves are to be transferred to the Parks and Wildlife Service and the costs associated with this responsibility have been excluded from that date.
2. Projected sales revenue is based on the revised quantities available for harvest.
3. Government transition funding to be provided over the next three years has been included as either revenue or cost reduction.
4. The Transition Process referred to above is likely to impact projected costs for administration, forest management, overheads and research and development. As an interim measure, these costs have been included in the valuation by adopting the full current cost of $88.27 per productive hectare in 2013/14, reducing progressively to the target rate of $66.53 per productive hectare over a period of five years.
5. A discount rate of 9.7% has been applied by the valuer to reflect the greater certainty that exists following the passing of the TFA compared with the rate of 10.1% used last year.

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.

To arrive at a value for the biological asset (forest), the fair value of the land and roads are deducted from the full value derived from the income capitalisation value.

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 27.

*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 9.7% (2012:10.10%) 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 are based on volumes available under the TFA as detailed above.

– 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 hectarage of each forest zone.
  Costs associated with harvesting and transporting of timber are excluded given stumpage rates are used to calculate timber revenues. 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 as detailed above.

– 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.

*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 $23 million.

– Discount rate: a 1% increase will decrease the valuation of the biological asset by $12 million and a 1% decrease will increase the valuation by $14 million.

– Cost: a 5% increase will decrease the valuation of the biological asset by $12 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'. The major and minor roads and road structures are reported at cost less depreciation and any impairment. With the passing of the TFA Act the Directors estimate that 28% of roads now fall within the future reserve areas and have impaired roads accordingly. Otherwise 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 currently responsible for the management and maintenance of these areas; however, this obligation will be transferred by 1 January 2014. 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 Forestry Tasmania/GMO Renewable Resources joint venture was sold on 30 January 2012. In prior years, the crop value of this softwood plantation joint venture was 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 were adjusted for expected future market trends.

**(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 30 June 2012 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.

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

- Buildings – 10 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*

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

**(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 5 years (2012: 5 years). The remaining lives of intangible assets range between 1-5 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 $2.205m (2012: $2.727m).

**(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 2013. The provision also includes an allowance for incurred but unreported claims at 30 June 2013.

*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 non-commercial activities in non-production forest zones which have significant community benefit and which are currently unfunded. Further, the valuation methodology applied to the forest estate resulted in the formal forest reserve 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 that the costs associated with managing these areas have no offsetting revenue. Forestry Tasmania considers these obligations are an implied term of its existing forest management rights and restrictions imposed under the *Forestry Act 1920* to sustainably manage the forest. Obligations 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 costs associated with the production 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 twelve months.

The obligation has been calculated using a discounted cash flow model incorporating 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.

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

## 3 New standards not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact Forestry Tasmania in the period of initial application. They are available for early adoption at 30 June 2013, but have not been applied in preparing these financial statements. Forestry Tasmania intends to adopt these standards in the first financial reporting period to which each standard is first applicable to. The extent of impact, if any, that the initial implementation of the Standards will have on the financial statements has yet to be determined.

AASB 9 'Financial Instruments' – In October 2010 the IASB issued IFRS 9 Financial Instruments (IFRS 9 [2010]) with an effective date of 1 January 2013. IFRS 9 (2010) supersedes the previous version that was issued in November 2009 (IFRS 9 [2009]). In December 2011 the IASB deferred the effective date of both these standards to 1 January 2015 and the AASB is in the process of doing the likewise for AASB 9. Early adopters may elect to apply IFRS 9 (2010) or IFRS 9 (2009) for periods beginning before 1 January 2015. This standard forms part of the IASB's comprehensive project to replace IAS 39 (AASB 139). The standard represents a significant change in the accounting for financial assets and liabilities. The impacts of these amendments, which become mandatory for Forestry Tasmania's 30 June 2016 financial statements, have not yet been quantified, however it will impact the level of disclosure around financial instruments.

AASB 13 – Fair Value Measurements – This new standard replaces the fair value measurement guidance in individual AASB's with a single source of fair value measurement guidance. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. This new standard, which becomes mandatory for Forestry Tasmania's 30 June 2014 financial statements, is not expected to have any impact apart from new additional disclosures about fair value measurements.

AASB 10 – Consolidated Financial Statements – This new standard introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. An investor is considered to control an investee when: (i) it is exposed or has rights to variable returns from its involvement with that investee; (ii) it has the ability to affect those returns through its power over that investee; and (iii) there is a link between power and returns. Control will be reassessed as facts and circumstances change. The impacts of this new standard, which becomes mandatory for Forestry Tasmania's 30 June 2015 financial statements, are not expected to have material impact.

AASB 11 – Joint Arrangements – This new standard supersedes the requirements in AASB 131 'Interests in Joint Ventures'. In determining the accounting for joint arrangements, it focuses on the rights and obligations of the joint arrangements rather than the legal form. It distinguishes joint arrangements between joint operations and joint ventures and will always require the equity method of accounting for jointly controlled entities that are now called joint ventures. Joint ventures are now not allowed the choice of using the proportionate consolidation method of accounting. The impacts of this new standard, which becomes mandatory for Forestry Tasmania's 30 June 2015 financial statements, are not expected to have material impact.

AASB 12 – Disclosure of Interests in Other Entities – This new standard contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. The impacts of this new standard, which becomes mandatory for Forestry Tasmania's 30 June 2015 financial statements, are not expected to have material impact.

Amendments to Australian Accounting Standards AASB 119 – Employee Benefits – This amendment now requires all actuarial gains and losses to be recognised in other comprehensive income. Therefore it eliminates the corridor method for recognising actuarial gains and losses and removes the ability for all movements in defined benefit obligations and plan assets in the profit or loss. Further the expected return on plan assets is calculated based on the rate used to discount the defined benefit obligation. The amendments, which become mandatory for Forestry Tasmania's 30 June 2015 financial statements, will impact on the measurement of and accounting for movements in the unfunded superannuation liability. Benefits classified as short term benefits, such as annual leave entitlements, will be measured based on expected timing of settlement.

Amendments to Australian Accounting Standards AASB 127 – Separate Financial Statements – This amendment introduces minor clarifications for the accounting and disclosure requirements for separate financial statements. The amendments, which become mandatory for Forestry Tasmania's 30 June 2015 financial statements, are not expected to be material.

Amendments to Australian Accounting Standards AASB 128 – Investments in Associates and Joint Ventures – This amendment clarifies that AASB 5 applies to an investment in an associate or joint venture. Further it clarifies that on cessation of significant influence or joint control, the entity does not remeasure the retained interest. The amendments, which become mandatory for Forestry Tasmania's 30 June 2015 financial statements, are not expected to have material impact.

Amendments to Australian Accounting Standards AASB 7 and AASB 132 – Disclosures: Offsetting Financial Assets and Financial Liabilities – This amendment clarifies the offsetting rules for financial assets and liabilities (no longer converging with US GAAP) and introduces new disclosure requirements (which do align with US GAAP). The amendments become mandatory for Forestry Tasmania's 30 June 2015 (AASB 132 offsetting rules) and 30 June 2014 (AASB 7 Disclosures) financial statements. This amendment will not impact on the financial statements.

| | Note | Consolidated 2013 $'000 | Consolidated 2012 $'000 | Parent Entity 2013 $'000 | Parent Entity 2012 $'000 |
|---|---|---|---|---|---|
| **4 Revenue from forest sales** | | | | | |
| Sales revenue | | **56,338** | 78,564 | **56,338** | 78,564 |
| Share of GMO joint venture revenue | 10 | **-** | 10,851 | **-** | 10,851 |
| | | **56,338** | 89,415 | **56,338** | 89,415 |
| **5 Other income** | | | | | |
| Forest management services income | | **2,973** | 3,222 | **2,973** | 3,222 |
| Government grants | | **567** | 626 | **266** | 324 |
| Firefighting reimbursement of above average firefighting costs | | **4,338** | - | **4,338** | - |
| Nursery and seed sales | | **230** | 346 | **230** | 346 |
| Tourism revenue | | **1,790** | 1,618 | **1,790** | 1,618 |
| Proponent infrastructure fees | | **150** | 150 | **-** | - |
| Forest lease | | **805** | 627 | **805** | 627 |
| Consulting income | | **663** | 923 | **663** | 923 |
| Transport assistance | | **-** | 1,000 | **-** | 1,000 |
| Other revenue | | **4,767** | 4,547 | **2,650** | 3,283 |
| | | **16,283** | 13,059 | **13,715** | 11,343 |

The firefighting reimbursement received in (5) above, is the difference between the total variable costs incurred in the year fighting wildfires and the ten year average cost incurred on wildfire fighting. In 2013 Forestry Tasmania incurred $5.101 million in firefighting costs, the ten year average cost of firefighting was $0.763 million, therefore the reimbursement received for 2013 was $4.338 million.

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 | Parent Entity 2013 $'000 | Parent Entity 2012 $'000 |
|---|---|---|---|---|
| Government funding of trading revenue | | | | |
| Reimbursement for non-commercial activity costs | **20,000** | - | **20,000** | - |
| Deficit funding | **15,000** | - | **15,000** | - |
| Tasmanian Forest Agreement/World Heritage Area implementation subsidy representing costs incurred to date | **1,742** | - | **1,742** | - |
| | **36,742** | - | **36,742** | - |
| **6 Tasmanian Community Forest Agreement income** | | | | |
| Grant income for operating activities now earned | **885** | 1,010 | **885** | 1,010 |
| Grant income for intensive forest management plantation activities now earned | **9,127** | 5,345 | **9,127** | 5,345 |
| | **10,012** | 6,355 | **10,012** | 6,355 |

| | Note | Consolidated 2013 $'000 | Consolidated 2012 $'000 | Parent Entity 2013 $'000 | Parent Entity 2012 $'000 |
|---|---|---|---|---|---|
| **7 Expenses from operations** | | | | | |
| **7a Expenses from operations** | | | | | |
| **7a(i) Payments to contractors and other sales costs** | | | | | |
| Payments to contractors | | **45,530** | 48,491 | **45,530** | 48,491 |
| Other sales costs | | **8,276** | 8,029 | **8,276** | 8,029 |
| Freight | | **4,108** | 6,905 | **4,108** | 6,905 |
| | | **57,914** | 63,425 | **57,914** | 63,425 |
| **7a(ii) Other expenses** | | | | | |
| Share of GMO joint venture expenses | 10 | **-** | 9,559 | **-** | 9,559 |
| Vehicle lease and associated costs | | **3,884** | 3,654 | **3,884** | 3,654 |
| Local government rates | | **2,631** | 2,613 | **2,580** | 2,564 |
| Property rental | | **2,996** | 3,109 | **2,996** | 3,109 |
| Office expenses | | **2,222** | 2,311 | **2,222** | 2,311 |
| Consultancies and professional services | | **1,452** | 1,644 | **1,433** | 1,592 |
| Property management | | **1,764** | 2,136 | **1,273** | 1,374 |
| Minor equipment purchases and rentals | | **778** | 642 | **778** | 642 |
| Guarantee fees | | **-** | 547 | **-** | 547 |
| Information technology expense | | **697** | 621 | **697** | 621 |
| Travel and accommodation | | **569** | 482 | **569** | 482 |
| Operating lease rentals | | **492** | 497 | **492** | 497 |
| Buildings revaluation decrement | | **138** | - | **138** | - |
| Impairment of receivables | | **510** | 7,750 | **973** | 7,393 |
| Expected reduction in (expense)/return on defined benefit superannuation assets | 28 | **(2,330)** | (2,358) | **(2,330)** | (2,358) |
| Other | | **2,937** | 725 | **2,925** | 1,904 |
| | | **18,740** | 33,932 | **18,630** | 33,891 |
| **7a(iii) Depreciation and amortisation expense** | | | | | |
| Plant and equipment | 20 | **849** | 1,332 | **849** | 1,332 |
| Plant and equipment under finance lease | 20 | **925** | 927 | **-** | - |
| Site infrastructure works | 20 | **170** | 170 | **-** | - |
| Roads and road structures | 19 | **7,173** | 7,295 | **7,173** | 7,295 |
| Buildings and leasehold improvements | 20 | **515** | 523 | **515** | 523 |
| Intangibles | 21 | **37** | 115 | **37** | 115 |
| | | **9,669** | 10,362 | **8,574** | 9,265 |
| **7a(iv) Employee benefits expense** | | | | | |
| Salaries and wages | | **22,914** | 21,834 | **22,914** | 21,834 |
| Other associated expenses | | **336** | 229 | **336** | 229 |
| Contribution to defined contribution superannuation funds | | **2,327** | 1,682 | **2,327** | 1,682 |
| Employee service cost defined benefit plan | 28 | **2,625** | 2,487 | **2,625** | 2,487 |
| | | **28,202** | 26,232 | **28,202** | 26,232 |
| | | **114,525** | 133,951 | **113,320** | 132,813 |

| | Note | Consolidated 2013 $'000 | Consolidated 2012 $'000 | Parent Entity 2013 $'000 | Parent Entity 2012 $'000 |
|---|---|---|---|---|---|
| **8 Impairment of roads within new reserves** | 19 | **27,748** | - | **27,748** | - |
| **9 Finance income and expense** | | | | | |
| Recognised in profit or loss: | | | | | |
| Interest income | | **1,404** | 1,995 | **1,404** | 1,995 |
| Foreign exchange gains | | **-** | 55 | **-** | 55 |
| Total Finance income | | **1,404** | 2,050 | **1,404** | 2,050 |
| Borrowing costs | | **(698)** | (1,852) | **(698)** | (1,852) |
| Finance charge related to finance lease | | **(959)** | (976) | **-** | - |
| Foreign exchange losses | | **(393)** | - | **(393)** | - |
| Employee benefit superannuation interest costs | | **(6,699)** | (8,326) | **(6,699)** | (8,326) |
| Total Finance expense | | **(8,749)** | (11,154) | **(7,790)** | (10,178) |
| **10 Reversal of accumulated increments to softwood joint venture** | | **-** | 17,316 | **-** | 17,316 |
| | | **-** | 17,316 | **-** | 17,316 |
| **Reconciliation** | | | | | |
| Carrying value of biological assets | | **-** | 85,650 | **-** | 85,650 |
| Net carrying value of other assets | | **-** | 4,902 | **-** | 4,902 |
| Sale price | | **-** | (78,000) | **-** | (78,000) |
| Loss on sale | | **-** | 12,552 | **-** | 12,552 |
| Stamp duty payable | | **-** | 4,450 | **-** | 4,450 |
| Other costs of sale | | **-** | 314 | **-** | 314 |
| | | **-** | 17,316 | **-** | 17,316 |

The share of GMO joint venture income and expenses represented in the accounts reflects trading up to 30 January 2012, at which time the joint venture was sold.

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 | Parent Entity 2013 $'000 | Parent Entity 2012 $'000 |
|---|---|---|---|---|
| **11 Loss on sale of assets** | **440** | 3,198 | **440** | 3,198 |
| | **440** | 3,198 | **440** | 3,198 |
| **Reconciliation of sale of assets** | | | | |
| Asset cost | **922** | 8,992 | **922** | 8,992 |
| Written down value | **468** | 4,018 | **468** | 4,018 |
| Proceeds from sale | **(28)** | (820) | **(28)** | (820) |
| (Gain)/loss on sale of assets | **440** | 3,198 | **440** | 3,198 |

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | $'000 | $'000 | $'000 | $'000 |

## 12 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 is reconciled as follows:

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 | Parent Entity 2013 $'000 | Parent Entity 2012 $'000 |
|---|---|---|---|---|
| Gross increase/(decrease) in the valuation of the general forest zone (productive native forest and plantation) – Forestry Tasmania | **(42,902)** | 1,932 | **(42,902)** | 1,932 |
| Less current year plantation establishment costs and future crop expenditure (primarily contractor expenses) incurred during the financial year | **(4,485)** | (6,107) | **(4,485)** | (6,107) |
| Net impact on net profit/(loss) attributable to the owners of Forestry Tasmania | **(47,387)** | (4,175) | **(47,387)** | (4,175) |

The movement in valuation of standing timber primarily arose due to the reduction in available production forest as a consequence of the Tasmanian Forest Agreement. The reduction in value has no impact on the cash flows of the Group and is accounted for in other expenses as identified in the Statement of Profit or Loss and Other Comprehensive Income.

## 13 Taxation

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 | Parent Entity 2013 $'000 | Parent Entity 2012 $'000 |
|---|---|---|---|---|
| **a) Current tax (expense)/benefit** | | | | |
| Current tax | | | | |
| Adjustments for prior periods | **8** | (5) | **8** | (5) |
| Increase/(decrease) in deferred tax asset | **(19,919)** | 5,959 | **(19,696)** | 5,958 |
| Decrease in deferred tax liability | **13,347** | 25,033 | **14,871** | 24,882 |
| Movement posted direct to equity | **(338)** | (433) | **(361)** | (423) |
| | **(6,902)** | 30,554 | **(5,178)** | 30,412 |

Tax expense to pre tax net loss is reconciled below. The most significant component of tax expense is the derecognition of cost base on assets as a result of implementation of the TFA, predominantly roads and fixed assets which are now in the TFA reserve area.

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 | Parent Entity 2013 $'000 | Parent Entity 2012 $'000 |
|---|---|---|---|---|
| **b) Reconciliation between tax expense/(benefit) and pre tax net profit/(loss)** | | | | |
| (Loss) before tax | **(6,500)** | (101,483) | **(6,500)** | (101,365) |
| Income tax benefit using the domestic tax rate of 30% (2012:30%) | **1,950** | 30,445 | **1,950** | 30,410 |
| Expenditure not allowable for income tax purposes | **(6)** | (4) | **(6)** | (4) |
| Equity accounting profit/(loss) for Newood | **-** | - | **121** | (85) |
| Derecognition of opening deferred tax asset on Newood | **-** | - | **-** | (22) |
| Derecognition of cost base on assets as a result of implementation of the TFA | (7,345) | - | **(7,345)** | - |
| Derecognition of capital assets of Newood | **(1,603)** | - | **-** | - |
| Research and development | **94** | 149 | **94** | 149 |
| Less prior year under / over provision | **8** | (5) | **8** | (5) |
| Prior year CRC research and development deductions | **-** | 11 | **-** | 11 |
| Add non-temporary movement in superannuation investments | **-** | (42) | **-** | (42) |
| Income tax (expense)/benefit on pre tax net profit | **(6,902)** | 30,554 | **(5,178)** | 30,412 |

## 13 Taxation (continued)

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | $'000 | $'000 | $'000 | $'000 |
| **c) Deferred tax balances** | | | | |
| **Assets** | | | | |
| Non current | **57,063** | 76,974 | **55,914** | 75,480 |
| **Liabilities** | | | | |
| Non current | **43,750** | 57,097 | **41,742** | 56,613 |
| Net tax asset | **13,313** | 19,877 | **14,172** | 18,867 |

| **d) Reconciliation of deferred tax balances ($000)** | Consolidated – 2013 | | | | |
|---|---|---|---|---|---|
| | Opening balance | Under/Over | Statement of Comprehen-sive Income | Charged to equity | **Closing balance** |
| **Deferred tax assets** | | | | | |
| Employee benefits | **51,438** | - | (6,851) | - | **44,587** |
| Revenue received in advance | **1,515** | - | (287) | - | **1,228** |
| Receivables and other investments | **2,347** | - | (312) | - | **2,035** |
| Other provisions | **241** | - | 224 | - | **465** |
| Obligations for non-commercial zones | **16,590** | - | (14,400) | - | **2,190** |
| Revenue losses | **4,842** | 8 | 1,707 | - | **6,557** |
| Transfer of deferred tax liability | | | | | **(43,750)** |
| Transfer deferred tax asset | **(76,974)** | | | | |
| Total | **-** | **8** | **(19,919)** | **-** | **13,313** |
| **Deferred tax liabilities** | | | | | |
| Biological assets | **(43,934)** | - | 12,870 | - | **(31,064)** |
| Inventories | **(2,372)** | - | 437 | - | **(1,935)** |
| Property, plant, equipment and land | **(10,694)** | - | (370) | 338 | **(10,726)** |
| Other | **(97)** | - | 72 | - | **(25)** |
| Transfer of deferred tax asset | **76,974** | | | | |
| Transfer deferred tax liability | | | | | **43,750** |
| Total | **19,877** | **-** | **13,009** | **338** | **-** |
| **Net deferred tax assets/(liabilities)** | **19,877** | **8** | **(6,910)** | **338** | **13,313** |

## 13 Taxation (continued)

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

| | Consolidated – 2012 | | | | |
|---|---|---|---|---|---|
| | Opening balance | Under/Over | Statement of Comprehensive Income | Charged to equity | **Closing balance** |
| **Deferred tax assets** | | | | | |
| Employee benefits | **38,481** | - | 12,957 | - | **51,438** |
| Revenue received in advance | **1,522** | - | (7) | - | **1,515** |
| Receivables and other investments | **3,413** | - | (1,066) | - | **2,347** |
| Other provisions | **372** | - | (131) | - | **241** |
| Obligations for non-commercial zones | **17,130** | | (540) | - | **16,590** |
| Revenue losses | **10,101** | (5) | (5,254) | - | **4,842** |
| Transfer of deferred tax liability | | | | | **(57,097)** |
| Transfer deferred tax asset | **(71,020)** | | | | |
| Total | **-** | **(5)** | **5,959** | **-** | **19,877** |
| **Deferred tax liabilities** | | | | | |
| Biological assets | **(68,873)** | - | 24,939 | - | **(43,934)** |
| Inventories | **(2,647)** | - | 275 | - | **(2,372)** |
| Property, plant, equipment and land | **(9,529)** | - | (732) | (433) | **(10,694)** |
| Other | **(215)** | - | 118 | - | **(97)** |
| Transfer of deferred tax asset | **71,020** | | | | |
| Transfer deferred tax liability | | | | | **57,097** |
| Total | **(10,244)** | **-** | **24,600** | **(433)** | **-** |
| **Net deferred tax assets/(liabilities)** | **(10,244)** | **(5)** | **30,559** | **(433)** | **19,877** |

## 13 Taxation (continued)

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

| | Parent Entity – 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Opening balance | Under/Over | Statement of Comprehen-sive Income | Transferred from Subsidiary | Charged to equity | **Closing balance** |
| **Deferred tax assets** | | | | | | |
| Employee benefits | **51,439** | - | (6,852) | - | - | **44,587** |
| Revenue received in advance | **164** | - | (106) | - | - | **58** |
| Receivables and other investments | **2,132** | - | (79) | - | - | **2,053** |
| Other provisions | **297** | - | 172 | - | - | **469** |
| Obligations for non-commercial zones | **16,590** | - | (14,400) | - | - | **2,190** |
| Investments in wholly owned subsidiaries | **17** | - | (17) | - | - | **-** |
| Revenue losses | **4,841** | 8 | 1,586 | 122 | - | **6,557** |
| Transfer of deferred tax liability | | | | | | **(41,742)** |
| Transfer deferred tax asset | **(75,480)** | | | | | |
| Total | **-** | **8** | **(19,696)** | **122** | **-** | **14,172** |
| **Deferred tax liabilities** | | | | | | |
| Biological assets | **(43,934)** | - | 12,870 | - | - | **(31,064)** |
| Inventories | **(2,372)** | - | 437 | - | - | **(1,935)** |
| Property, plant, equipment and land | **(10,275)** | - | 1,170 | - | 361 | **(8,744)** |
| Other | **(34)** | - | 34 | - | - | **-** |
| Transfer of deferred tax asset | **75,480** | | | | | |
| Transfer deferred tax liability | | | | | | **41,742** |
| Total | **18,866** | **-** | **14,511** | **-** | **361** | **-** |
| **Net deferred tax assets/(liabilities)** | **18,866** | **8** | **(5,185)** | **122** | **361** | **14,172** |

## 13 Taxation (continued)

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

| | Parent Entity – 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Opening balance | Under/Over | Statement of Comprehensive Income | Transferred from Subsidiary | Charged to equity | **Closing balance** |
| **Deferred tax assets** | | | | | | |
| Employee benefits | **38,482** | - | 12,957 | - | - | **51,439** |
| Revenue received in advance | **171** | - | (7) | - | - | **164** |
| Receivables and other investments | **3,295** | - | (1,163) | - | - | **2,132** |
| Other provisions | **288** | - | 9 | - | - | **297** |
| Obligations for non-commercial zones | **17,130** | - | (540) | - | - | **16,590** |
| Investments in wholly owned subsidiaries | **22** | - | (5) | - | - | **17** |
| Revenue losses | **10,100** | (5) | (5,294) | 40 | - | **4,841** |
| Transfer of deferred tax liability | | | | | | **(56,614)** |
| Transfer deferred tax asset | **(69,488)** | | | | | |
| Total | **-** | **(5)** | **5,957** | **40** | **-** | **18,867** |
| **Deferred tax liabilities** | | | | | | |
| Biological assets | **(68,873)** | - | 24,939 | - | - | **(43,934)** |
| Inventories | **(2,647)** | - | 275 | - | - | **(2,372)** |
| Property, plant, equipment and land | **(8,965)** | - | (887) | - | (423) | **(10,275)** |
| Other | **(166)** | - | 132 | - | - | **(34)** |
| Transfer of deferred tax asset | **69,488** | | | | | |
| Transfer deferred tax liability | | | | | | **56,614** |
| Total | **(11,161)** | **-** | **24,459** | **-** | **(423)** | **-** |
| **Net deferred tax assets/(liabilities)** | **(11,161)** | **(5)** | **30,416** | **40** | **(423)** | **18,867** |

## 14 Dividends

No dividend was paid during the 2012/13 financial year in relation to 2011/12 results.

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

## 15 Cash and cash equivalents

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 | Parent Entity 2013 $'000 | Parent Entity 2012 $'000 |
|---|---|---|---|---|
| **(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 | **1,452** | 12,249 | **1,347** | 12,248 |
| Floats and advances | **33** | 34 | **33** | 34 |
| | **1,485** | 12,283 | **1,380** | 12,282 |
| **(b) Reconciliation of comprehensive income/(expense) after tax to net cash flows from operations** | | | | |
| Comprehensive income after tax | **(13,402)** | (70,929) | **(11,678)** | (70,953) |
| Add/(less) items classified as investing/financing activities: | | | | |
| (Profit)/loss on disposal of non current assets | **440** | 20,514 | **440** | 20,514 |
| Interest on superannuation investment | **-** | 139 | **-** | 139 |
| Add/(less) non-cash items: | | | | |
| Depreciation and amortisation | **9,669** | 10,362 | **8,574** | 9,265 |
| Income tax | **6,902** | (30,554) | **5,178** | (30,412) |
| Unrealised net forest (increment)/decrement | **(613)** | 2,375 | **(613)** | 2,375 |
| Employee benefits | **(16,478)** | 42,650 | **(16,478)** | 42,650 |
| (Gain)/loss on subsidiary | **-** | - | **(404)** | 280 |
| Impairment of buildings and roads | **27,886** | 3,349 | **27,886** | 3,349 |
| Share of joint venture entities' net (profit)/loss | **(57)** | 10 | **(57)** | 10 |
| Foreign exchange (Gain)/loss | **393** | (55) | **393** | (55) |
| Stock adjustments | **1,218** | 167 | **1,218** | 167 |
| Impairment of receivables | **510** | 7,750 | **973** | 7,393 |
| Tasmanian Community Forest Agreement – operating activities | **(885)** | (1,160) | **(885)** | (1,010) |
| Tasmanian Community Forest Agreement – capital activities | **(9,127)** | (5,345) | **(9,127)** | (5,345) |
| Grants | **(2,459)** | (302) | **(2,008)** | - |
| Accrual | **3,389** | - | **3,372** | - |
| Finance lease | **959** | 976 | **-** | - |
| Changes in assets and liabilities: | | | | |
| (Increase)/decrease in current receivables | **(6,289)** | 3,541 | **(4,988)** | 4,281 |
| (Increase)/decrease in non-current receivables | **(8)** | - | **(6,018)** | (899) |
| (Increase)/decrease in inventories | **1,935** | (812) | **1,935** | (812) |
| (Increase)/decrease in other current assets | **50** | 172 | **50** | 172 |
| (Increase)/decrease in other non-current assets | **(57)** | 9 | **(57)** | 9 |
| Increase/(decrease) in current liabilities | **2,795** | (3,460) | **2,532** | (3,583) |
| Increase/(decrease) in non-current liabilities | **(8,527)** | (6,176) | **(7,762)** | (5,379) |
| Net cash provided by operating activities | **(1,756)** | (26,779) | **(7,524)** | (27,844) |

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | $'000 | $'000 | $'000 | $'000 |
| **16 Trade and other receivables** | | | | |
| **Current** | | | | |
| Trade and other receivables | **30,231** | 32,558 | **27,751** | 30,412 |
| Less provision for impairment | **(6,850)** | (8,142) | **(6,850)** | (7,110) |
| Accrued revenue | **137** | 439 | **74** | 311 |
| Prepayments | **487** | 537 | **487** | 537 |
| Derivative asset | **-** | 174 | **-** | 174 |
| Total current receivables | **24,005** | 25,566 | **21,462** | 24,324 |
| **Non-current** | | | | |
| Intercompany loan Newood | **-** | - | **10,893** | 4,883 |
| Other | **84** | 76 | **84** | 76 |
| Total non-current receivables | **84** | 76 | **10,977** | 4,959 |
| **17 Inventories** | | | | |
| Gravel stocks at cost | **2,632** | 2,986 | **2,632** | 2,986 |
| Seed and seedlings at cost | **3,530** | 4,687 | **3,530** | 4,687 |
| Timber at cost | **4,964** | 5,351 | **4,964** | 5,351 |
| Stores general at cost | **288** | 325 | **288** | 325 |
| | **11,414** | 13,349 | **11,414** | 13,349 |
| **18 Biological assets** | | | | |
| **Current** | | | | |
| Standing timber at valuation | **17,424** | 10,923 | **17,424** | 10,923 |
| **Non-current** | | | | |
| Standing timber at valuation | **87,534** | 136,937 | **87,534** | 136,937 |
| | **104,958** | 147,860 | **104,958** | 147,860 |

**Reconciliation of biological assets ($000)**

| | Consolidated | Parent Entity |
|---|---|---|
| | $'000 | $'000 |
| Carrying amount at 1 July 2012 | 147,860 | 147,860 |
| Additions (note 11) | 4,485 | 4,485 |
| Reallocation to Statement of Comprehensive Income (note 11) | (4,485) | (4,485) |
| Revaluation/(devaluation): | (42,902) | (42,902) |
| **Carrying amount at 30 June 2013** | **104,958** | **104,958** |
| Carrying amount at 1 July 2011 | 231,577 | 231,577 |
| Additions (note 11) | 6,107 | 6,107 |
| Reallocation to Statement of Comprehensive Income (note 9) | (6,107) | (6,107) |
| Disposal | (85,649) | (85,649) |
| Revaluation/(devaluation): | 1,932 | 1,932 |
| **Carrying amount at 30 June 2012** | **147,860** | **147,860** |

**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 2013, there remains $0.4 million (2012 : $7 million) of works to be acquitted against the TCFA intensive forest management program.

## 19 Forest estate assets

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | $'000 | $'000 | $'000 | $'000 |
| Roads and road structures at cost | **277,680** | 272,658 | **277,680** | 272,658 |
| Road impairment for roads within new reserves | **(27,748)** | - | **(27,748)** | - |
| Less provision for depreciation of roads | **(163,690)** | (156,518) | **(163,690)** | (156,518) |
| | **86,242** | 116,140 | **86,242** | 116,140 |

**Reconciliation of forest estate assets ($000)**

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | Roads and Structures | Total | Roads and Structures | Total |
| | $'000 | $'000 | $'000 | $'000 |
| Carrying amount at beginning of year 1 July 2012 | 116,140 | 116,140 | 116,140 | 116,140 |
| Additions | 4,304 | 4,304 | 4,304 | 4,304 |
| Impairment | (27,748) | (27,748) | (27,748) | (27,748) |
| Net movement in work in progress | 719 | 719 | 719 | 719 |
| Depreciation | (7,173) | (7,173) | (7,173) | (7,173) |
| **Carrying amount at 30 June 2013** | **86,242** | **86,242** | **86,242** | **86,242** |
| Carrying amount at beginning of year 1 July 2011 | 116,749 | 116,749 | 116,749 | 116,749 |
| Additions | 5,551 | 5,551 | 5,551 | 5,551 |
| Net movement in work in progress | 1,135 | 1,135 | 1,135 | 1,135 |
| Depreciation | (7,295) | (7,295) | (7,295) | (7,295) |
| **Carrying amount at 30 June 2012** | **116,140** | **116,140** | **116,140** | **116,140** |

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)). Subsequent valuations by Sewall reconfirmed this treatment.

## 20 Property, plant and equipment

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 | Parent Entity 2013 $'000 | Parent Entity 2012 $'000 |
|---|---|---|---|---|
| Land under buildings at fair value | **3,218** | 3,189 | **2,768** | 2,815 |
| Buildings at fair value | **11,423** | 12,657 | **11,423** | 12,657 |
| Transmission line asset at fair value | **14,811** | 14,811 | **-** | - |
| Plant and equipment at cost | **15,387** | 11,322 | **15,387** | 11,322 |
| Site infrastructure at cost | **6,846** | 6,846 | **-** | - |
| Pre-development works at cost | **3,405** | 3,405 | **-** | - |
| Capital work in progress | **121** | 4,021 | **121** | 4,021 |
| Less accumulated depreciation | **(14,715)** | (13,147) | **(7,884)** | (7,414) |
| Less accumulated impairment losses | **(77)** | (106) | **(77)** | (106) |
| Total property, plant and equipment | **40,419** | 42,998 | **21,738** | 23,295 |

**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 30 June 2012 for major assets was determined by an independent valuer, the Valuer General, on the basis of open market values for existing use of specific assets. Subsequent movements in these assets are determined by applying the Capital Value Adjustment Factors obtained from the office of the Valuer General.

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

Consolidated

| | Land $'000 | Buildings $'000 | Transmission line $'000 | Plant & equipment $'000 | Site infrastructure works $'000 | Pre-development costs $'000 | Capital work in progress $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|
| Carrying amount at 1 July 2012 | 3,188 | 12,615 | 11,800 | 3,845 | 4,989 | 2,540 | 4,021 | 42,997 |
| Additions | - | 581 | - | 4,932 | - | - | 2,053 | 7,566 |
| Disposals | - | - | - | (496) | - | - | - | (496) |
| Revaluation | 30 | (1,293) | - | - | - | - | - | (1,263) |
| Impairment | - | - | - | 29 | - | - | - | 29 |
| Movement in work in progress | - | - | - | - | - | - | (5,953) | (5,953) |
| Depreciation | - | (515) | (594) | (849) | (333) | (170) | - | (2,461) |
| **Carrying amount at 30 June 2013** | **3,218** | **11,388** | **11,206** | **7,461** | **4,656** | **2,370** | **121** | **40,419** |
| Carrying amount at 1 July 2011 | 2,509 | 12,227 | 12,392 | 8,482 | 5,353 | 2,710 | 326 | 43,999 |
| Additions | 60 | 319 | - | 466 | - | - | 4,561 | 5,406 |
| Disposals | (102) | (130) | - | (3,771) | (40) | - | - | (4,043) |
| Revaluation | 721 | 722 | - | - | - | - | - | 1,443 |
| Movement in work in progress | - | - | - | - | - | - | (866) | (866) |
| Depreciation | - | (523) | (592) | (1,332) | (325) | (170) | - | (2,941) |
| **Carrying amount at 30 June 2012** | **3,188** | **12,615** | **11,800** | **3,845** | **4,989** | **2,540** | **4,021** | **42,998** |
| **Original cost of assets 30 June 2013** | **2,258** | **22,430** | **14,811** | **21,631** | **6,828** | **3,405** | | **71,363** |

## 20 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 2012 | 2,814 | 12,615 | - | 3,845 | - | - | 4,021 | 23,295 |
| Additions | - | 581 | - | 4,932 | - | - | 2,053 | 7,566 |
| Disposals | - | - | - | (496) | - | - | - | (496) |
| Revaluation | (46) | (1,293) | - | - | - | - | - | (1,339) |
| Impairment | - | - | - | 29 | - | - | - | 29 |
| Movement in work in progress | - | - | - | - | - | - | (5,953) | (5,953) |
| Depreciation | - | (515) | - | (849) | - | - | - | (1,364) |
| **Carrying amount at 30 June 2013** | **2,768** | **11,388** | **-** | **7,461** | **-** | **-** | **121** | **21,738** |
| Carrying amount at 1 July 2011 | 2,169 | 12,227 | - | 8,482 | - | - | 326 | 23,204 |
| Additions | 60 | 319 | - | 466 | - | - | 4,561 | 5,406 |
| Disposals | (102) | (130) | - | (3,771) | - | - | - | (4,003) |
| Revaluation | 687 | 722 | - | - | - | - | - | 1,409 |
| Movement in work in progress | - | - | - | - | - | - | (866) | (866) |
| Depreciation | - | (523) | - | (1,332) | - | - | - | (1,855) |
| **Carrying amount at 30 June 2012** | **2,814** | **12,615** | **-** | **3,845** | **-** | **-** | **4,021** | **23,295** |
| **Original cost of assets 30 June 2013** | **1,884** | **22,430** | **-** | **21,631** | **-** | **-** | | **45,945** |

*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 2013 (2012: $ nil).

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | $'000 | $'000 | $'000 | $'000 |
| **21 Intangible assets** | | | | |
| Forestry Tasmania's intangible assets relate to the development costs of internally produced software. | | | | |
| Software development | **2,733** | 2,787 | **2,733** | 2,787 |
| Less provision for amortisation | **(2,695)** | (2,710) | **(2,695)** | (2,710) |
| | **38** | 77 | **38** | 77 |

## 21 Intangible assets (continued)

| | Consolidated | | | Parent Entity | | |
|---|---|---|---|---|---|---|
| | Software | Work in Progress | Total | Software | Work in Progress | Total |
| | $000 | $'000 | $'000 | $000 | $'000 | $'000 |
| Carrying amount at 1 July 2012 | 77 | - | 77 | 77 | - | 77 |
| Disposal/reallocation | (1) | - | (1) | (1) | - | (1) |
| Amortisation | (38) | - | (38) | (38) | - | (38) |
| **Carrying amount at 30 June 2013** | **38** | **-** | **38** | **38** | **-** | **38** |
| Carrying amount at 1 July 2011 | 207 | - | 207 | 207 | - | 207 |
| Disposal/reallocation | (15) | - | (15) | (15) | - | (15) |
| Amortisation | (115) | - | (115) | (115) | - | (115) |
| **Carrying amount at 30 June 2012** | **77** | **-** | **77** | **77** | **-** | **77** |

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | $'000 | $'000 | $'000 | $'000 |

## 22 Investments accounted for using the equity method

| | | | | |
|---|---|---|---|---|
| Investment in Hollybank Treetops Adventure Pty Ltd | **484** | 427 | **484** | 427 |

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.

| | | | | |
|---|---|---|---|---|
| **(a) Contribution to Forestry Tasmania from joint venture entities** | | | | |
| Revenues from continuing operations | **599** | 574 | **599** | 574 |
| Expenses from continuing operations | **(542)** | (584) | **(542)** | (584) |
| Profit/(loss) from continuing operations | **57** | (10) | **57** | (10) |
| Net profit/(loss) – accounted for using the equity method | **57** | (10) | **57** | (10) |
| **(b) Statement of financial position** | | | | |
| Current assets | **74** | 61 | **74** | 61 |
| Non-current assets | **477** | 485 | **477** | 485 |
| Total assets | **551** | 546 | **551** | 546 |
| Current liabilities | **(20)** | (73) | **(20)** | (73) |
| Non-current liabilities | **(47)** | (46) | **(47)** | (46) |
| Total liabilities | **(67)** | (119) | **(67)** | (119) |
| Net assets | **484** | 427 | **484** | 427 |

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 | Parent Entity 2013 $'000 | Parent Entity 2012 $'000 |
|---|---|---|---|---|
| **22 Investments accounted for using the equity method (continued)** | | | | |
| **(c) Reconciliations** | | | | |
| *Share of post-acquisition retained profits attributable to joint venture entities* | | | | |
| Share of joint venture entities' retained profit/(losses) at beginning of year | **427** | 351 | **427** | 436 |
| Share of joint venture entities' net profit/(losses) | **57** | 85 | **57** | (10) |
| Share of joint venture entities' retained profit/(losses) at end of year | **484** | 436 | **484** | 427 |
| *Movement in carrying amount of joint ventures* | | | | |
| Carrying amount at beginning of year | **427** | 351 | **427** | 436 |
| Share of joint venture entities' net profits/(losses) | **57** | 85 | **57** | (10) |
| Carrying amount at end of year | **484** | 436 | **484** | 427 |
| **23 Other investments** | | | | |
| **Non-current** | | | | |
| Investment in infrastructure assets – Eco Centre trust | **570** | 570 | **570** | 570 |
| Investment in Huon Valley Financials Pty Ltd | **5** | 5 | **5** | 5 |
| Investment in Newood | **-** | - | **187** | - |
| | **575** | 575 | **762** | 575 |
| **Reconciliation of superannuation investment account ($000)** | | | | |
| Opening balance 1 July 2012 | **-** | 7,147 | **-** | 7,147 |
| Realisation of investments | **-** | (7,008) | **-** | (7,008) |
| Movement in fair value | **-** | (139) | **-** | (139) |
| **Closing balance 30 June 2013** | **-** | - | **-** | - |

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

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 | Parent Entity 2013 $'000 | Parent Entity 2012 $'000 |
|---|---|---|---|---|
| **24 Trade and other payables** | | | | |
| **Current** | | | | |
| Trade creditors and other payables | **8,863** | 5,155 | **8,667** | 5,365 |
| Accrued expenses | **3,871** | 7,276 | **3,724** | 7,081 |
| Derivative liability | **361** | - | **361** | - |
| Total current payables | **13,095** | 12,431 | **12,752** | 12,446 |
| **Non-current** | | | | |
| Trade creditors | **10** | 10 | **1,458** | 1,144 |

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 | Parent Entity 2013 $'000 | Parent Entity 2012 $'000 |
|---|---|---|---|---|
| **25 Revenue received in advance** | | | | |
| **Current** | **11,925** | 9,518 | **11,417** | 9,068 |
| **Non-current** | **22,666** | 31,193 | **16,900** | 24,976 |
| | **34,591** | 40,711 | **28,317** | 34,044 |
| **Reconciliation of revenue received in advance ($000)** | | | | |
| **Tasmanian Community Forest Agreement** | | | | |
| Opening balance | **33,235** | 39,590 | **33,235** | 39,590 |
| Tasmanian Community Forest Agreement income – operating activities | **(885)** | (1,010) | **(885)** | (1,010) |
| Tasmanian Community Forest Agreement income – intensive forest management | **(9,127)** | (5,345) | **(9,127)** | (5,345) |
| **Closing balance** | **23,223** | 33,235 | **23,223** | 33,235 |
| **Tasmanian Forest Agreement** | | | | |
| Opening balance | **-** | - | **-** | - |
| Receipts | **6,500** | - | **6,500** | - |
| Tasmanian Forest Agreement/World Heritage Area implementation subsidy | **(1,742)** | - | **(1,742)** | - |
| **Closing balance** | **4,758** | - | **4,758** | - |
| **Other revenue received in advance** | | | | |
| Opening balance | **7,476** | 8,407 | **809** | 1,289 |
| Receipts | **185** | - | **185** | - |
| Transfer to offset assets | **(524)** | - | **(524)** | - |
| Other activities | **(527)** | (931) | **(134)** | (480) |
| **Closing balance** | **6,610** | 7,476 | **336** | 809 |
| **Closing balance 30 June 2013** | **34,591** | 40,711 | **28,317** | 34,044 |
| **26 Interest bearing liabilities** | | | | |
| **Current** | | | | |
| Borrowings | **1,000** | 11,000 | **1,000** | 11,000 |
| Finance lease | **102** | 228 | **-** | - |
| | **1,102** | 11,228 | **1,000** | 11,000 |
| **Non-current** | | | | |
| Finance lease | **5,763** | 11,301 | **-** | - |
| **Financing arrangements** | | | | |
| The Group has access to the following lines of credit: | | | | |
| Total facilities available: | | | | |
| Credit cards | **800** | 800 | **800** | 800 |
| Loan facility – secured | **31,000** | 31,000 | **31,000** | 31,000 |
| | **31,800** | 31,800 | **31,800** | 31,800 |
| Facilities used at balance date: | | | | |
| Credit cards | **64** | 59 | **64** | 59 |
| Loan facility – secured | **1,000** | 11,000 | **1,000** | 11,000 |
| | **1,064** | 11,059 | **1,064** | 11,059 |
| Facilities not utilised at balance date: | | | | |
| Credit cards | **736** | 741 | **736** | 741 |
| Loan facility – secured | **30,000** | 20,000 | **30,000** | 20,000 |
| | **30,736** | 20,741 | **30,736** | 20,741 |

## 26 Interest bearing liabilities (continued)

***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% (2012:17.99%), payable monthly.

***Foreign Currency Overdraft Limit***

Forestry Tasmania has a US$2.0 million foreign currency overdraft to facilitate foreign currency dealings. (2012: $2.0 million)

***Loan Facility – Secured***

Forestry Tasmania has no long term fixed borrowings, (2012: $nil million). The loans are secured by a floating charge over Forestry Tasmania's trade and other receivables. Refer to note 15 for the carrying amount of trade and other receivables which Forestry Tasmania have pledged as security.

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

The Treasurer has provided a Letter of Comfort to Tascorp to support Forestry Tasmania's borrowing limit of $31 million.

***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 | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | $'000 | $'000 | $'000 | $'000 |
| **27 Obligations for non-commercial forest zones** | | | | |
| **Current** | **665** | 2,288 | **665** | 2,288 |
| **Non-current** | **6,635** | 53,012 | **6,635** | 53,012 |
| | **7,300** | 55,300 | **7,300** | 55,300 |

Identified costs and revenues associated with formal reserves and special timber zones, were analysed by Sewall as part of their valuation project in 2012. 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.

The forest valuation for 2013 recognises that 220,000 hectares of formal reserves will transfer to the Department of Primary Industries, Parks, Water and Environment by 31 December 2013 and their obligations will also transfer.

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 | Parent Entity 2013 $'000 | Parent Entity 2012 $'000 |
|---|---|---|---|---|
| **28 Employee benefits** | | | | |
| **Current** | | | | |
| Annual leave | **1,386** | 1,295 | **1,386** | 1,295 |
| Long service leave | **3,203** | 3,294 | **3,203** | 3,294 |
| Superannuation (see note below) | **5,060** | 5,348 | **5,060** | 5,348 |
| Workers compensation | **439** | 707 | **439** | 707 |
| | **10,088** | 10,644 | **10,088** | 10,644 |
| **Non-current** | | | | |
| Long service leave | **265** | 297 | **265** | 297 |
| Superannuation (see note below) | **138,275** | 160,588 | **138,275** | 160,588 |
| | **138,540** | 160,885 | **138,540** | 160,885 |

| | 2013 | 2012 |
|---|---|---|
| *Information in this note applies equally to the consolidated and parent entity.* | | |
| Assumed rate of increase in wages and salaries rates | **3.0%** | 3.5% |
| Discount rate used in the calculation of the long service leave provision ranges from 2.69% to 3.15% (2012 range 3.22% to 3.70%). | | |
| Settlement terms (years) – long service leave | **10 years** | 10 years |

## 28 Employee benefits (continued)

**(a) Superannuation liability**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Key assumptions** | | |
| Discount rate: | | |
| Gross of tax | **4.30%** | 3.50% |
| Net of tax | **4.25%** | 3.45% |
| Salary rate | **3.00%** | 3.50% |
| Expected return on plan assets (net of tax) | **n/a** | 7.50% |
| Inflation (pensions) | **2.50%** | 2.50% |

The expected return on plan assets is no longer applicable from 30 June 2013 due to revised accounting standard.

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Plan assets – asset disclosure** | | |
| Australian equities | **27.00%** | 25.00% |
| Overseas equities | **19.00%** | 18.00% |
| Fixed interest securities | **12.00%** | 12.00% |
| Property and infrastructure | **15.00%** | 17.00% |
| Alternatives | **24.00%** | 24.00% |
| Other | **3.00%** | 4.00% |
| **Statement of Financial Position results – net liability** | | |
| Defined benefit obligation | **175,686** | 197,907 |
| Total defined benefit obligations | **175,686** | 197,907 |
| Fair value of RBF contributory scheme assets | **(32,351)** | (31,971) |
| Total net liability | **143,335** | 165,936 |
| Current net liability | **5,060** | 5,348 |
| Non-current net liability | **138,275** | 160,588 |
| Total net liability | **143,335** | 165,936 |
| **Movement in net liability** | | |
| Net liability/(asset) in Statement of Financial Position at end of prior year | **165,936** | 122,454 |
| Expense recognised in Statement of Comprehensive Income | **(16,519)** | 52,674 |
| Actual employer contributions | **(6,082)** | (9,192) |
| Net liability/(asset) in Statement of Financial Position at end of year | **143,335** | 165,936 |
| **Statement of Comprehensive Income results** | | |
| Employer service cost | **2,625** | 2,487 |
| Total employer service cost | **2,625** | 2,487 |
| Interest cost | **6,699** | 8,326 |
| Expected return on plan assets | **(2,330)** | (2,358) |
| Recognised actuarial (gains)/losses | **(23,513)** | 44,219 |
| Expense recognised in Statement of Comprehensive Income | **(16,519)** | 52,674 |

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'.

## 28 Employee benefits (continued)

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Reconciliations** | | |
| **Changes in the fair value of plan assets** | | |
| Fair value of plan assets at end of prior year | **31,971** | 32,269 |
| Estimated employer contributions | **6,082** | 9,192 |
| Estimated participant contributions | **632** | 764 |
| Estimated operating costs | **(318)** | (321) |
| Estimated benefit payments | **(8,509)** | (13,458) |
| Expected return on assets | **2,330** | 2,358 |
| Actuarial (gain)/losses | **163** | 1,167 |
| Fair value plan assets at year end | **32,351** | 31,971 |
| **Changes in the defined benefit obligation (inclusive of contributions tax for disclosure purposes)** | | |
| Defined benefit obligations at end of prior year | **197,907** | 154,723 |
| Employer service cost | **2,625** | 2,487 |
| Interest cost | **6,699** | 8,326 |
| Estimated participant contributions | **632** | 764 |
| Estimated operating costs | **(318)** | (321) |
| Estimated benefit payments contributions tax | **(8,509)** | (13,458) |
| Expected defined benefit obligations at year end | **199,036** | 152,521 |
| Actuarial (gain)/losses | **(23,350)** | 45,386 |
| Present value of defined benefit obligations at year end | **175,686** | 197,907 |
| **Contributions tax** | | |
| Defined benefit obligations at end of prior year | **175,686** | 197,907 |
| Fair value Plan assets at end of prior year | **(32,351)** | (31,971) |
| Net obligation | **143,335** | 165,936 |
| **Reconciliation of actuarial (gain)/loss** | | |
| Actuarial (gain)/loss on fair value of plan assets | **(163)** | (1,167) |
| Actuarial (gain)/loss on defined benefit obligation | **(23,350)** | 45,386 |
| Amount recognised during year in Comprehensive Income Statement | **23,513** | (44,218) |
| Unrecognised actuarial (gain)/loss at end of year | **-** | - |
| **Interest cost** | | |
| Defined benefit obligations at end of prior year | **197,907** | 154,723 |
| Actual benefit payments | **7,483** | 6,669 |
| Weighted for timing | **(3,742)** | (3,335) |
| Average benefit obligations | **194,165** | 151,388 |
| Discount rate | **3.5%** | 5.5% |
| Calculated interest cost | **6,699** | 8,326 |
| Interest cost used in calculation | **6,699** | 8,326 |

## 28 Employee benefits (continued)

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Expected return on assets** | | |
| Fair value of plan assets at end of prior year | **31,971** | 32,269 |
| Expected employer contributions | **5,348** | 4,556 |
| Weighted for timing | **2,674** | 2,278 |
| Expected participant contributions | **632** | 764 |
| Weighted for timing | **316** | 382 |
| Expected operating costs | **(318)** | (321) |
| Weighted for timing | **(159)** | (161) |
| Expected benefit payments | **(7,483)** | (6,669) |
| Weighted for timing | **(3,742)** | (3,335) |
| Average expected assets | **31,060** | 31,434 |
| Assumed rate of return | **n/a** | 7.5% |
| Calculated expected return on assets | **n/a** | 2,358 |
| Expected return on assets used in calculation | **n/a** | 2,358 |

The expected return on plan assets is no longer applicable from 30 June 2013 due to revised accounting standard.

**History**

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

| | 30 June 2013 | 30 June 2012 | 30 June 2011 | 30 June 2010 | 30 June 2009 |
|---|---|---|---|---|---|
| Total defined benefit obligation at year end | **175,686** | 197,907 | 154,723 | 155,728 | 141,647 |
| Actual assets at year end | **(32,351)** | (31,971) | (32,269) | (33,313) | (32,572) |
| Deficit/(Surplus) | **143,335** | 165,936 | 122,454 | 122,415 | 109,075 |
| Experience adjustment on liabilities | **177** | (584) | (1,340) | 1,112 | 17,588 |
| Experience adjustment on assets | **(163)** | (1,167) | 1,242 | (37) | 3,788 |

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Actual return on plan assets | **2,493** | 3,524 |
| Expected contributions (30 June 2014) | **5,060** | |

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 | Parent Entity 2013 $'000 | Parent Entity 2012 $'000 |
|---|---|---|---|---|
| **29 Expenditure commitments** | | | | |
| **Operating expenditure commitments** | | | | |
| **(a) Operating leases** | | | | |
| **Leases as lessee** | | | | |
| Non-cancellable operating lease rentals are payable as follows: | | | | |
| Not longer than one year | **4,520** | 4,014 | **4,520** | 4,014 |
| Longer than one year but not longer than five years | **12,674** | 11,958 | **12,674** | 11,958 |
| Later than five years | **14,013** | 16,135 | **14,013** | 16,135 |
| | **31,207** | 32,107 | **31,207** | 32,107 |

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

**(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 |
|---|---|---|---|
| **2013** | | | |
| Not longer than one year | 572 | (488) | 84 |
| Between one and two years | 1,143 | (953) | 190 |
| Between three and five years | 1,751 | (1,362) | 389 |
| Later than five years | 8,923 | (3,739) | 5,184 |
| | **12,389** | **(6,542)** | **5,847** |
| **2012** | | | |
| Not longer than one year | 1,170 | (959) | 211 |
| Between one and two years | 2,340 | (1,861) | 479 |
| Between three and five years | 3,511 | (2,623) | 888 |
| Later than five years | 17,456 | (7,521) | 9,935 |
| | **24,477** | (12,964) | **11,513** |

The finance lease is between Newood Holdings Pty Ltd and Transend Networks 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.

## 29 Expenditure commitments (continued)

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | $'000 | $'000 | $'000 | $'000 |
| **(c) Capital expenditure commitments** | | | | |
| Plantation establishment | | | | |
| Not longer than one year | **4,824** | 6,759 | **4,824** | 6,759 |
| Between one and five years | **16,900** | 23,198 | **16,900** | 23,198 |
| | **21,724** | 29,957 | **21,724** | 29,957 |
| Road construction | | | | |
| Not longer than one year | **-** | 411 | **-** | 411 |
| Construction contracts | | | | |
| Not longer than one year | **-** | - | **-** | - |

## 30 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 2013.

## 31 Controlled entities

| | | Percentage of Shares | |
|---|---|---|---|
| | Country of incorporation | 2013 | 2012 |
| 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.

## 32 Related party information

| | Sales to related parties | | Purchases from related parties | | Amounts owed by related parties | | Amounts owed to related parties | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| *Consolidated* | | | | | | | | |
| Softwood joint venture | **-** | 596 | **-** | - | **-** | - | **-** | - |
| Hollybank Treetops Adventure Pty Ltd | **-** | - | **-** | - | **6** | 8 | **-** | - |
| *Parent* | | | | | | | | |
| Softwood joint venture | **-** | 596 | **-** | - | **-** | - | **-** | - |
| Hollybank Treetops Adventure Pty Ltd | **-** | - | **-** | - | **6** | 8 | **-** | - |
| Newood Holdings Pty Ltd | **61** | 79 | **176** | 306 | **10,893** | 4,883 | **1,458** | 1,144 |

Softwood joint venture sales comprised of roading services and silvicultural work under a services agreement.
The amount shown represents sales to the joint venture until the date of disposal of the joint venture only.

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.

## 33 Key management personnel compensation and other disclosures

During the year, the Board of Directors of Forestry Tasmania was comprised of the following individuals: R Annells, G Coffey, R Smith, R Bunyon, R Woolley, C Mucha, A Kloeden, H J Elliott, M Hampton and R L Gordon. Directors fees are paid in accordance with the levels agreed by the Department of Premier and Cabinet and approved by the Minister. An additional fee is paid to Directors who chair Board sub-committees. Forestry Tasmania has 6 directors at 30 June 2013.

Other key management personnel are determined to be the members of the General Management Team of Forestry Tasmania (at 30 June 2013: 6 members) (at 30 June 2012: 8 members). The Remuneration Committee of the Board is responsible for determining and reviewing compensation arrangements for members of the General Management Team (GMT).

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

**Directors' Remuneration 2012-13**

| Band | Number of Directors | Aggregate Directors' Fees | Committee Fees | Super-annuation | Other | Total |
|---|---|---|---|---|---|---|
| > $80,000 | 1 | 116,749 | - | 10,507 | - | 127,256 |
| $40,000 - $80,000 | 2 | 96,681 | 6,022 | 9,243 | - | 111,946 |
| < $40,000 | 6 | 112,301 | 3,683 | 8,042 | - | 124,026 |
| Total | **9** | **325,731** | **9,705** | **27,792** | **-** | **363,228** |

**Directors' Remuneration 2011-12**

| Band | Number of Directors | Aggregate Directors' Fees | Committee Fees | Super-annuation | Other | Total |
|---|---|---|---|---|---|---|
| > $80,000 | 1 | 101,742 | - | - | - | 101,742 |
| $40,000 - $80,000 | 4 | 188,952 | 14,247 | 18,288 | - | 221,487 |
| < $40,000 | - | - | - | - | - | - |
| Total | **5** | **290,694** | **14,247** | **18,288** | **-** | **323,229** |

Directors' remuneration total for 2010-11 was $329,298

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

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

No other leave, termination or retirement benefits are accrued or paid to Directors. Directors are entitled to reimbursement of expenses incurred while attending to Board business. Non-executive directors' remuneration is reviewed periodically with increases subject to approval by the Treasurer and Portfolio Minister. The banding < $40,000 totalling 6 for 2012-13 is made up of 3 retiring Directors and 3 new Directors.

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.

## 33 Key management personnel compensation and other disclosures (continued)

**General Management Team Remuneration 2012-13**

| | Number of GMT members | Base Salary | Bonus | Super -annuation | Vehicle | Other Benefits | Total |
|---|---|---|---|---|---|---|---|
| Total | **11** | **$1,403,492** | **-** | **$156,442** | **$49,186** | **$295,407** | **$1,904,527** |

**General Management Team Remuneration 2011-12**

| | Number of GMT members | Base Salary | Bonus | Super -annuation | Vehicle | Other Benefits | Total |
|---|---|---|---|---|---|---|---|
| Total | **9** | **$1,531,000** | **-** | **$165,409** | **$12,807** | **-** | **$1,709,216** |

General Management Team Remuneration total for 2010-11 was $1,278,250.

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

The remuneration structures take into account the capability and experience of key management personnel, the key management personnel's ability to control the relevant segment performance and achievement of Forestry Tasmania's strategic initiatives. In addition to their salaries, Forestry Tasmania also provides non-cash benefits to limited management personnel and contributes to post-employment superannuation plans for employees of the RBF defined benefits superannuation scheme.

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

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

## 34 Auditors' remuneration

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | $'000 | $'000 | $'000 | $'000 |
| Amounts paid and payable to the Tasmanian Audit Office for auditing the financial statements of Forestry Tasmania | **104** | 103 | **104** | 103 |
| Amounts paid and payable to other service providers for internal and other regulatory audit services | **167** | 156 | **167** | 156 |

## 35 Events subsequent to balance date

Other than the ongoing devaluation of the value of the Australian dollar relative to the United States dollar, 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 Organisation, 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.

## 36 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 Finance, Audit and Risk Management Committee is responsible for developing and monitoring risk management policies and reports regularly to the Board on these activities.

The risk management and investment policies are established to identify and analyse the risks faced by Forestry Tasmania, to set appropriate risk limits and controls and to monitor risks and adherence to limits. The Finance, Audit and Risk Management Committee oversees how management monitors compliance with the Organisation's risk management and investment policies and is assisted in this task by an internal audit. In 2008-09 Forestry Tasmania conducted a review of its business risks, which incorporated financial risk management issues, and it updates its business risk register as required but at least annually.

***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.

***Capital Management***

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

Forestry Tasmania's current credit rating is BB-.

The Board monitors the level of dividends payable to the shareholder and the Organisation's return on assets. The return on assets is impacted by the value of non-operating accounting impacts to the net profit before tax and costs attributable to non-commercial forest zones. 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 25, the unfunded superannuation liability disclosed in note 27, cash and cash equivalents disclosed in note 22.

The shareholder is considering the appropriate capital structure as part of its strategic review process.

## 36 Financial instruments disclosure (continued)

| | Note | Consolidated 2013 $000 | Consolidated 2012 $000 | Parent Entity 2013 $000 | Parent Entity 2012 $000 |
|---|---|---|---|---|---|
| **(b) Categories of financial instruments** | | | | | |
| ***Financial assets*** | | | | | |
| Fair value through profit or loss – held for trading | 23 | **575** | 575 | **762** | 575 |
| Loans and receivables | 16 | **24,089** | 25,642 | **32,439** | 29,283 |
| Cash and cash equivalents | 15(a) | **1,485** | 12,283 | **1,380** | 12,282 |
| ***Financial liabilities*** | | | | | |
| Financial liabilities measured at amortised cost | 24, 26 | **(19,970)** | (34,970) | **(15,210)** | (24,590) |

### (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:

| | | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Cash | 15 | **1,485** | 12,283 |
| Trade and other receivables | 16 | **24,089** | 25,642 |
| Other financial assets | 23 | **575** | 575 |
| Total financial assets | | **26,149** | 38,500 |

***Trade receivables***

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

The majority of Forestry Tasmania's customers have been transacting with the Organisation for more than five years and losses have occurred infrequently. Customers that are regarded as higher risk are monitored regularly and delivery of product 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 Malaysia. Forestry Tasmania is not materially exposed to any individual overseas country or overseas customer. Credit risk is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

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

Forestry Tasmania has two major customers for the domestic sale of forest products, which together represented 2013: 43% (2012: 58%) of total forest product sales.

## 36 Financial instruments disclosure (continued)

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

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | 2013 $'000 | | | | |
| | Not past due | Past due | | | |
| | Current | 30 days | 60 days | 90 days plus | Total |
| Forest sales trade debtors | **13,339** | **3,186** | **283** | **7,406** | **24,214** |
| General trade debtors | **1,462** | **1,877** | **146** | **2,530** | **6,015** |
| Total trade debtors | **14,801** | **5,063** | **429** | **9,936** | **30,229** |
| Forest sales provision for impairment | **-** | **-** | **-** | **(6,850)** | **(6,850)** |
| General trade debtors provision for impairment | **-** | **-** | **-** | **-** | **-** |
| Total impairment of receivables | **-** | **-** | **-** | **(6,850)** | **(6,850)** |
| Total | **14,801** | **5,063** | **429** | **3,086** | **23,379** |

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | 2012 $'000 | | | | |
| | Not past due | Past due | | | |
| | Current | 30 days | 60 days | 90 days plus | Total |
| Forest sales trade debtors | 2,923 | 3,486 | 3,754 | 7,753 | 17,916 |
| General trade debtors | 8,971 | 2,405 | 274 | 2,992 | 14,642 |
| Total trade debtors | 11,894 | 5,891 | 4,028 | 10,745 | 32,558 |
| Forest sales provision for impairment | - | - | - | (6,843) | (6,843) |
| General trade debtors provision for impairment | (28) | (56) | - | (1,215) | (1,299) |
| Total impairment of receivables | (28) | (56) | - | (8,058) | (8,142) |
| Total | 11,866 | 5,835 | 4,028 | 2,687 | 24,416 |

***Impairment provisioning recognised***

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

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | $'000 | $'000 | $'000 | $'000 |
| Balance as at 1 July | **(8,142)** | (11,666) | **(7,110)** | (10,991) |
| Recovery of prior year impairments | **1,292** | 9,881 | **260** | 9,881 |
| Impairment loss recognised | **-** | (6,357) | **-** | (6,000) |
| Balance as at 30 June | **(6,850)** | (8,142) | **(6,850)** | (7,110) |

## 36 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 |
|---|---|---|---|---|---|---|
| **2013** | | | | | | |
| Trade and other payables | 0.00% | - | 13,095 | - | - | 10 |
| Finance lease liability | 8.40% | - | 84 | 190 | 389 | 5,184 |
| Interest bearing liabilities – variable | 3.65% | - | 1,000 | - | - | - |
| **2012** | | | | | | |
| Trade and other payables | 0.00% | - | 12,431 | - | - | 10 |
| Finance lease liability | 8.40% | - | 228 | 479 | 888 | 9,935 |
| Interest bearing liabilities – fixed | 5.71% | - | 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 |
|---|---|---|---|---|---|---|
| **2013** | | | | | | |
| Trade and other payables | 0.00% | - | 12,752 | - | - | - |
| Interest bearing liabilities – variable | 3.65% | - | 1,000 | - | - | - |
| **2012** | | | | | | |
| Trade and other payables | 0.00% | - | 12,446 | - | - | - |
| Interest bearing liabilities – fixed | 5.71% | - | 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 their decisions in relating to interest bearing liabilities.

## 36 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 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2012 | | 2013 | | 2012 | |
| | Carrying value | Fair value | Carrying value | Fair value | Carrying value | Fair value | Carrying value | Fair value |
| Available for sale financial assets | - | - | - | - | - | - | - | - |
| Held to maturity investments | - | - | - | - | - | - | - | - |
| Financial assets designated at fair value through profit or loss | 575 | 575 | 575 | 575 | 762 | 762 | 575 | 575 |
| Loans and receivables | 24,089 | 24,089 | 25,642 | 25,642 | 32,439 | 32,439 | 29,283 | 29,283 |
| Cash and cash equivalents | 1,485 | 1,485 | 12,283 | 12,283 | 1,380 | 1,380 | 12,282 | 12,282 |
| Trade and other payables | (13,105) | (13,105) | (12,441) | (12,441) | (14,210) | (14,210) | (13,590) | (13,590) |
| Finance lease liability | (5,865) | (5,865) | (11,529) | (11,529) | - | - | - | - |
| Interest bearing liabilities – variable | (1,000) | (1,000) | - | - | (1,000) | (1,000) | - | - |
| Interest bearing liabilities – fixed | - | - | (11,000) | (11,000) | - | - | (11,000) | (11,000) |
| **Total** | **6,179** | **6,179** | **3,530** | **3,530** | **19,371** | **19,371** | **17,550** | **17,550** |

***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 2013, there were A$4.869 million of foreign currency forward exchange contracts in place (2012: A$7.300 million).

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

The US dollar bank account is exposed to the movement in the exchange rate. The Organisation transfers funds to the Australian dollar account when available, but when appropriate retains a balance in the US dollar account to pay export expenses and funds to meet forward exchange contract commitments. The balance in the account as at 30 June 2013 was US$0.008 million (2012: US$0.008 million).

***Investments***

Forestry Tasmania had an investment portfolio that comprised fixed interest, Australian equities, overseas equities and property, which were realised in full during 2011-12.

***Interest bearing liabilities – fixed***

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

## 37 Geographical information

All non-current assets are located within Australia.

| | | Consolidated | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2013 | 2012 | 2013 | 2012 |
| **Revenue** | Note | $'000 | $'000 | $'000 | $'000 |
| Australia | | **99,187** | 75,858 | **96,619** | 74,142 |
| Asia | | **11,061** | 16,775 | **11,061** | 16,775 |
| Equity-accounted investees | 10 | **-** | 10,851 | **-** | 10,851 |
| **Total revenue** | | **110,248** | 103,484 | **107,680** | 101,768 |

## 38 Board approved overseas travel

The total number of overseas trips undertaken by the Chairperson, Directors and Chief Executive Officer was eight.
The total cost of all overseas travel taken by the Chairperson, Directors and Chief Executive Officer, including travel costs for accompanying staff, was $96,133.

# *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 Enterprise and of the consolidated entity 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 2012-13 financial year and the financial position as at 30 June 2013, of the Enterprise and its subsidiaries and

   (ii) complying with Australian Accounting Standards and Interpretations and with the Treasurer's Instructions.

b) there are reasonable grounds to believe that the Enterprise will be able to pay its debts as and when they fall due.

This declaration has been made after receiving the following declaration from the Chief Executive Officer and the Chief Financial Officer of the Enterprise:

   (i) the financial records of the Enterprise for the 2012-13 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 2012-13 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 2012-13 financial year give a true and fair view.

Signed in accordance with a resolution of the directors.

| | |
|---|---|
| ……………………………… | ……………………………… |
| Robert Annells | Geoff Coffey |
| **Chairman** | **Director** |
| 8 August 2013 | 8 August 2013 |

Tasmanian Audit Office

**Independent Auditor's Report**

**To Members of the Parliament of Tasmania**

**Forestry Tasmania**

**Financial Report for the Year Ended 30 June 2013**

**Report on the Financial Report**

I have audited the accompanying consolidated financial report of Forestry Tasmania, which comprises the statement of financial position as at 30 June 2013 and the statements of profit or loss and other 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 2013, 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 2(b) 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 its 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

...1 of 2

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 Tasmania'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 7 August 2013 and included in the Annual Report, would be unchanged if provided to the Directors as at the date of this auditor's report.

**Tasmanian Audit Office**

H M Blake
**Auditor-General**

HOBART
15 August 2013

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# *auditor's* INDEPENDENCE DECLARATION



Tasmanian Audit Office

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

7 August 2013

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 2013, I declare 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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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

*Strive | Lead | Excel | To Make a Difference*

# *corporate* GOVERNANCE



The Board of Directors of Forestry Tasmania comprises six independent non-executive directors. 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 for its operations.

Directors are appointed 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 regular meetings with the Minister for Energy and Resources and reports quarterly financial performance to the Treasurer..

**Board of Directors**
Robert Annells PSM
Geoff Coffey FCPA, ACIS ACIM, GAICD, Dip FP
Dr Robert Smith BScFor (Hons) *ANU*, MSc (ResEcon) *Purdue*, PhD *Purdue*, MBA *Macquarie*
Ross Bunyon AM BCom *NSW*
Dr Christine Mucha BAgSc (Hons), PhD, Dip AgEc, FAICD, ComplENGAust
Robert Woolley BEc *Tas*, FICA, MAICD

Secretary to the Board
Sue Shoobridge – BCom, 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, 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 revisions and updates since that time.  They have considered their application to the governance of Forestry Tasmania.

# board COMMITTEES

In addition to regular Board meetings, 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.

### Finance, 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 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: G Coffey (chair), R Bunyon, R Woolley
Attendees: S Whiteley, 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 *Board Appointments for Tasmanian Government Businesses*.

Members: R Annells (chair), G Coffey, R Bunyon, R Woolley, Dr C Mucha, Dr R Smith

### 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: Dr R Smith (chair), Dr C Mucha
Attendees: J Hickey, S Whiteley, L Burgess

### Major Projects and Investments Committee

This committee provides guidance to the Board on the establishment of major strategic projects of ongoing commercial significance; and the ongoing monitoring and reporting on such projects.

Members: R Bunyon (chair), R Annells, G Coffey, R Woolley, Dr C Mucha, Dr R Smith
Attendees: S Whiteley, S Shoobridge

| | | Board Meetings | | Audit Risk and Management Committee | | ES&H Committee | | Finance Audit and Risk Management | | Remuneration and Board Nominations Committee | | Major Projects and Investment Committee | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Number of meetings | | | | | | | | | | | |
| | Director since | Eligible | Attended | Eligible | Attended | Eligible | Attended | Eligible | Attended | Eligible | Attended | Eligible | Attended |
| A Kloeden | Jul 2000 | 4 | 4 | 1 | 1 | | | | | | | | |
| H Elliott | Nov 2001 | 4 | 4 | | | 1 | 1 | | | 1 | 1 | | |
| G Coffey | Jul 2007 | 13 | 12 | 1 | 1 | | | 5 | 5 | 2 | 1 | | |
| M Hampton | Jul 2007 | 4 | 4 | 1 | 1 | 1 | 1 | | | 1 | 1 | | |
| R Gordon | Jan 2007 | 11 | 11 | | | 3 | 3 | | | 2 | 1 | | |
| R Annells | Sep 2012 | 9 | 9 | | | | | | | 1 | 1 | 1 | 0 |
| R Smith | Jul 2012 | 13 | 13 | | | 3 | 3 | | | 1 | 1 | 1 | 1 |
| R Bunyon | Sep 2012 | 9 | 9 | | | 2 | 2 | 5 | 5 | 1 | 1 | 1 | 1 |
| C Mucha | Apr 2013 | 2 | 2 | | | 1 | 1 | | | | | 1 | 1 |
| R Woolley | Apr 2013 | 2 | 2 | | | | | 1 | 1 | | | 1 | 1 |

# *legislative* AND POLICY COMPLIANCE

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

- *Anti Discrimination Act 1998* (Tas)
- *Equal Opportunity for Women in the Workplace 1999* (Cwlth)
- *Fair Work Act 2009* (Cwlth)
- *Forest Practices Act 1985* (Tas)
- *Forestry Act 1920* (Tas)
- *Government Business Enterprises Act 1995* (Tas)
- *National Vocational Education and Training Regulator Act 2011* (Cwlth)
- *Personal Information Protection Act 2004* (Tas)
- *Public Land (Administration & Forests) Act 1991*(Tas)
- *Right to Information Act 2009* (Tas)
- *The Tasmanian Regional Forest Agreement 1997*
- *Timber Promotion Act 1970* (Tas)
- *Trade Practices Act 1974* (Cwlth)
- *Tasmanian Community Forest Agreement 2005*
- *Tasmanian Forests Agreement Act 2013* (Tas)
- *Vocational Education and Training Act 1994* (Tas)
- *Workers Rehabilitation and Compensation Act 1988* (Tas)
- *Workplace Health and Safety Act 1995* (Tas)

# Forestry Tasmania's STATEMENT OF CORPORATE INTENT

## 1 Strategic Direction

### 1.1 Introduction

This Statement of Corporate Intent for the 2013-14 financial year has been prepared in accordance with the *Government Business Enterprises Act 1995*.

The SCI represents a performance agreement between the Board of Forestry Tasmania and its Shareholding Ministers with respect to the financial and non-financial performance targets specified for the 2013-14 financial year. The SCI also represents an acknowledgement of the strategic direction of the business.

The performance targets within this SCI are based on, and supported by, Forestry Tasmania's 2013-14 to 2016-17 Corporate Plan, as submitted to the Shareholding Ministers in accordance with the Government Business Enterprises Act.

It must be noted that this SCI has been prepared in a period of transition for Forestry Tasmania and is therefore primarily focused on 2013-14.

### 1.2 Main Undertakings

Forestry Tasmania's main undertaking as approved in its prior year 2012-13 to 2015-16 Corporate Plan was to:

Manage 1.5 million hectares of State forest to optimise their community benefit, comprising:

a) the sustainable production and delivery of forest products and services;
b) the facilitation of new forest based industries;
c) the conservation of natural and cultural heritage values; and
d) the provision of education, recreation and tourism services.

However, the Government has agreed in principle that Forestry Tasmania's existing functions and powers should be separated with Forestry Tasmania remaining a GBE under the Government Business Enterprises Act, retaining its commercial functions and with certain non-commercial functions and powers to be considered for transfer to relevant government agencies.

Following this, work has commenced on the Forestry Tasmania Transition and it has been agreed by the Shareholding Ministers that Forestry Tasmania will:

- retain its responsibility for wood production from State forest; and
- remain the responsible land manager for production State forest.

Further work is being undertaken during 2013 to define the activities within the above functions and to determine what will happen to existing activities and functions. Until this further work has been completed Shareholding Ministers have agreed that the main undertakings of Forestry Tasmania should be:

a) wood production from State forest; and
b) land management of production State forest.

However, the Government acknowledges that Forestry Tasmania will have to continue to manage formal reserves and other non-production forest until the transfer of those reserves from Forestry Tasmania is completed. Forestry Tasmania would seek to be compensated for the management task while the reserves are still under its control.

### 1.3 Operating Environment

This SCI has been prepared at a very difficult time for the forest industry in Tasmania and for Forestry Tasmania. The current operating environment represents a further continuation of the most difficult trading conditions that Forestry Tasmania has encountered, and there remains 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 impacts of the global financial crisis on global trade and on domestic spending patterns;
b) the continued relative strength of the Australian dollar;
c) the ongoing adverse impact of strategic decisions implemented during 2011 and 2012 by Forestry Tasmania's former largest customer, followed by the appointment of receivers and managers over that company and its wholly owned subsidiaries on 25 September 2012;
d) the prolonged cessation of operations at critical sites for the processing and/or export of forest products (i.e. sawmills at Smithton, Deloraine, Launceston and Austins Ferry, chipmills at Hampshire, Long Reach and Triabunna and port facilities at Burnie, Long Reach and Triabunna), together with reduced throughput at rotary peeled veneer mills at Smithton and Lonnavale; and
e) campaigns in domestic and overseas markets to reduce demand for products manufactured from Tasmanian timber.

These conditions have resulted in substantial reductions in the demand and/or prices for some key forest products produced by Forestry Tasmania, as well as further constraints to supply and increases to costs. In terms of prices for key forest products, prices for hardwood export woodchips are below last year's "lowest ever" prices and prices for export peeler logs have not yet improved (reflecting the ongoing strength of the Australian dollar and what continues to be a buyers' market).

## 1.4 Strategic Context

As discussed above the current operating environment represents a further continuation of the most difficult trading conditions that Forestry Tasmania has encountered, and although improving there still remains uncertainty about the future.

The Forestry Tasmania Transition process was initiated by the State government on 29 August 2012, following the completion of Stages 1 and 2 of a review of Forestry Tasmania by URS (consultants). It has significant implications for the overall scope and scale of Forestry Tasmania's operations

The Government's four reform objectives for the Transition are to:
- improve the clarity of purpose and transparency for management of State forests;
- maintain and encourage private sector investment in the Tasmanian forest industry;
- improve the commercial and operational robustness of Forestry Tasmania; and
- ensure appropriate management of State forest.

The *Tasmanian Forests Agreement Act 2013* also has significant implications for Forestry Tasmania:
- specifically for the area of State forest to be managed and in terms of the minimum supply obligation for eucalypt category 1 and 3 sawlogs; and
- generally for the overall scope and scale of Forestry Tasmania's operations.

Forestry Tasmania's proposed response to the current business environment is founded on the premise 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 (albeit prolonged) 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 four years.

Current market conditions, in particular the need to dispose of forest residues arising from the statutory obligation to supply sawlogs and silvicultural practices in sawlog plantations, have required Forestry Tasmania to pursue a strategy to increase its involvement in direct exports of residues. It is anticipated that in the short term and while market constraints that are limiting private sector investment remain, Forestry Tasmania will continue with this strategy.

During the Transition the Government has committed in the State Budget a provision for deficit funding for Forestry Tasmania, if required, until the financial year ended 30 June 2017.

## 1.5 Key Strategies

Forestry Tasmania's response to the prevailing operating environment is 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 continue to 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; and

(c) 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.

In 2013-14 Forestry Tasmania will continue:
- product and market development of new wood products;
- with direct export activities into Japan and China;
- to pursue optimal management and business outcomes for tourism activities on State forest; and
- to finalise arrangements for the processing, storing and exporting of woodchips from Tasmania.

Shareholding Ministers have advised the Board that they expect it to focus its attention during 2013-14 primarily on:
- the consolidation phase;
- implementation of the TFA;
- achieving Forest Stewardship Council (FSC) certification; and
- progressing the Forestry Tasmania Transition.

Shareholding Ministers have also advised that they expect during 2013-14 that the Board will:
- advise in advance of any significant initiatives that lie outside Forestry Tasmania's normal commercial operations;
- not pursue the investment phase as a priority;
- not enter into, or expand, its equity position in downstream processing facilities that may not be consistent with the Government's reform objectives listed in 1.4 above;
- minimise recruitment of new staff; and
- not enter into longer-term commitments that may constrain the Government's decision making, particularly in respect of the delivery of Forestry Tasmania's non-commercial functions.

## 2 Performance Statement

### 2.1 Introduction

This performance statement sets out the key performance targets to be met by Forestry Tasmania in 2013-14. The targets are based on the measures defined in Attachment 1.

### 2.2 Financial Returns to Government

The *Government Business Enterprises Act 1995* provides for the payment to the Consolidated Fund:

- income tax equivalents in respect of each financial year;
- guarantee fees; and
- dividends.

Target financial returns to government on a cash basis are shown below.

| | Target 2013-14 | Actual 2012-13 | Actual 2011-12 |
|---|---|---|---|
| Dividends Paid ($m) | **-** | - | - |
| Guarantee Fees ($m) | **0.028** | 0.00 | 0.615 |
| Tax Equivalents Paid ($m) | **-** | - | - |

### 2.3 Financial Performance Targets

The financial performance targets are set out in Table 1

| **Table 1 Financial Performance Targets** | Target 2013-14 | Actual 2012-13 | Actual 2011-12 |
|---|---|---|---|
| Operating Profit/(Loss) Before Tax ($m) | **(7.69)** | (6.50) | (101.40) |
| Operating Cash Flow* ($m) | **0.21** | (1.76) | 44.39** |
| Debtor days | **106** | 91 | 151 |
| Borrowings ($m) | **13.0** | 1.0 | 11.0 |

* excludes deficit funding from Government
**includes proceeds from sale of softwood joint venture $70.2m

### 2.4 Non Financial Performance Targets

Table 2 sets out the key non financial performance targets.

| **Table 2 Non Financial Performance Targets** | Target 2013-14 | Actual 2012-13 | Actual 2011-12 |
|---|---|---|---|
| High Quality Sawlog wood volumes – $m^3$ | **137,000** | 120,932 | 109,946 |
| Low Quality wood volumes – $m^3$ | **1,142,000** | 821,181 | 850,680 |
| Native forest regenerated – ha | **1,740** | 3,868 | 4,400 |
| Number of fires attended | **all as required** | 54 | 53 |
| Roads Constructed (Kilometres) | **80** | 65 | 56 |
| Lost time injury frequency rate | **<6** | 4.46 | 5.68 |
| Wood production per employee (tonnes) | **4,377** | 2,684 | 3,237 |

### 2.5 Capital Expenditure

Capital expenditure primarily relates to road construction and the establishment and management of forests. Total capital expenditure for the planning period is shown in Table 3.

| **Table 3 Total capital expenditure ($ million)** | Target 2013-14 | Actual 2012-13 | Actual 2011-12 |
|---|---|---|---|
| Establishment | **6.44** | 4.49 | 6.08 |
| Road Construction | **7.48** | 5.40 | 7.41 |
| Land, Building and Equipment | **0.98** | 0.82 | 0.94 |
| **Total** | **14.92** | 10.71 | 14.43 |

## 2.6 Community Service Obligations

The Government has not entered into any funding agreement for Community Service Obligations with Forestry Tasmania at this time, but has requested that Forestry Tasmania work with the Department of Treasury and Finance to determine the non-commercial functions that can be identified and costed. These can then be considered and a direction, under section 65 of the Government Business Enterprises Act, made for Forestry Tasmania to perform the functions that the Government requires.

In the interim Forestry Tasmania is being provided with funding from the State Budget through the deficit funding arrangements to ensure it can continue to perform its non-commercial activities.

## 2.7 Tasmanian Forest Agreement

The Portfolio Minister and the Treasurer expect Forestry Tasmania to work cooperatively with the Government in implementing the Tasmanian Forest Agreement (TFA).

In particular Forestry Tasmania commits to the following targets to support the TFA implementation:

- to not log in the Future Reserve land or any gazetted reserves, except where consistent with Tasmanian and Commonwealth law;
- to achieve FSC certification on or before March 2015 for the Permanent Timber Production Zone Land, and that significant and demonstrable progress towards this will be made in this financial year; and
- to reduce the number of transitional coupes that are harvested during the transitional period, including by, but not limited to exploring, with industry, possible mechanisms to either temporarily reduce demand during the transitional period or by more quickly accessing alternative coupes outside the Future Reserved Land.

## 2.8 Forestry Tasmania Transition

The Portfolio Minister and the Treasurer expect Forestry Tasmania to work cooperatively with the Government in implementing the Forestry Tasmania Transition.

The Government will ensure that Forestry Tasmania is engaged and consulted on decisions that will have a direct impact on the organisation.

In particular Forestry Tasmania will:

- cooperate with the Forestry Tasmania Transition Oversight Committee (FTTOC) established to progress the transition;
- continue to operate in a business as usual manner and not embark on any specific projects which may not be consistent with the Government's above reform objectives;
- comply with all requests for information by FTTOC;
- assist in the development of a framework by 30 June 2014 for future forest industry development in Tasmania for approval by Shareholding Ministers and the Minister for Economic Development. This framework is to define the extent of Government involvement in forest industry development and establish clearly defined roles for Forestry Tasmania and the Department of Economic Development in the context of the State's Economic Development Plan. This work will be led by DED and Forestry Tasmania in consultation with DIER and Treasury;
- provide advice to Shareholding Ministers by 30 June 2014 on the short and medium-term options for Forestry Tasmania to manage future forest residues. This advice will take into consideration any outcomes of the TFA Wood Residues Project being led by DIER as part of the TFA; and
- cooperate with the Government in implementation of the TFA.

## 2.9 Compliance with Government Policies

In pursuing the strategic objectives in the context of the Government's directions, and undertaking its functions and exercising its powers, Forestry Tasmania shall act in accordance with:

- the governance framework for government businesses;
- Treasurer's Instructions and guidelines that are applicable to Forestry Tasmania; and
- government policies specifically applying to Forestry Tasmania as advised in writing by the Portfolio Minister and the Treasurer.

In particular the Portfolio Minister and Treasurer have advised their expectation that Forestry Tasmania comply with the Capital Investment Guidelines where it is considering any new business venture. In particular, Forestry Tasmania commits to prepare a supporting business case for such activities and provide it to Shareholding Ministers for approval.

# *directors' statement* OF CORPORATE INTENT AND AGREEMENT OF SHAREHOLDING MINISTERS

The Board of Forestry Tasmania agrees to provide the Shareholding Ministers with financial and other information as set out in this Statement of Corporate Intent.

In signing this document the Board of Forestry Tasmania commits to the targets proposed for the 2013-14 financial year. The Board also commits to minimise the level of deficit funding needed to achieve the agreed objectives and to perform the agreed non-commercial activities.

This Statement of Corporate Intent has been agreed between:

Robert Annells
**Chairman**
Forestry Tasmania
On behalf of the Board

Lara Giddings MP
**Premier**
**Treasurer**

Bryan Green MP
**Minister for Energy and Resources**

# ATTACHMENT 1

**Performance Measurement Definitions**

| | |
|---|---|
| Operating Profit/(Loss) Before Tax ($m) | Profit or loss from continuing operations before tax expense |
| Operating Cash Flow* ($m) | Cash generated by operating activities excluding financing and investing activities |
| Debtor days | Average number of days that a debt is outstanding to FT |
| Borrowings ($m) | Debt level to Tascorp |
| High Quality Sawlog wood volumes – $m^3$ | Sawlogs meeting categories 1 & 3 specifications |
| Low Quality wood volumes – $m^3$ | All other wood including pulp wood, peeler logs, categories 2 & 8 sawlogs, pine and special species |
| Native forest regenerated | Hectares regenerated after harvesting |
| Number of fires attended | Wildfires fought |
| Roads Constructed (Kilometres) | Roading for harvesting operations |
| Lost time injury frequency rate | Number of lost time injuries divided by the number of hours worked, multiplied by 1,000,000 |
| Wood production per employee (tonnes) | Quantity in tonnes of wood harvested divided by the number of employees |

**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 proposed for the year ended 30 June 2013.

*Performance of business against targets*

These sustainable forest management objectives and the performance for the year ended 30 June 2013 are outlined in the Stewardship Report. Further, the Chairman's and Chief Executive Officer's message in the Stewardship Report provides an overview of the operations of Forestry Tasmania and its subsidiaries during that financial year.

# *chief executive* OFFICER'S STATEMENTS



### The Superannuation Guarantee

Forestry Tasmania has met its obligations under the *Superannuation Guarantee (Administration) Act 199*2 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. The Organisation entered into 119 purchase orders during 2012-13 valued at more than $50,000, with a total value of $11.4 million. One hundred and thirteen of these purchase orders were with Tasmanian suppliers for a total value of $10.9 million.

Steve Whiteley
Chief Executive Officer