

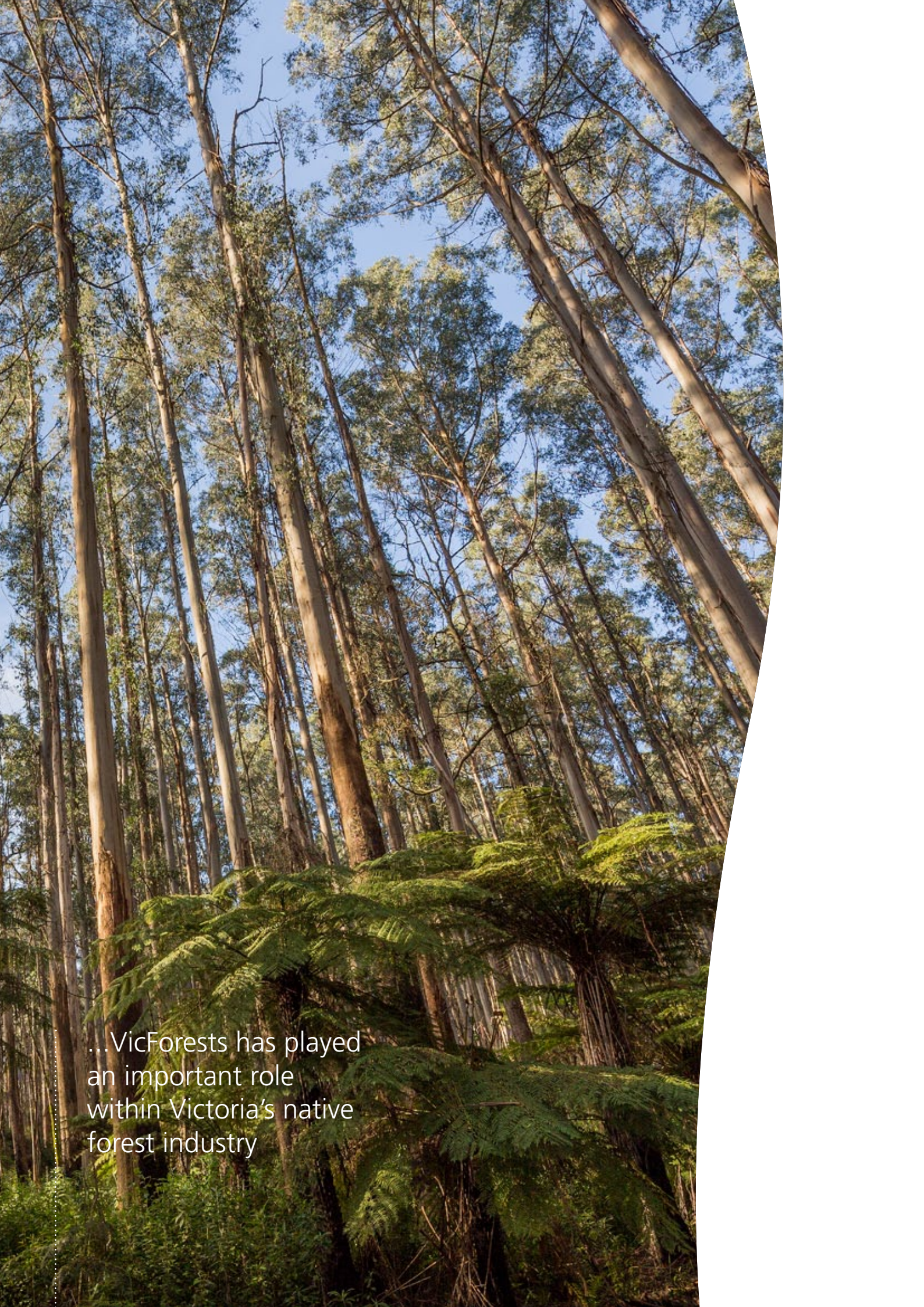
# Corporate and Business Plans

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2013-14 to 2015-16







...VicForests has played an important role within Victoria's native forest industry



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# Overview

Since commencing operations in August 2004, VicForests has played an important role within Victoria's native forest industry.

Over those nine years of operations, about 5 million m<sup>3</sup> of sawlog and 10 million m<sup>3</sup> of residual logs have been supplied to a range of sawlog and pulpwood customers. These operations have resulted in:

- the generation of over \$900 million in revenue
- direct annual employment of between 2,000 and 3,000 people including VicForests' employees, harvest and haul contractors, seed pickers, roading contractors, survey technicians, biodiversity specialists as well as those working for primary processors
- approximately 37,000 hectares of forest harvested and regenerated
- over \$600 million spent on harvest and haul services
- over \$50 million spent on road construction and maintenance.

During its operating life to 2012-13, VicForests has recorded a net profit of over \$12.4 million, with profits recorded in six years, and losses in three years.

There are many reasons for this modest level of profitability. These include the impact of the 2006-07 and 2009 fires, the cross subsidisation of operations between the Central Highlands and East Gippsland, past increases in harvest and haul costs, a resource that each year is becoming more expensive to harvest, customers which have temporarily or permanently ceased their intake of logs, and the cost of litigation.

Over the last year, however, our operating environment has been somewhat more stable, enabling the Board and management to spend more time considering our future and setting goals that aim to deliver improved profitability as well as contributing to broader Government actions around securing the long-term future of the native forest timber industry and improving the ecological management of Victoria's native forests.

In addition, the Government's review of the *Sustainable Forests (Timber) Act 2004* will lead to a change in how timber resources are allocated to VicForests. The new Allocation Order will provide VicForests with access to all of the timber resources in the General Management and Special Management Zones in State forest in eastern Victoria, on an ongoing basis.

This long-term allocation of timber resources, along with other key initiatives of the Government's Timber Industry Action Plan, provides VicForests with substantial opportunities to plan for the long-term management, marketing and sales of the allocated resources, thereby supporting the ongoing development of the sustainable native forest timber industry in Victoria.

The key focus of this Corporate Plan is to work towards creating a long-term, sustainable and profitable operating environment, for both VicForests and the native forest timber industry. This will be done in the context of not only the ongoing allocation, but also the transition to lower harvest levels in the Central Highlands resulting from the recent fires, and dealing with the commercial challenges of timber harvesting in East Gippsland. We believe this will require:

- identifying long-term opportunities resulting from the review of the *Sustainable Forests (Timber) Act 2004*
- securing future revenue from existing products
- identifying operations that are currently not commercial and deciding whether or not they should be continued, and if they are continued, how the costs and risks should be managed
- identifying more cost reduction measures
- identifying new ways to generate revenue.

VicForests believes that the closer working relationship with the industry that has developed over the last two years through the implementation of a number of TIAP actions, along with the ongoing support of the Minister and the broader Victorian Government, will assist VicForests in delivering an improved financial result as well as contributing to the development of a long-term, sustainable timber industry.

Supporting  
the ongoing  
development of  
the sustainable  
native forest  
timber industry

# Statement of Corporate Intent

## Purpose

VicForests was established on the 28th October 2003 by Order in Council under the *State Owned Enterprises Act 1992* to “undertake the management and sale of timber resources in Victorian State forests on a commercial basis”.

Undertake its commercial activities in a manner which will maximise the long-term economic returns to Victoria

## Role

In accordance with the order, VicForests’ role is to:

- undertake the sale and supply of timber resources in Victorian State forests, and related management activities, as agreed by the Treasurer and the Minister, on a commercial basis
- develop and manage an open and competitive sales system for timber resources
- pursue other commercial activities as agreed by the Treasurer and the Minister.

When undertaking these functions, VicForests must:

- operate its business or pursue its undertakings as efficiently as possible consistent with prudent commercial practice
- be commercially focused and deliver sustainable and value for money services
- undertake its commercial activities in a manner which will maximise the long-term economic returns to Victoria
- operate in a framework consistent with Victorian Government policies and priorities.

## Values

### **Professional**

We operate in an ethical, efficient and accountable manner

### **Sustainable**

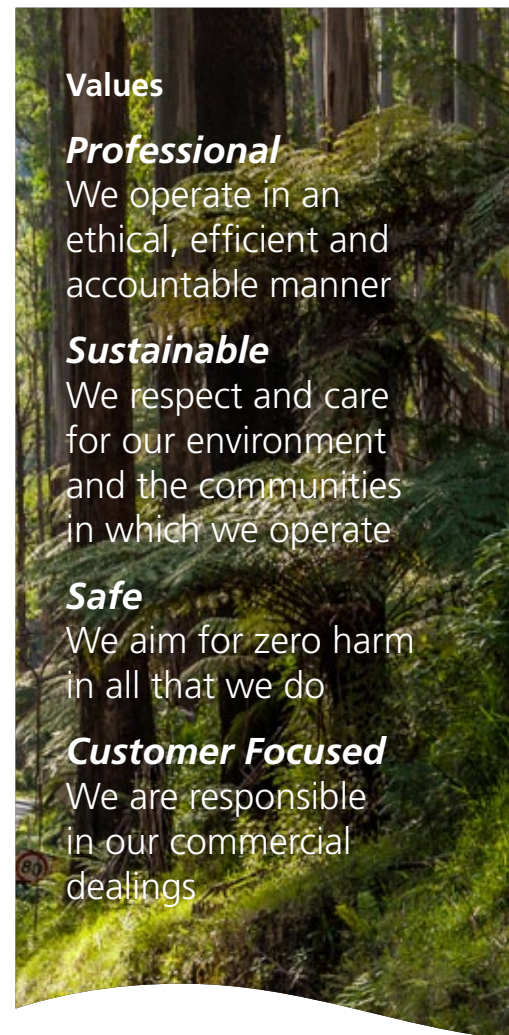
We respect and care for our environment and the communities in which we operate

### **Safe**

We aim for zero harm in all that we do

### **Customer Focused**

We are responsible in our commercial dealings



## Core business

VicForests represents the commercial function in State forest management, and is responsible for the sale, harvest and regeneration of native forests in Victoria.

VicForests acquires timber resources from the State through the development of an Allocation Order, an area of land over which VicForests holds the timber rights, under the *Sustainable Forests (Timber) Act 2004*. VicForests determines the timber volumes available for sale from within this area and also has the responsibility for determining long-term sustainable harvest levels, communicated through resource outlook briefings and the preparation of Timber Release Plans (TRPs).

VicForests conducts the majority of its sales via a range of commercial processes, under mill door sales arrangements, whereby VicForests has the responsibility for the harvest and delivery of log products to the customer's site. VicForests engages contractors to undertake harvesting and haulage activities, while VicForests' employees are responsible for operational planning, scheduling and monitoring of contractor output and site rehabilitation.

Throughout these activities, VicForests uses the Department of Environment and Primary Industry's (DEPI) forest road network, paying in excess of 95% of the maintenance costs of primary routes, and 100 per cent of the maintenance costs for all other forest roads while in use by industry.

VicForests is also responsible for the regeneration of all harvested coupes prior to the transfer of management responsibility back to DEPI. Forest regeneration is achieved by creating suitable conditions for growth by either burning or surface raking and then seed is distributed from a helicopter or from seeds falling from retained and neighbouring trees.

All of VicForests' activities are undertaken in compliance with its Sustainable Forest Management System (SFMS), independently certified to the Australian Forestry Standard (AFS) (AS4708) since February 2007.

## Interpreting the Order in Council

VicForests' Board has interpreted the Order in Council in the following manner for the purpose of developing and implementing this Corporate Plan:

### 1. Sale and supply of timber resources

- a. from State forests only
- b. management activities are those that relate only to sale and supply
- c. open and competitive

### 2. On a commercial basis

- a. achieve a net profit over the planning cycle
- b. understand and operate in a commercial market
- c. robust and commercial business processes

### 3. Maximise the long-term economic returns to Victoria

- a. viable contractor and customer base
- b. invest in the future (committing some resources to generate long-term returns at the expense of short-term profits)
- c. create value to Victoria, not just VicForests

### 4. Consistent with Victorian Government framework and policies

- a. have regard for the social consequences of decisions on regional areas and economic activity
- b. sustainable as defined in our Sustainable Forest Management Policy and the Sustainability Charter
- c. support, promote and implement assigned actions from the TIAP.

## Initiatives for 2013-14

### Identify potential forest management and other opportunities

The key initiatives for 2013-14 are:

1. identify potential forest management and other opportunities
2. position the business to reduce debt through improved profitability and cash flow
3. implement the business review by 30 June 2014
4. reduce ash D+ sawlog harvest levels to 215,000 m<sup>3</sup> p.a. by 2017
5. contribute to initiatives to improve the management of Leadbeater's Possum habitat
6. aim to achieve Forest Stewardship Council Controlled Wood by 30 June 2014
7. determine the future of East Gippsland mixed species operations
8. complete the Timber Sales Process 2013
9. identify, develop and test other business opportunities
10. identify and determine future of non-commercial activities.

Following the Board's 2013 Strategic Planning work it was determined that we will operate:

- ethically and safely, acknowledging the scrutiny on us
- with a clear understanding of the business we are in, and making it effective
- with clearly stated and objectively measured success indicators
- in a manner that limits our exposure to stakeholder criticism
- with a focus on what matters to the business, and getting that right
- in a manner that develops quality relationships with key Government stakeholders, so that we are viewed as a contributor to the regional and State economy and as a trusted, no-fuss adviser
- so that tasks outside of our core business are returned to whoever is accountable for them.

# Operating environment

## Scale of operations

When VicForests commenced operations in 2004, the business planned on annual log sales of nearly 2 million m<sup>3</sup>. Figure 1 shows that since 2004 there has been a steady decline in the volume of log sold.

### Sales - total volume and total revenue

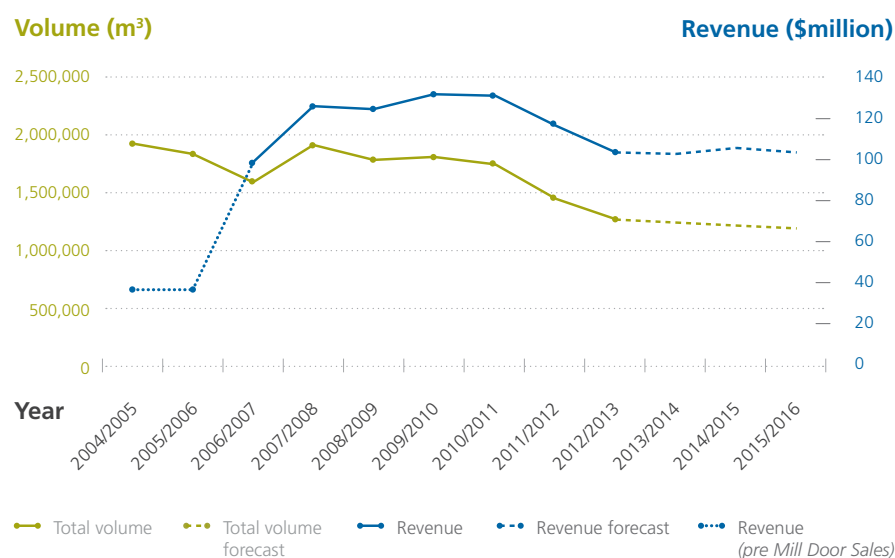


Figure 1: VicForests log sales – total volume and total revenue

In 2011-12, the volume sold declined to about 1.4 million m<sup>3</sup>. The main reasons for this decline were:

- the 2003, 2006-07 and 2009 fires which burnt large areas of productive forest in eastern Victoria. Following the salvage harvesting operations, harvest levels have been reduced to ensure harvesting remains on a more sustainable level.
- the creation of additional parks and reserves, particularly in East Gippsland, leading to a reduction in harvest levels
- the difficult operating environment for VicForests' log customers, particularly over the past two years. This has resulted in both permanent and temporary mill closures, leading to reduced volumes being sold.



Supply volumes are forecast to remain relatively stable over the period of this Plan, before the ash sawlog supply declines in 2017, as Figures 2 and 3 show. However, the volume actually sold until 2017 is likely to be less than the total available supply, partly

because not all of the mixed species sawlog from the Central Highlands is currently allocated, and because customers may not take up all of their allocation until trading conditions improve.



**Volume (m<sup>3</sup> p.a.)**



Figure 2: Ash D+ sawlog medium-term supply outlook

**Volume (m<sup>3</sup> p.a.)**

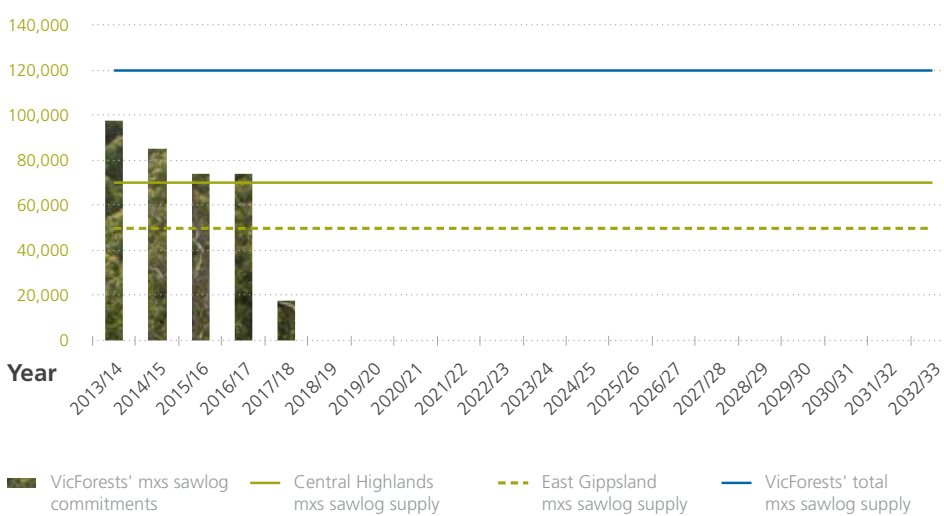


Figure 3: Mixed species D+ sawlog medium-term supply outlook

## VicForests will need to carefully manage costs during this period to deliver profitable operations.

VicForests is conducting a Timber Sales Process 2013 through which E grade and better sawlog and residual log will be offered to the market on a variety of tenures to 2033-34. The volume actually allocated through this process will depend on the price offered, the commercial risk associated with each proposal and the strategic value of the proposal to VicForests and the state.

If proposals to purchase D+ mixed species sawlog are successful, the forecast volume of D+ sawlog sold may increase.

VicForests' revenue over time generally tracks the sales volume. With declining volumes sold, VicForests' revenue also declines. Note that the 2004-05 and 2005-06 revenue reflects stumpage sales. The revenue (and also costs) increased in 2006-07 when the Mill Door Sales Operating model was introduced.

Figure 4 shows the average log price achieved following the introduction of Mill Door Sales in 2006. For the last five years, there have been significant increases in the average log price. This is due to the increasing proportion of logs that are sold under auction prices. This increase in log prices is now tapering off, as the majority of logs are now sold under auction prices, and increases are now primarily due to indexation.

The achievement of market-based prices was one of the Government's aims when it created VicForests. The tapering off of the average prices received by VicForests, along with the feedback around pricing that VicForests receives from customers, indicates that the current prices are likely to be at or near the prices the market can bear.

The consequence of a declining sales volume with only a small increase in the average price is that VicForests' revenues will decline during the period of this Plan. VicForests will need to carefully manage costs during this period to deliver profitable operations.

### VicForests - average log price

#### Average log price (\$/m<sup>3</sup>)

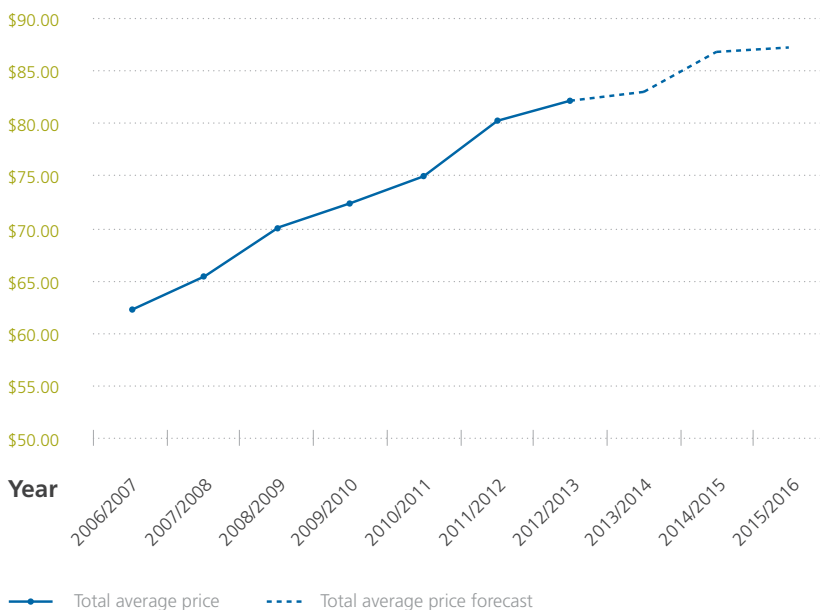


Figure 4: VicForests average log price



## Trading conditions

During 2012-13, trading conditions for all of our major customers, both sawlog and residual log have remained difficult. This is evident in lower volumes of both sawlog and pulplog sold during 2012-13, customers' payment performance during 2012-13, as well as general customer feedback.

The housing market continues to decline, although the renovations market remains stable, as Figure 5 shows.

Figure 5: Value of new house starts and renovations in Victoria

### Value of new house starts and renovations - Victoria

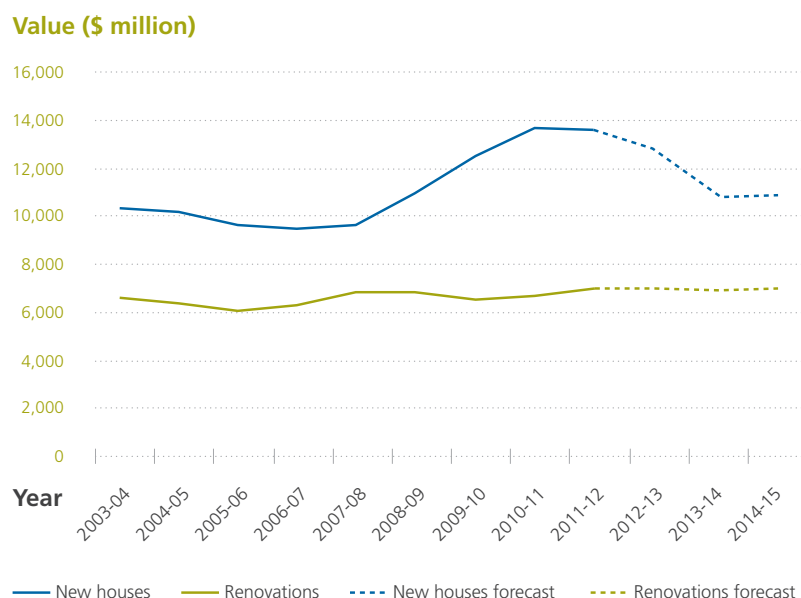


Figure 5: Value of new house starts and renovations in Victoria  
Source: Housing Industry Association May 2013 forecast



The decline in new housing starts impacts on our customers through a reduced demand for:

- sub-flooring material
- lintels and high strength beams
- stair treads
- internal finishings
- window frames and doors
- flooring.

In addition to reduced demand, until May 2013, the Australian dollar has remained above parity (see Figure 6) with the US dollar throughout 2012-13, making imports, including timber imports, relatively cheaper.

### Pulplogs

Markets for our pulpwood logs remain challenging.

Australian Paper continues to be our largest customer by volume and value, but the quantity purchased during 2012-13 was lower than previous years. Australian Paper continues to find it difficult to compete with paper imports from Indonesia and China, where paper manufacturers have more cost-effective access to plantation fibre from South East Asia. In addition, local Environmental Non-Government Organisations continue to campaign against Reflex Paper, claiming that the lack of Forest Stewardship Council certification indicates that it is not from a 'sustainable' source.

To address this perception, Australian Paper announced in late 2012 that construction of a \$90 million waste paper recycling plant would be constructed at their Maryvale mill, with production to commence from early 2014.

Nevertheless, overall consumption of printing and writing papers (the main product from the use of VicForests' pulplogs) is on a declining trend, as Figure 7 shows.

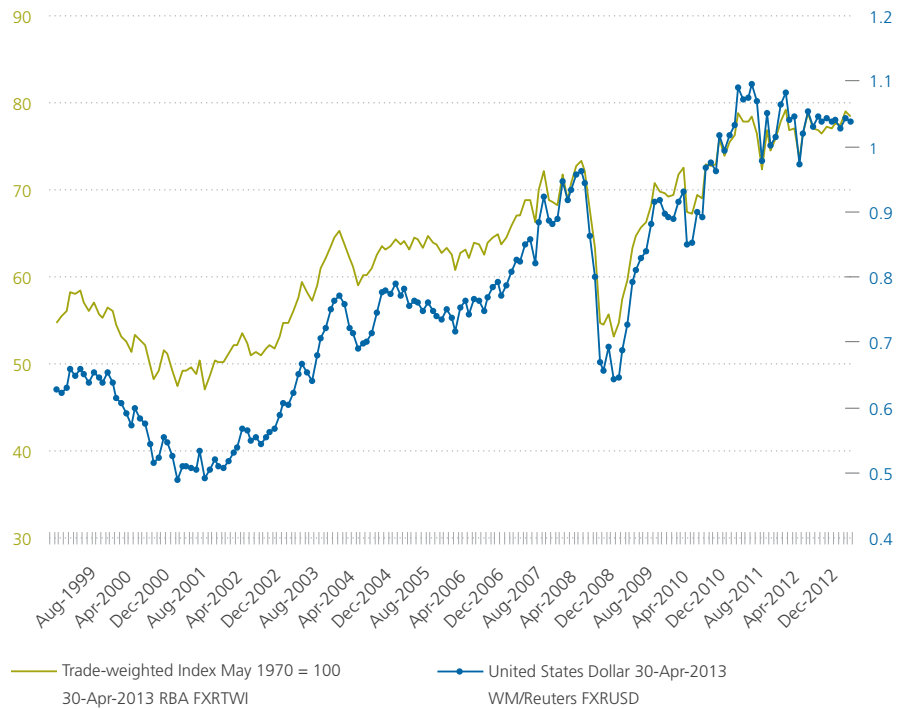


Figure 6: Australian Dollar compared with US dollar: 1999 to 2013  
Source: Reserve Bank of Australia

### Australian paper consumption

#### Australian consumption ('000 m<sup>3</sup>)



Figure 7: Australian paper and paperboard consumption 2000 - 2011  
Source: ABARES



During 2012-13, VicForests was given responsibility for managing the Legislated Agreement with Australian Paper on behalf of the Victorian Government. Negotiations regarding this transfer of responsibility have taken many months, and are yet to conclude fully. Key issues have been future supply arrangements, pricing and indexation. Negotiations are expected to be completed in Q1 2013-14.

In addition to constrained sales to Australian Paper, VicForests is also finding sales to export woodchip markets difficult. In June 2012, South East Fibre Exports' long-term agreements finished. Due to market uncertainty with their Japanese buyers, SEFE was only in a position to enter into a 6-month agreement with VicForests for the remainder of 2012, with 30% less volume. The same reduction in volume has then applied for the 2013 calendar year. This reduction has not only had a negative impact on VicForests' cashflows, but the limited contractual tenure with SEFE precludes VicForests from entering into new medium or long-term contracts in East Gippsland, with either sawlog customers or harvest and haul contractors.

Figure 8 shows that prices for export hardwood woodchips are also declining. With the Australian dollar remaining high, this is expected to continue for the foreseeable future. The declining price is making VicForests' pulplog sales to woodchip exporters commercially challenging, particularly in East Gippsland.

During 2012 VicForests conducted a Request for Proposals (RFP) for low grade timber. Despite reasonable interest in the RFP, sales contracts were only awarded for a small proportion of the low grade logs on offer. The remaining volume will be offered to the market as part of the Timber Sales Process 2013.



### Export hardwood woodchip value by state of origin

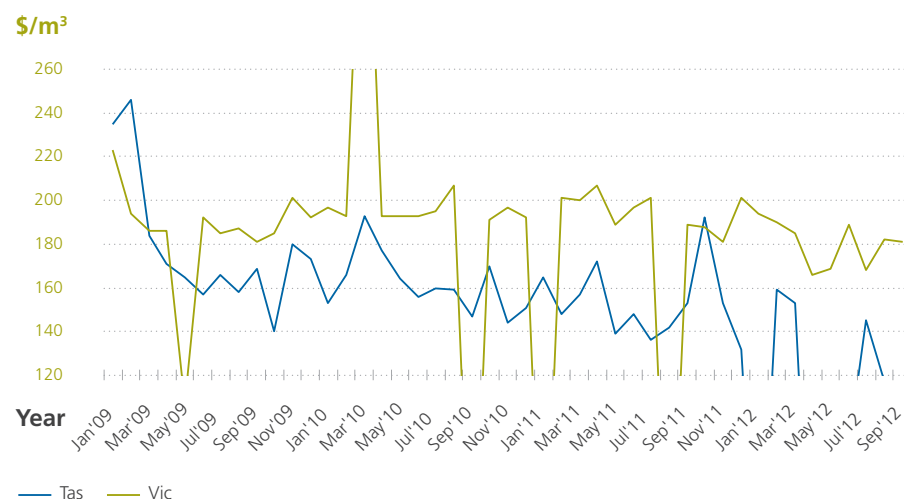


Figure 8: Export hardwood woodchip value by state of origin  
Source: Industry Edge

A number of other external factors are currently impacting on VicForests' performance. These are discussed further in relation to each initiative.

# Stakeholder relations

Effective stakeholder relations is key for VicForests to function smoothly. VicForests has substantially increased its efforts in stakeholder relations in recent years, with a focus on contributing to the regional communities in which VicForests operates, maintaining professional relationships with customers, contractors and industry associations, and engaging with all levels of Government.

The engagement with industry through the TIAP reviews in 2011-12 and since has realised a more mature dialogue, with all parties involved having a greater understanding of each other's commercial drivers, key risks and policy positions. This greater understanding has assisted in the delivery to date of the Timber Sales Process 2013, and the opportunity for feedback from industry on various terms, conditions and other matters.

Effective engagement with Government remains a high priority for VicForests. VicForests considers that current relations are as good as they have been since VicForests commenced. Mutual trust and respect is enabling constructive discussion on a number of policy areas as well as VicForests' future intentions with respect to improving its financial position and future supply scenarios.

Engagement with a number of Environmental Non-Government Organisations (ENGOS) remains difficult. Due to recent litigation and their ongoing campaigns and policy positions, VicForests has, and will continue to, meaningfully engage with ENGOS beyond advice regarding Timber Release Plans and responses to information requests.

In addition, VicForests has invested in developing relationships with organisations such as Zoos Victoria and biologists at the University of Melbourne and the Arthur Rylah Institute to improve our efforts at biodiversity conservation.

VicForests' aim to achieve Forest Stewardship Council certification will require more concerted efforts at stakeholder engagement, and in particular with ENGOS, neighbours and indigenous organisations.

VicForests has substantially increased its efforts in stakeholder relations in recent years



# Business review

## Mill Door Sales

Given the decline in future resource availability and the sustained pressure VicForests' customers are facing, both of which are likely to result in further financial pressure for the business, VicForests has commenced an internal review of its operations to identify opportunities for savings.

During 2012-13, employees were given the opportunity to provide input into the review, including identification of possible savings. Areas identified included:

- a variety of cost management initiatives
- tighter expenditure control
- review of current facilities and offices
- review of IT provision
- review of vehicle management
- general efficiency improvements including improved business practices and systems, such as log grading and regeneration and roading practices, staff management and capacity.
- business structure.

During 2013-14, VicForests will continue to evaluate the ideas submitted to the internal review process, as well as finalise a business structure that will deliver business critical activities, more closely align with forecast revenues, but which will result in a reduction in the number of employees.

Harvest and haul costs currently comprise about 75% of VicForests' total expenditure. Any capacity to vary these rates downwards therefore has a significant impact on VicForests' financial results. While the business review will continue to identify and consider possible savings in harvest and haul costs, VicForests considers that a number of process improvements which have led to considerable savings have already been made in this area, including:

- identifying least cost haulage routes
- In field data capture
- the engagement of all harvest and haul contractors through an open, competitive and regular tender process.

The provision of harvest and haul services was considered by VicForests, customers, contractors and Government during the TIAP consultation process of 2012. Through that process it was clear that industry did not want to resume responsibility for providing harvest and haul services. Through that process VicForests made it clear to the industry that if VicForests was to retain the provision of harvest and haul services, a better sharing of the risk associated with that provision was required.

VicForests has subsequently introduced clauses in its proposed agreements with contractors and customers that better protect VicForests from the failure of either customers or contractors to deliver on their part of the contract. In addition, VicForests proposes that future sales agreements include a provision which allows for a change in point of sale from the current Mill Door Sales to a different point-of-sale model, such as a stumpage model.

# 2013-14 initiatives

Our key strategies all aim to respond to existing issues, mitigate potential risks and ultimately improve our financial results. The following discussion expands upon each key initiative, the reason why the initiative is important, and the approach VicForests intends to adopt when pursuing the initiative.

## Initiative 1: Identify potential forest management and other opportunities

**Forecast initiative cost: internal costs only**

...substantial opportunities regarding how those timber resources can be managed, marketed and sold in the long-term.

In accordance with the TIAP, the Government has reviewed the *Sustainable Forests (Timber) Act 2004* with the intention of delivering clarity, efficiency, security and sustainability to the State and the native timber industry.

One key change is the ongoing allocation to VicForests of the timber resources in the areas of State forest in eastern Victoria that are available for timber production.

This change in allocation provides VicForests with substantial opportunities regarding how those timber resources can be managed, marketed and sold in the long-term. Previously, forest management activities that would only provide a commercial return after the period of the Allocation Order were generally



not undertaken. With this change, activities such as reforestation, thinning and other long-term stand management activities may be considered more favourably and longer-term marketing and sales opportunities identified.

In addition, VicForests will need to consider the impact of forest management activities conducted by other agencies, including fire, on the long-term value of the timber resource.

This initiative will involve consideration of the full range of opportunities available in the medium to long-term, as well as any issues surrounding the ongoing allocation of the commercial timber resource to VicForests.

## Initiative 2: Position the business to reduce debt through improved profitability and cash flow

**Forecast initiative cost: internal costs only**

The Government is concerned about the level of VicForests' overdraft with the Treasury Corporation of Victoria (TCV). Reducing this overdraft has been a focus of VicForests over the past year, with the amount owing declining from nearly \$27 million to about \$16 million at the end of 2012-13.

This initiative will involve investigating ways of improving VicForests' profitability and cash flow, with the aim of reducing our overdraft with TCV.

Areas to be considered will include:

- the terms and conditions of future Timber Sales Agreements that relate to customer payments, take or pay and log forfeit conditions
- terms and conditions in harvest and haul contracts that relate to timing of VicForests payments
- terms and conditions in sales agreements that relate to the timing of customer payments to VicForests

- the concept of a Statewide seed store was developed to allow pooling of resources and better utilisation of VicForests' expertise. VicForests will seek the assistance of DTF for the funding of the seed inventory on DEPI's balance sheet.
- having the option to export logs may allow VicForests to avoid building unwanted log inventory and hence free working capital
- continued focus on accounts receivable
- implementation of cost reduction measures following the business review and other initiatives
- replacing our current Financial Management System and payroll (Oracle) in order to reduce costs.

Due to the cumulative nature of these measures, the outcome of this initiative will take a number of years to reach its full potential. In addition, the transition to lower harvest levels is likely to impact on our future revenue, cashflow and underlying profitability.

## Initiative 3: Implement the outcomes of the Business Review by 30 June 2014

**Forecast initiative cost: internal costs only**

In addition to securing existing sales and investigating ways to increase revenue, reducing costs is another factor that will help meet VicForests' objective of improving its profitability.

In early 2013 the CEO announced a business wide review of internal activity and costs in an attempt to identify opportunities for savings of between \$3m - \$5m. The review included consultation with staff to ensure that all employees had an opportunity to contribute to the process, which included areas of the business in which savings could

be made, as well as identifying any activities that are undertaken but are not critical to our business performance.

Feedback from employees was received in late April. Collated responses are to be analysed by the Executive team late in June 2013, with recommendations provided to the VicForests Board in July 2013.

Any approved changes to the business structure or internal processes will be implemented by 30 June 2014.



**Initiative 4: Reduce ash D+ sawlog harvest levels to 215,000 m<sup>3</sup> p.a. by 2017**

**Forecast initiative cost: \$385,000**

The combined impact of the 2003, 2006-07 and 2009 fires on the area of available and suitable ash forest is significant. Approximately 36,000 hectares of ash forest has been killed or severely damaged by those fires, and is therefore not available for harvest in the medium-term.

Resource Outlook briefings held in 2011 and 2012 showed a significant decline in ash sawlog availability from around 2028. During 2012 VicForests conducted its 'Future Ash' project, which involved a more detailed look at the extent, quality and location of the remaining 1939 ash stands. This work confirmed the total volume of D+ sawlog available estimated from VicForests' strategic resource datasets, but highlighted that a proportion of that volume lies in stands which are likely to prove uneconomic to harvest.

VicForests seeks to harvest the forest at a sustainable level, and considers that a reduction of ash D+ sawlog harvest to 215,000 m<sup>3</sup> per annum is appropriate from 2017, given the impact of the fires, the proportion of the resource that is likely to

prove unprofitable to harvest, and the ongoing uncertainty of further reservation of forest for Leadbeater's Possum habitat.

The implementation of this reduction in 2017 is considered appropriate because all of the available ash D+ sawlog is committed until 30 June 2017 and the four-year lead-in time provides industry with sufficient opportunity to make appropriate business decisions.

The 2013 Resource Outlook with accompanying media strategy outlining the reduction in harvest levels to 215,000 m<sup>3</sup> per annum from 1 July 2017 was released in May 2013.

In 2013-14 VicForests intends to:

- make available up to 215,000 m<sup>3</sup> per annum of D+ ash sawlog from 1 July 2017 to 30 June 2034 through the Timber Sales Process 2013
- commence a project investigating the volume, quality and location of the post-1939 ash resource.



### **Initiative 5: Contribute to initiatives to improve the management of Leadbeater's Possum habitat**

**Forecast initiative cost: \$100,000**

Ever since the Black Saturday fires of February 2009, the Environmental non-Government Organisations (ENGOS) have stepped up their campaign to cease native forest harvesting by linking harvesting in the ash forests with the reduced amount of habitat suitable for Leadbeater's Possum due to the Black Saturday fires. They claim that the fire burnt significant areas of the possum's habitat and therefore what remains should be retained for habitat for the animal.

VicForests' response is that the age-class of the forests harvested is not currently Leadbeater's Possum nesting habitat, and that all defined habitat is currently protected.

To further their aims, the ENGOS have continued their campaign targeting companies which purchase Reflex paper, which is made by Australian Paper at their Maryvale mill using ash logs sourced from VicForests' operations.

Australian Paper has subsequently increased its pressure on VicForests to obtain Forest Stewardship Council (FSC) certification, in order to counter the ENGO campaign, and improve the environmental credentials of Reflex paper, and therefore win back lost sales.

VicForests has agreed to pursue FSC certification (see Initiative 6).

Part of achieving FSC certification will be recognition by FSC auditors that VicForests is contributing to the appropriate management of habitat for Leadbeater's Possum.

In 2013-14 VicForests intends to:

- play a key role in the DEPI Leadbeater's Possum Partnership Process
- continue to engage with the scientific community to develop short and long-term scientifically supported practice improvements
- commence operational trials and research on non-controversial accepted practices to confirm their applicability to the Victorian context
- engage individually with targeted ENGO groups to build trust and facilitate formal involvement in discussions regarding the Leadbeater's Possum.

VicForests' goal is that, by implementing the above, VicForests will contribute to the appropriate management of Leadbeater's Possum habitat and recognition of this will not block successful FSC certification.

## Initiative 6: Aim to achieve FSC Controlled Wood by 30 June 2014

### Project costs: \$250,000

The sale of certified timber products continues to be the trend throughout the world. In Australia, the management systems of all State forest management agencies are certified to the AFS (AS4708). This certification has assisted in maintaining sales of pulplog to Japan, but more recently there has been increasing pressure from Australian Paper and some sawmillers for VicForests to be certified by the FSC. In particular, Australian Paper considers that FSC certification is critical to better leverage their environmental standing in paper markets and to compete against cheaper imported paper products.

As part of negotiations around future supply under the legislated agreement with Australian Paper, the Victorian Government (and VicForests) agreed to use its best endeavours to achieve FSC certification.

The FSC is an international non-profit organisation promoting responsible management of the world's forests. FSC have several standards including Forest Management and Controlled Wood.

Controlled Wood certification demonstrates to a customer or third party that the product has not been illegally harvested, harvested in violation of traditional and civil rights, harvested from areas that threaten high conservation values, or harvested from forests that have been converted to plantations or from genetically modified trees.

VicForests has previously attempted to achieve FSC certification. VicForests was audited against the FSC Forest Management interim Standards by the Soil Association, Woodmark in 2007, but following the results of that audit decided against seeking certification to that standard at that time.

Through this initiative, VicForests will seek Controlled Wood certification, to determine what resources are required and if a future pathway of gaining full certification is feasible. It is considered premature to attempt to achieve the full Forest Management certification, as it has a wider range of requirements that apply to the full forest management area.

A key element of this attempt will be to undertake a pre-evaluation audit to test the feasibility of VicForests achieving certification. There appears to be three fundamental issues that will require careful consideration:

- that VicForests does not have sufficient management control in a forest area that is required to be suitability described as a Forest Management Unit, that is, the land manager (DEPI) has control and hence it should be seeking certification

- the definition of High Conservation Values and how they can be appropriately managed, particularly for Leadbeater's Possum
- whether or not an auditor will provide certification if key ENGO groups refuse to engage in the process.

If these issues can be sufficiently addressed, VicForests will seek Controlled Wood certification as a stepping stone to achieving the overall goal of FSC certification.

The focus of this initiative will include the whole Controlled Wood Standard, but significant work will be required in the following areas:

- the development of a more comprehensive stakeholder engagement process that will allow for greater input into the development of programs relating to relevant indigenous community interests and protection of High Conservation Values
- the identification and maintenance or enhancement of High Conservation Values ensuring that evidence of this is available
- an analysis and implementation of any gaps in our involvement with relevant indigenous community groups
- the development of system requirements for appropriate identification, segregation and labelling of certified products.

The time frame of the project is to achieve Controlled Wood certification by 30 June 2014.



## Initiative 7: Determine the future of East Gippsland mixed species operations

### Forecast initiative cost: internal costs only

Timber harvesting operations in the East Gippsland Forest Management Area (FMA) have not been profitable for VicForests for many years. Operations currently lose up to \$5.5 million per annum, after the distribution of corporate overheads.

The reason for this loss is primarily related to the quantity and quality of the available timber resources. Ongoing harvesting since the 1960s, and the addition of large areas of forest to the conservation reserve system since the 1980s has led to a situation where few productive stands, that are suitable for harvesting, remain. For the foreseeable future, harvesting in East Gippsland FMA will, in general, be in coupes that are poorer quality, yield only low volumes of sawlog, are smaller in area and in locations that are difficult to access, all of which lead to lower revenue for VicForests.

In addition, VicForests' major purchaser of residual logs from East Gippsland, South East Fibre Exports (SEFE) is, and will continue to be, under severe financial pressure. This is due to its difficulty in selling its woodchips into the Japanese and Chinese woodchip markets partly because of the lower fibre quality of the woodchips and partly because of the unfavourable exchange rate. Supply to SEFE is already 30% lower than in previous years, and ongoing sales volumes are likely to be set for no longer than 12 months at a time.

Given the precarious nature of residual log sales to SEFE, VicForests will no longer be entering into any longer-term sawlog sales agreements following the Timber Sales Process 2013 unless proposals to purchase sawlogs include a complementary proposal that has the effect of removing the commercial risk to VicForests following the loss of sales of residual logs to SEFE.

VicForests' Order in Council requires VicForests, amongst other things, to operate on a commercial basis. In the current form, timber harvesting operations in East Gippsland FMA are not commercial. To address this situation in 2013-14, VicForests intends to:

- work on a number of options during 2013-14 regarding future operations in East Gippsland. These options will be provided to the Government.
- report on East Gippsland mixed species operations separately in financial reports
- only enter into new sawlog sales contracts if there is a complementary proposal that has the effect of removing the commercial risk to VicForests following the loss of sales of residual logs to SEFE
- continue VicForests' policy of not replacing employees from the East Gippsland region when vacancies occur.

## **Initiative 8: Complete the Timber Sales Process 2013**

**Forecast initiative cost: internal costs only**

The Timber Sales Process 2013 aims to make available quantities of ash and mixed species sawlog and residual log to the market for sale on a variety of tenures to 2033-34

VicForests has not conducted a major sawlog sales process since 2008. A number of smaller mixed species customers have allocations that end over the next few years. Most of the ash customers have allocations that end at 30 June 2017.

The Timber Sales Process 2013 aims to make available quantities of ash and mixed species sawlog and residual log to the market for sale on a variety of tenures to 2033-34. Allocation of the resource will be based on the price offered, an assessment of the proposal's commercial risk to VicForests, and the strategic value of the proposal to VicForests and the State.

The process commenced with a Request for Information which informed interested parties about the process, the resource on offer and proposed contractual terms and conditions, and collected feedback from potential proponents to help VicForests refine the design of the RFP phase, and provide potential proponents with information to assist them to prepare for the RFP.

The RFP will contain details regarding the volume and type of resource on offer, the proposed contractual terms and conditions and the evaluation process. The RFP will seek submissions of proposals for the purchase of the sawlog and residual log on offer. A RFP is being conducted rather than an on-line auction to align with the TIAP requirements to consider broader objectives into the sales system to promote long-term security and sustainable investment in Victoria's native forest industry.

The RFP will be evaluated, and sales allocation options developed. Negotiating aspects of proposals will be required in some instances. The sales allocation options that provide VicForests with the greatest financial return, taking into account the risk associated with each proposal will be those selected to proceed to the offer and negotiation phases.

It will be mandatory to register to participate in the Timber Sales Process 2013.

### Initiative 9: Identify, develop and test other business opportunities

**Forecast initiative cost: internal costs only**

VicForests' commercial activities have to date generally focussed on the harvest and sale of timber resources. VicForests considers that there are opportunities to broaden what we do, with some opportunities relating to timber, and others relating to a positive role in ecological forest management and the carbon economy. VicForests considers that seeking new opportunities and new options to be in line with our Order in Council, which allows VicForests

to 'pursue other commercial activities as agreed by the Treasurer and the Minister'.

VicForests intends to investigate a number of potential opportunities, to determine whether a positive return is possible, how complex implementation of the opportunity might be, and the time to make a return on investment.

Potential opportunities include:

#### Engineered products

VicForests will continue to monitor the development of engineered wood products, and in particular cross-laminated timber (CLT). In 2013 Lend Lease opened the world's tallest timber apartment building, the Forte apartment complex in Docklands. This building was constructed using CLT sourced from Austria. Lend Lease has said it expects to use the material on 30 to 50 per cent of its future apartment buildings.

The use of eucalypt in composite products such as CLT increases their strength when compared with softwood.

VicForests plans to stay abreast of composite product technologies and respond to any opportunities should they arise.

#### Biofuels/biochar

Along with composite wood products, investigation into the use of wood for energy generation continues around the globe.

VicForests will continue to monitor developments and markets, investigate technologies and support pilot projects wherever possible. Given the lack of large sales arising from the low grade log RFP, ample resource remains available for companies to purchase this material.



## Initiative 9: Identify, develop and test other business opportunities continued



Potential opportunities include:

### Co-generation

The use of wood as a brown coal substitute is another possible opportunity, but its use will be dependent on what renewable energy targets are set by the Government.

For co-generation, logs are converted into wood chips or pellets before being used by the power station.

### Ecological management services

The provision of VicForests' expertise to other organisations is another potential source of revenue. VicForests has significant experience in activities such as seed collection, forest and ecosystem management, silvicultural advice, forest road planning, construction and maintenance, land rehabilitation, private forest harvesting as well as business and other project management skills.

VicForests plans to identify opportunities and determine whether those opportunities are commercially viable.

### Carbon methodologies and carbon offsets

Although there are no current opportunities to generate revenue from carbon-related activities on State forests, VicForests will continue to monitor Australian and Victorian Government policy.

This may include whether any forest that is retained by VicForests is eligible for carbon credits, and whether forest planted post-1990, including any new establishment opportunities for forest areas that are currently not forested, can be managed for carbon storage in addition to timber values.

VicForests has significant experience in activities such as seed collection, forest and ecosystem management...

Potential opportunities include:

### Export log

VicForests considers that, from time to time, exporting a proportion of the logs harvested, whether sawlog or pulplog can assist the Victorian-based industry to remain commercially viable. Increasing the amount of utilisation from harvesting activities helps reduce unit costs of production, as well as decreasing the amount of post-harvest waste left on the harvesting coupe.

The ability to export low-grade logs in particular could make some operations commercially viable that otherwise would not be.

### Reforestation

The Department of Environment and Primary Industries manages thousands of hectares of State forest which have not been satisfactory regenerated.

VicForests has already provided its services to the former Department of Sustainability and Environment and Department of Primary Industries for this purpose.

Other opportunities could include assisting Parks Victoria or other agencies with post-fire regeneration.

### Seed and silviculture

There has been a recent in principle agreement with DEPI that VicForests manage a Statewide seed store on behalf of the Government.

The management of the store will generate some revenue for VicForests, but will also generate a number of opportunities to manage seed for a variety of other Government and potentially non-Government organisations. The pooling of resources should create synergies between the different agencies, optimise the overall seed stock holdings and potentially result in a reduction of the working capital requirements for VicForests as well as the State as a whole.

Many of VicForests' employees have significant operational experience in native forest silviculture. Although limited, the market for silvicultural services to the private sector, in addition to DEPI will be investigated.

## Potential business opportunities

### Complexity

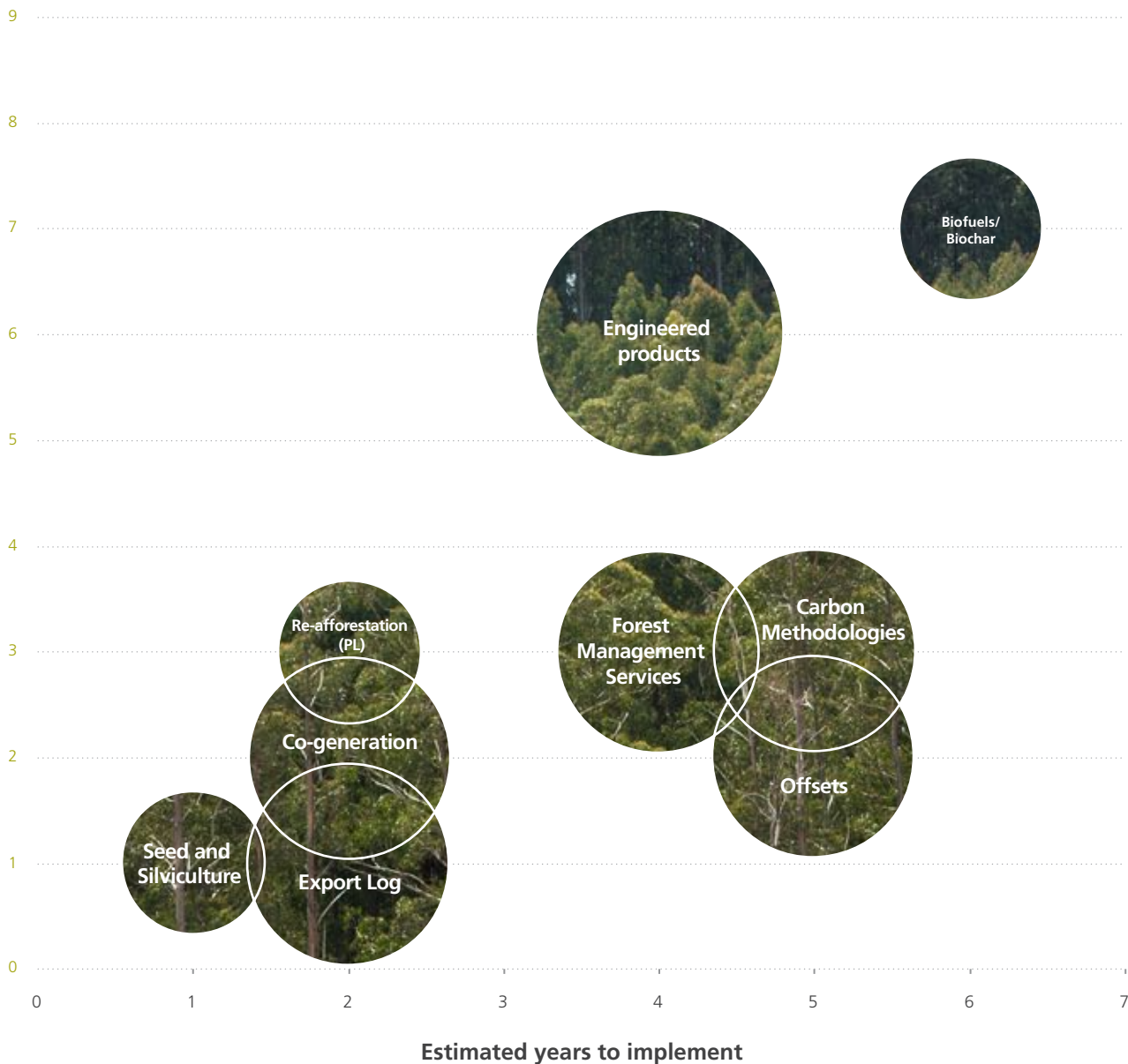


Figure 9: Representation of potential revenue generating opportunities in terms of complexity to implement, years to develop and potential revenue

Notes:

1. The size of the circle indicates the potential return from the potential revenue generating opportunity
2. The complexity rating is a current estimate and may change over time.

### Initiative 10: Identify and determine future of non-commercial activities

#### Forecast initiative cost: internal costs only

Part of VicForests' business review that aims to address VicForests' financial performance is to consider the future of activities currently undertaken by VicForests that are either non-commercial, those that could be the responsibility of another agency or those activities that VicForests would not normally undertake, but does as a Community Service Obligation on behalf of the Government.

Harvesting in the East Gippsland region is the main activity that is currently not profitable for VicForests (see Initiative 7). However, there are other activities that VicForests currently undertakes that require some evaluation from a financial perspective, including:

- biodiversity surveys
- aspects of timber resource data collection and modelling.

Following this analysis, VicForests will prepare a report for consideration by DEPI.

Following consideration of the report, potential outcomes could include:

- ceasing to conduct the activity
- continuing the activity
- reporting the financial aspects of the activity separately
- recommending to the Government that all or part of the costs associated with particular activities are borne by the Government rather than VicForests.

## 2013-14 Initiatives

Strategic Initiative	Timelines											
	2013-14				2014-15				2015-16			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1. Identify potential forest management and other opportunities.												
2. Position the business to reduce debt through improved profitability and cash flow												
3. Implement the business review by 30 June 2014												
4. Reduce ash D+ sawlog harvest levels to 215,000 m <sup>3</sup> p.a. by 2017												
5. Contribute to initiatives to improve the management of Leadbeater's Possum habitat												
6. Aim to achieve FSC Controlled Wood by 30 June 2014												
7. Determine the future of East Gippsland mixed species operations												
8. Complete the Timber Sales Process 2013												
9. Identify, develop and test other business opportunities												
10. Identify and determine future of non-commercial activities												

Figure 10: Timelines for 2013-14 initiatives



# Risk management

## Key risks associated with the implementation of this Corporate Plan

As outlined above, the key focus of this Corporate Plan is to work towards creating a sustainable and profitable operating environment, and securing VicForests' financial future. The initiatives listed above are likely to create a number of risks, not only for VicForests, but for Government more broadly. The following is a summary of the risks associated with this Corporate Plan, and other activities that may pose a risk to Government.

### 1. Ash harvest levels

The 2013 Resource Outlook was made available to the industry and the public more generally on 16 May. The outlook shows that ash D+ sawlog harvest levels will significantly decline in 2017-18, from about 300,000 m<sup>3</sup> p.a. to about 215,000 m<sup>3</sup> p.a. (see Figure 2). This is a critical step in underpinning our long-term sustainability.

The ash resource on offer through the Timber Sales Process 2013 aligns with the harvest levels proposed in the 2013 Resource Outlook. The future decline will not only affect VicForests' future revenue, but will have a significant impact on the structure of the native forest timber industry across eastern Victoria. The allocation of the ash D+ sawlog resource from 2018 will be known late in 2013, following the evaluation of proposals received as part of the Timber Sales Process 2013.

It is likely that unsuccessful proponents will lobby the Government about the loss of jobs and economic activity associated with these changes.

To mitigate this risk, VicForests has designed the Timber Sales Process 2013 to facilitate significant industry consultation, including an industry reference group, the Request for Information phase and working closely with VAFI in the development of the RFP. The aim of this consultation is to address as many industry concerns about this allocation process as possible.

VicForests has also made it clear to the industry of opportunities to secure the currently unallocated resource in the Central Highlands region through the Timber Sales Process 2013.

VicForests has also forewarned the Government about the likely impact of the reduction in the ash resource.

## 2. Operations in East Gippsland

The Timber Sales Process 2013 is not making any mixed species D+ sawlog available from East Gippsland until 2018. This is because the resource until that time is fully committed. However, due to a high level of uncertainty of future pulplog sales, allocations past 2018 will only be made if proposals include measures that have the effect of removing the commercial risk for VicForests following the loss of sales of residual log to SEFE.

To mitigate this risk, VicForests has made available for offer residual logs from East Gippsland as part of the Timber Sales Process 2013. In addition, East Gippsland sawlog customers are aware of the currently unallocated resource in the Central Highlands region that will be made available for offer through the Timber Sales Process 2013.

## 3. Tenure and terms and conditions in the Timber Sales Process 2013

VicForests acknowledges the positive changes the Government is making to the *Sustainable Forests (Timber) Act 2004* which will provide VicForests with an ongoing allocation that will enable VicForests to plan for the long-term management, marketing and sales of the allocated resources, thereby supporting the ongoing development of the sustainable native forest timber industry in Victoria.

VicForests will be making available for offer all of the sawlog and residual log estimated to be available until 2033-34, and will allocate the resource on a range of tenures, based on the price offered, an assessment of the proposal's commercial risk to VicForests and the strategic value of the Proposal to VicForests and the State.

As part of adopting a commercially prudent position, VicForests will consider the following prior to entering into any long-term contracts:

- the nature of the resource. As highlighted in the 2013 Resource Outlook, there remains considerable uncertainty regarding the quantity and type of resource that will be available following the completion of harvesting of the 1939 ash resource.
- the possibility of new markets or new technologies for segments of the resource
- the price offered
- terms and conditions that will allow for price and supply re-setting. There are substantial commercial risks in long-term agreements as it is extremely difficult to protect margin.

As discussed in risk #1, VicForests has worked closely with VAFI and the broader industry during the development of the Timber Sales Process 2013 to address as many of industry's concerns as possible.

#### 4. Gunbarrel coupe appeal

MyEnvironment has appealed the judge's findings regarding the Gunbarrel case. The appeal was heard on June 24, but the date of the judgement is not known. If the appeal is upheld, there will be significant consequences around the management of the ash forests, which could:

- alter future ash harvest levels
- postpone the Timber Sales Process 2013
- have a significant impact on the native forest industry.

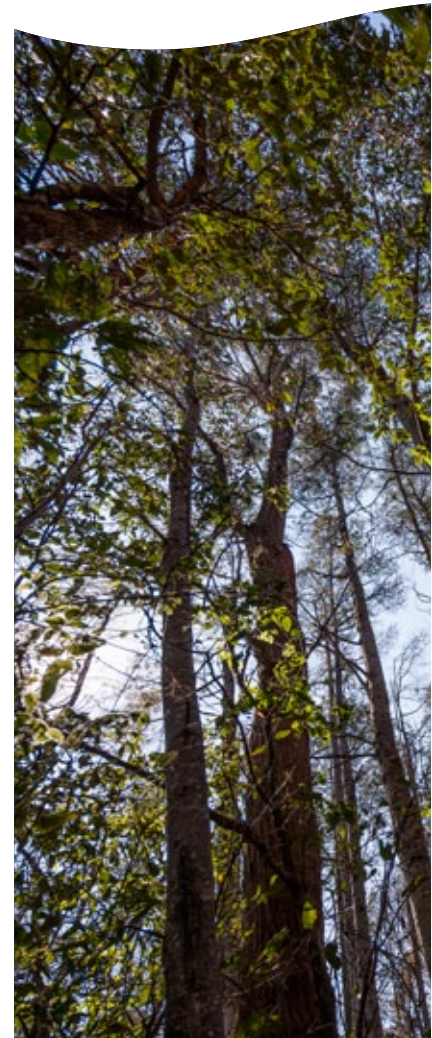
#### 5. VAGO performance audit

The Victorian Auditor General's Office is currently undertaking a performance audit of the management of Victoria's timber resources. VicForests, together with DEPI is part of this audit, and is working constructively with VAGO on this audit, but any adverse findings of the audit are likely to affect the reputation of VicForests, the Government and the industry in general.

#### 6. Australian Government actions regarding the *Environment Protection Biodiversity Conservation Act 1999*

There is a risk that the Australian Government may use its powers under the *Environment Protection and Biodiversity Conservation Act 1999* to intervene due to concern over current State protection measures for the Leadbeater's Possum. The intervention may arise from claims that the State has not fulfilled its obligations under the Regional Forest Agreements.

Although unknown at this stage, any action is likely to negatively impact on the area and quantity of timber resources available to VicForests and therefore the timber industry.



## VicForests' risk management process

The assessment and management of risk is critical for determining whether there may be uncertainties affecting the objectives of the business.

VicForests uses a multi-level approach in identifying risks and developing strategies to mitigate those risks, in accordance with the Victorian Government's Risk Management Framework and the Australian Standard (AS/NZS ISO 31000:2009).

All VicForests' risks are rated according to the tables for likelihood and consequence, shown in Appendix 1, 2 and 3.

Risks are identified at three levels:

### 1. Strategic

Strategic risks are reviewed by the Senior Management Team and the Board's Audit and Risk Management Committee. The management of these risks is undertaken primarily through strategic initiatives and associated budgets identified in this Corporate Plan.

The strategic risks are listed on the following pages.

### 2. Divisional

Each division of VicForests maintains a list of risks associated with its responsibilities and activities. These risks are reviewed quarterly and form part of each year's forward planning process.

### 3. Tactical

Tactical and operational-level risks are divided into two themes and managed through two separate registers: OH&S and environmental and social risks. Significant OH&S risks and significant environmental and social risks are reviewed annually or following incidents or when new information becomes available. At present OH&S and environmental and social risks are managed using different systems. VicForests' risk management software was changed in 2012-13. Full implementation of the new system, which will manage OH&S, environmental and social risk in the same system, will take place in 2013-14.

VicForests also maintains a Corrective Action and Incident Reporting (CAIR) process by which hazards, incidents and risks are reported by all members of staff and actions undertaken to address the risk or outcome of the incident. The CAIR process does not currently directly link to VicForests' risk register. The new risk management software will be configured during 2013-14 to enable a direct link between the CAIR register and the risk register.

VicForests uses a multi-level approach in identifying risks and developing strategies to mitigate those risks



## VicForests' strategic risks and mitigation initiatives

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### Stakeholders and social acceptance

#### Rating: Possible + Catastrophic = Extreme

Further erosion of social acceptance for VicForests and the hardwood timber industry could lead a State Government to constrain VicForests' operations and potentially the whole hardwood industry by increasing legislative constraints and resource reduction. In the worst case a Government could shut down VicForests or even the whole industry.

Contributing factors include:

- inability to maintain a suitable level of customer satisfaction leading to lobbying of Government and legal action
- continued litigation by environmental groups
- inability to maintain a level of satisfaction within local communities that the industry is a positive contributor
- continued loss of support from the wider community
- lobbying and activism by environmental groups and associated media affecting public and Government perception of VicForests and the hardwood timber industry
- poor economic return to the State leading to arguments that the VicForests and the industry are not viable without Government subsidy.

Controls that VicForests has put in place to mitigate this risk include:

- refine and implement Stakeholder Engagement Plans
- best practice Sustainability Reporting
- implement long-term relationship initiatives with traditional owners
- review strategic position on FSC certification.

## Resources

### Rating: Possible + Major = High

Significant natural event such as severe bushfires (such as the 2003, 2006-7 and 2009 fires) will reduce the available timber resource available to VicForests in the short to medium term.

VicForests must be able to quickly respond to these events to understand the nature and extent of the impact to ensure the business can appropriately respond or adjust. This will include the ability to begin salvage operations quickly after fire events to minimise impacts on timber quality.

These events will impact on supply to customers and VicForests' ability to provide work to contractors if not planned for. The factors that may impact on this risk include:

- fire and diseases destroying timber resources
- climate change exacerbating fire and disease risk and regeneration performance
- resource knowledge and ability to understand and react to the impacts from such events.

Controls that VicForests has put in place to mitigate this risk include:

- develop a Forest Management Plan
- Forest Resource Information Strategy
- spatially delineate the working forest areas into management coupes
- review harvesting rotations for faster growing forests
- impacts or pre-harvest and landscape threatened fauna assessment.

VicForests must be able to quickly respond to these events

## Customers and markets

### Rating: Likely + Major = High

Significant changes to markets and economies have serious impacts on VicForests and its customers. VicForests derives a significant proportion of its value from a relatively small number of customers and failure of these businesses or prolonged disputes will, and do, have a significant impact on VicForests' revenue stream.

Contributing factors include:

- major retraction in domestic demand
- major financial upheaval such as the Global Financial Crisis which affects economies around the world and limited access to funding, in particular the Asian region manufacturing
- natural disasters
- major customer disputes or defaults
- significant demand changes from end users
- regulation impediments and constraints (see also sovereign risk)
- constraints on investment for new products
- pressure on consumers related to native forest product credibility.

Controls that VicForests has put in place to mitigate this risk include:

- field trial of combined commercial and ecological thinning objectives
- establish long-term sales agreement process
- implement Price Allocation Model review recommendations
- implement recommendations of Australian Paper working group.

## Contractors

### Rating: Possible + Major = High

All of VicForests' harvest and haulage of timber is undertaken by contractors. Most of these are small businesses comprising 4 to 20 people. The annual value of these contracts is in the order of \$110 million. These operations are undertaken remotely and include many hazards. VicForests also employs a number of minor contractors for the provision of roading and silvicultural services.

Factors impacting on this risk include:

- contractor OH&S
- contracts and their provisions
- the tender and tender evaluation process
- lobbying by contractor association and union.

A failure to select the appropriate contractors and agree to appropriate contractual provisions could lead to OH&S and environmental incidents with impacts as described above. It will also have direct impacts on VicForests costs. A one dollar per cubic metre change in delivery costs to our customers will impact the budget by approximately \$1.5 million.

Contractual arrangements that may be considered unfair could lead to litigation and lobbying of Government resulting in increased costs and damage to VicForests reputation.

Controls that VicForests has put in place to mitigate this risk include:

- incremental improvement of the harvest and haul tender process
- embed the tender process as the primary methodology for major service acquisition
- review of Mill Door Sales
- increase contractor self-management of business safety systems.





## Internal processes

**Rating: Possible + major = High**

The success of VicForests' business is based around its ability to manage its information and business systems and to ensure that its staff and contractors are competent to carry out the complex tasks of this highly regulated and scrutinised business. Important factors that impact our ability to manage the business include:

- staff training capabilities and competency
- contractor capabilities and competency
- management systems, particularly for managing OH&S, environment, compliance and financial processes
- information and modelling of timber resources for planning and sales purposes.

The potential result of failing to manage this risk area could have very significant impacts on VicForests' business. A failure of the OH&S management system resulting in a single death and a successful prosecution would lead to personal trauma, substantial loss of reputation with Government and other stakeholders and would cost the business in the order of \$2 million in legal costs and fines.

A failure of VicForests' Sustainable Forest Management System could lead to loss of certification, and subsequent loss of VicForests' largest customers costing millions of dollars in lost sales. It could also result in successful prosecutions or litigation against VicForests for environmental breach costing hundreds of thousand and potential some millions of dollars in legal fees, fines and compensation.

A failure of VicForests' ability to manage its resource information and the associated constraints can lead to over or underselling the resources. This would lead to lost revenue opportunities or claims for compensation. In addition to potential compensation claims for over harvesting there would be subsequent correction in future supply that would reduce future revenue to the business.

Controls that VicForests has put in place to mitigate this risk include:

- skills development program
- implement a new supply chain management system
- improve coupe volume estimation
- analyse cashflow position and improve financing options
- review management accounting and reporting system.

# Financials

## 2013-14 to 2015-16

### Financial information

The 2012-13 budget anticipated a more stable environment than in previous years, after finalisation of the sale of the Heyfield sawmill from Gunns to Australian Sustainable Hardwood. This has been realised to some extent, however log supply to some key customers has remained below the budgeted level due to the current economic environment. Sawlog supply will remain close to the budgeted level but the pulplog supply to SEFE and Paper Australia has been reduced substantially compared with the original plan.

In 2012 VicForests went to the market with a Request for Proposals for low grade residual timber. Although the outcome of this RFP was below expectations, the impact on the budget and Corporate Plan will only be marginal. VicForests is continuing discussions with interested proponents for this residual log resource, which will

also be re-offered to the market as part of the Timber Sales Process 2013. However no new sales have been factored into the budget and Corporate Plan. The supply to SEFE has been planned to continue on a lower level even though VicForests currently holds only a supply contract for 1 (calendar) year.

In 2013 VicForests published a Resource Outlook which showed reduced availability of timber resources as from 2017-18 onwards. Whilst this volume reduction will not impact the current contractual commitments, VicForests has begun a review of the operating model and all business activities in order to meet the challenges of both the current economic climate but also the future reduction of activities. Structural adjustments will be required and will result in substantial cost savings which are reflected in the Corporate Plan 2014-15 and 2015-16.

The adjustment in staff levels is targeted at between 15 – 20 FTE however the budget and Corporate Plan includes only reduction from 114.1 Full Time Equivalents (FTE) at the end of 2012-13 to 102 FTE at the end of 2015-16. This reduction is planned to be achieved either through natural attrition, Voluntary Redundancy Packages (VDP) or targeted retrenchments where required. VicForests' employment profile is as Table 1 shows.

	2010/11 Actual	2011/12 Actual	2012/13 Actual	2013/14 Budget	2014/15 Plan	2014/15 Plan
Central Highlands Permanent FTE	44.5	39.9	40.3	40.8	35.0	35.0
East Gippsland Permanent FTE	38.8	33.3	29.0	27.4	27.0	27.0
Corporate Support Office Permanent FTE	47.5	45.4	44.8	44.4	40.0	40.0
TOTAL FTE	130.8	118.6	114.1	112.6	102.0	102.0

Table 1: Average employment (FTE) for the budget and plan period

The future long-term profitability and sustainability of VicForests is dependent on achieving an effective and cost efficient operating model and to only continue commercial activities which meet the requirements of the relevant Minister and our shareholder, including undertaking activities to maximise the long-term economic returns to Victoria. To that end, VicForests must critically evaluate the activities in East Gippsland which have become commercially untenable. The reduced volume from the Central Highlands region will also make it more difficult to cross subsidise the East Gippsland region with the positive contribution achieved in the Central Highlands region.

The budget and Corporate Plan has clearly identified the negative impact East Gippsland has on the overall profitability. However the budget and Corporate Plan does not pre-empt a solution to this problem, which could either be discontinuing all activities in the East Gippsland FMA, obtain support from the State Government by treating operations in East Gippsland as a Community Service Obligation or by continuing the current cross-subsidy, to the detriment of VicForests' overall profitability. Therefore, the profitability shown in this document for the budget and plan period includes the negative impact of East Gippsland in full.

During 2012-13 VicForests also completed a comprehensive review of its sales and operational models as required by the TIAP. The use of the current Timber Sales Process 2013 is a result of the PAM review. No major changes to the Mill Door Sales model were proposed as a result of the operating model review. The three year budget and plan does not pre-empt any financial change from this review.

Table 2 presents a comparison of the financial performance over the budget and planning period and the anticipated financial performance for the current year.

## Financial Performance

	2010/11 \$ million	2011/12 \$ million	Actual 2012/13 \$ million	Budget 2013/14 \$ million	Plan 2014/15 \$ million	Plan 2015/16 \$ million
Total Sales	131.14	116.50	104.47	104.65	105.80	104.17
Less Direct Costs	( 99.36)	( 87.51)	( 73.68)	( 72.32)	( 71.83)	( 71.03)
Stumpage	<b>31.78</b>	<b>28.99</b>	<b>30.79</b>	<b>32.32</b>	<b>33.97</b>	<b>33.14</b>
<i>in %</i>	<b>24.2%</b>	<b>24.9%</b>	<b>29.5%</b>	<b>30.9%</b>	<b>32.1%</b>	<b>31.8%</b>
Bush Fire Recovery Taskforce Funding	5.88	-	-	-	-	-
Other Income	2.16	0.70	1.55	0.23	-	-
Amortisation biological timber assets	( 3.44)	( 2.84)	( 3.16)	( 3.16)	( 3.05)	( 2.98)
Operating and other production expenses	( 31.74)	( 25.77)	( 26.42)	( 27.78)	( 26.76)	( 26.14)
Depreciation and Amortisation	( 1.01)	( 1.05)	( 1.26)	( 1.62)	( 1.57)	( 1.34)
<b>EBIT</b>	<b>3.65</b>	<b>0.02</b>	<b>1.49</b>	<b>0.00</b>	<b>2.58</b>	<b>2.68</b>
<i>in %</i>	2.8%	0.0%	1.4%	0.0%	2.4%	2.6%
<b>Net Profit (Loss) after Tax</b>	<b>2.32</b>	<b>( 0.10)</b>	<b>0.80</b>	<b>( 0.55)</b>	<b>1.28</b>	<b>1.35</b>
<i>in %</i>	1.8%	-0.1%	0.8%	-0.5%	1.2%	1.3%
Dividends paid	-	-	-	-	-	-0.50

Table 2: Financial performance  
A more detailed Income Statement is attached in Appendix 6

The budgeted Net Profit (loss) after Tax in 2013-14 reflects the expected difficult operating environment for next financial year. Expectations for improved market conditions are low. The structural changes implemented following the business review will not improve the result in 2013-14 but will lay the foundation for cost savings in the following years.

The overall stumpage is expected to improve following the gradually improved level in 2012-13. Reduction in dumping of sawlogs will save additional loading and unloading charges and will contribute to this improvement. The budgeted revenue allows for some indexation until 31 December 2013. Whilst the price movement after 1 January 2014 is subject to some uncertainty, it is difficult to forecast the indexation movement and the price level has therefore been kept in line with CPI.

The biological timber valuation is calculated on the net present value of the net future cash flow of VicForests, in line with the model established during 2008 with the then DSE and the Victorian Auditor-Generals Office (VAGO). Following the Machinery of Government (MoG) changes, the ownership of the working forest estate was transferred to the then DPI during the Financial Year 2011-12 and DEPI has continued with the same methodology of valuing the forest assets.

During 2013-14 it is anticipated that VicForests will take full ownership of the overall commercial forest estate following the changes of the SFTA. The transfer of these assets is being reflected in the Budget for 2013-14 without any valuation impact on VicForests. The Corporate Plan for 2014-15 and 2015-16 shows the full commercial forest estate in VicForests' assets. No valuation adjustments have been allowed during the planning period as the changes in the cash flow are considered reasonably minor. The potential impact of the improved cash flow could be positive.

Following the vesting of all commercial timber assets with VicForests the rehabilitation costs of harvested coupes will be considered in the annual re-valuation process.

Cash flow for 2013-14 is anticipated to be slightly negative due to the structural adjustments and the continued challenging business environment. This however is anticipated to improve substantially in 2014-15 and beyond, after the cost savings have been fully realised and after reductions in payment plans and reduction in dump and seed stocks have been fully implemented. The repayment of the long outstanding Australian Paper debt is anticipated to be fully achieved in 2012-13, which is reflected in the net cash flow from operating activities in that year.

This however is anticipated to improve substantially in 2014-15 and beyond...





## Cash flow

	2010/11 \$ million	2011/12 \$ million	Actual 2012/13 \$ million	Budget 2013/14 \$ million	Plan 2014/15 \$ million	Plan 2015/16 \$ million
Receipts	147.33	136.70	128.17	118.17	105.85	104.22
Payments	( 152.51)	( 136.74)	( 118.04)	( 118.16)	( 101.19)	( 99.75)
<b>Net operating cash flow</b>	<b>( 5.18)</b>	<b>( 0.05)</b>	<b>10.13</b>	<b>0.01</b>	<b>4.66</b>	<b>4.47</b>
<b>Cash flows from Investing Activities</b>	<b>( 0.54)</b>	<b>( 1.43)</b>	<b>( 0.65)</b>	<b>( 1.23)</b>	<b>( 1.57)</b>	<b>( 1.34)</b>
Proceeds from borrowings	128.93	111.52	86.68	100.86	101.65	104.95
Repayment of finance lease liabilities	( 123.09)	( 109.76)	( 94.61)	( 101.52)	( 104.78)	( 107.58)
Dividends paid	-	-	-	-	-	( 0.50)
Return of Capital	-	-	-	-	-	-
<b>Net cash outflow from financing activities</b>	<b>5.85</b>	<b>1.76</b>	<b>( 7.93)</b>	<b>( 0.66)</b>	<b>( 3.13)</b>	<b>( 3.13)</b>
<b>Net increase/ (decrease) in cash held</b>	<b>0.12</b>	<b>0.28</b>	<b>1.56</b>	<b>( 1.87)</b>	<b>( 0.04)</b>	<b>0.00</b>
Cash and cash equivalents at beginning of period	0.00	0.13	0.41	1.96	0.09	0.05
<b>Cash and cash equivalents at end of period</b>	<b>0.12</b>	<b>0.40</b>	<b>1.96</b>	<b>0.09</b>	<b>0.05</b>	<b>0.06</b>

Table 3: Cash flow analysis

## Financial position

	2010/11 \$ million	2011/12 \$ million	Actual 2012/13 \$ million	Budget 2013/14 \$ million	Plan 2014/15 \$ million	Plan 2015/16 \$ million
Current assets	57.03	57.20	45.70	43.88	40.41	39.96
Non-current assets	31.68	36.74	34.62	47.03	43.87	42.12
<b>TOTAL ASSETS</b>	<b>88.70</b>	<b>93.94</b>	<b>80.32</b>	<b>90.91</b>	<b>84.27</b>	<b>82.08</b>
Current liabilities	41.52	45.38	25.98	27.92	20.26	19.21
Non-current liabilities	0.93	3.03	10.46	7.16	6.90	4.90
<b>TOTAL LIABILITIES</b>	<b>42.45</b>	<b>48.41</b>	<b>36.44</b>	<b>35.08</b>	<b>27.16</b>	<b>24.11</b>
<b>NET ASSETS</b>	<b>46.25</b>	<b>45.53</b>	<b>43.88</b>	<b>55.83</b>	<b>57.11</b>	<b>57.97</b>
<b>EQUITY</b>						
Contributed capital	30.90	37.85	37.23	34.77	47.27	47.27
-Return of Capital/ Transfer of regenerated coupes	6.95	(0.63)	(2.46)	12.50	-	-
Reserves	0.21	-	-	-	-	-
Retained earnings	8.19	8.30	9.11	8.56	9.84	10.69
<b>TOTAL EQUITY</b>	<b>46.25</b>	<b>45.53</b>	<b>43.88</b>	<b>55.83</b>	<b>57.11</b>	<b>57.97</b>

## KPI's

EBIT / Sales	2.8%	0.0%	1.4%	0.0%	2.4%	2.6%
EBITDA / Sales	3.5%	0.9%	2.6%	1.5%	3.9%	3.9%
Return on Capital Employed	5.0%	-0.2%	1.8%	-1.0%	2.2%	2.3%
Return on Capital Employed excl. SGARA	5.4%	-0.2%	2.0%	-1.0%	2.4%	2.5%
NPAT/Average Total Equity	5.6%	-0.2%	1.8%	-1.1%	2.3%	2.3%
Gearing (Total Debt/Total Assets)	28.4%	28.6%	13.4%	13.1%	12.7%	11.7%
Return on Assets	4.5%	0.0%	1.8%	0.0%	3.0%	3.2%

Table 4: Balance sheet and KPIs

The reduction in the budgeted current assets compared with previous years reflects predominantly the reduction in Accounts Receivable (Australian Paper, extended terms) and the reduction in dump and seed stock. VicForests is currently discussing with DEPI the management of a consolidated seed store for Victoria which will not only cater for VicForests'

regeneration requirements but would also provide seed in case of fires and other events. VicForests would expect further synergies of such consolidation however, this has not been factored into the budget and Corporate Plan.

The increase in non-current assets represents the vesting of all commercial timber assets after the SFTA comes into force during 2013-14.

Table 5 presents a comparison between the actual results for 2012-13 and the budget for 2013-14, including some comments about the major variances.

	Actual 2012/13 \$ 000	Budget 2013/14 \$ 000	Change \$ 000	Change %	Comments
Timber Sales	104,473	104,647	174	0.2%	No material change
Harvest Costs	(35,559)	(35,235)	324	0.9%	Reflects some savings in the harvesting contracts
Haulage Costs	(38,125)	(37,089)	1,036	2.7%	Reflects the lower haulage expenses relating to the reduced haulage distances (i.e. less haulage to EG)
	<b>30,789</b>	<b>32,323</b>	<b>1,534</b>	<b>5.0%</b>	
<b>Indirect Expenses</b>					
Employee Costs	13,946	13,562	384	2.8%	3.00% increase following a new EBA plus progression pay offset by reduced staff
Contractors	521	1,066	(545)	-104.4%	Contractors for Resource data capture, IT contracting, Pre-harvest surveys
Accommodation Costs	1,380	1,409	(29)	-2.1%	CPI increase / staff reduction
Motor Vehicle	1,779	1,751	27	1.5%	Cost increases offset by reduced vehicles
Office Equipment and IT	1,730	1,598	132	7.6%	IT savings
Consultants	566	1,275	(709)	-125.1%	Sales and Strategy projects, FSC
Professional fees	658	777	(120)	-18.2%	Increase due to FSC audit
Litigation Expenses	-	-	-	0.0%	
Other Expenses	781	966	(185)	-23.7%	Increase in stakeholder engagement expenses and industry involvement
Travel and Accommodation	291	340	(50)	-17.1%	Increased regional travel
Bad and Doubtful Debts	3	-	3	0.0%	
Overhead recovery	(1,334)	(1,270)	(65)	4.8%	Capitalisation of operational cost centre expenses for regeneration and roading
	<b>20,319</b>	<b>21,474</b>	<b>(1,155)</b>	<b>-5.7%</b>	

Table 5: Comparison of Forecast 2012-13 and Budget 2014-15

## Capital Expenditure

The capital expenditure during 2013-14 is limited to IT equipment replacement and software (new ERP). Major capital expense for VicForests, which include the establishment of a roading infrastructure in order to access the forests which VicForests plans to harvest have been planned in line with operational requirements.

## Dividend / distribution payments

VicForests plans to pay dividends to the Department of Treasury and Finance (DTF) of \$250,000 based on the positive result achieved in 2012-13. Payment of dividends is planned to happen again during 2015-16 following the positive result in the previous year.

## Financial requirements (including borrowing limits)

The TCV overdraft facility is planned to be restructured in line with proposals discussed with TCV and DTF during 2012-13. The overall facility will remain on a limit of \$25 million during 2013-14 of which \$10 million will be provided as loans over 5 years. This will put into place a structured approach to reduce VicForests' debt level further, and it is planned to reduce the overall facility limit by \$2 million annually.

VicForests has advanced further on a gradual alignment of the contractors' payments with the customers' receipts by advising customers that future contracts will provide for payment terms which will include equal monthly payments due on 14th of the month or monthly payments for the supply of the previous month by the end of that month. This ultimately will reduce the pressure on the TCV facility.

In order to reduce further the reliance on credit and to minimise the gap between the payment receipts and outgoing payments, VicForests will continue the following initiatives and actions which started in 2012-13:

- follow-up of overdue accounts
- renegotiate the payment terms for contractors from 14 days to 30 days. This is only achieved whenever new tenders are being let.
- finalise the implementation of a customer and contractors portal which will allow customers and contractors to track their timber movements in a more timely manner. This should also make the transition to revised payment terms easier under the future sales process.
- continue to monitor the adequacy of both the inventory and seed stock levels.

As of July 2013, VicForests is subject to the Financial Accommodation Levy of 2.79% which DTF charges on a quarterly basis.

## East Gippsland

Generating a commercial return from harvesting mixed species forests in East Gippsland FMA has proved to be challenging over the years, with

VicForests having to cross subsidise this region with the positive contributions from Tambo and Central Highlands. Table 6 identifies

the volume and Profit and Loss for East Gippsland without the distribution of overheads from the Corporate Support Office.

	East Gippsland without Tambo			
	Actual 2012/13 \$ 000	Budget 2013/14 \$ 000	Plan 2014/15 \$ 000	Plan 2015/16 \$ 000
<b>Volumes - m<sup>3</sup></b>				
Sawlog	82,587	77,838	77,788	71,536
Pulplog	173,768	188,194	126,086	126,086
Other	8,965	-	-	-
	<b>265,320</b>	<b>266,032</b>	<b>203,874</b>	<b>197,622</b>

The increase in the sawlog volume in 2013-14 represents the volume that had been harvested in Central

Highlands in 2012-13, but which is currently planned to be harvested in East Gippsland. The pulplog

volume has been reduced due to the uncertainties of future supply to SEFE.

## Profit and Loss Account

Table 6: Forecast 2012-13, Budget 2013-14 and Plan 2014-15 to 2015-16 for East Gippsland

	East Gippsland without Tambo			
	Actual 2012/13 \$ 000	Budget 2013/14 \$ 000	Plan 2014/15 \$ 000	Plan 2015/16 \$ 000
Timber Sales	19,473	17,729	14,123	13,417
Harvest Costs	(8,386)	(8,191)	(6,525)	(6,199)
Haulage Costs	(7,608)	(7,662)	(6,104)	(5,799)
Stumpage	<b>3,479</b>	<b>1,876</b>	<b>1,494</b>	<b>1,420</b>
	<b>17.9%</b>	<b>10.6%</b>	<b>10.6%</b>	<b>10.6%</b>
<b>Other Production Costs</b>				
Standing Timber Amortisation	(865)	(665)	(506)	(490)
Roading expenses	(1,573)	(1,186)	(909)	(881)
Other Production Expenses	(131)	(171)	(150)	(150)
Dump Inventories Valuation Adjustment	(11)	-	-	-
	(2,580)	(2,022)	(1,564)	(1,521)
<b>Other Revenue</b>				
Bush Fire Recovery Taskforce Funding	-	-	-	-
Services to Other Government Entities	(5)	360	-	-
Recovery of Costs	91	(288)	-	-
Other	-	-	-	-
Standing Timber Valuation Adjustment	-	-	-	-
	86	72	-	-
<b>Gross Operating Margin</b>	<b>985</b>	<b>(74)</b>	<b>(70)</b>	<b>(101)</b>
	<b>5.1%</b>	<b>-0.4%</b>	<b>-0.5%</b>	<b>-0.8%</b>



	East Gippsland without Tambo			
	Actual 2012/13 \$ 000	Budget 2013/14 \$ 000	Plan 2014/15 \$ 000	Plan 2015/16 \$ 000
<b>Indirect Expenses</b>				
Employee Costs	3,044	2,765	2,519	2,542
Contractors	90	159	105	105
Accommodation Costs	427	415	390	405
Motor Vehicle	624	584	532	536
Office Equipment and IT	349	278	254	256
Consultants	-	-	-	-
Professional Fees	-	-	-	-
Legal expenses	-	-	-	-
Other Expenses	29	37	35	35
Travel, Accommodation and related expenses	46	35	30	30
Silviculture	-	-	-	-
Bad and Doubtful Debts	-	-	-	-
Exceptional Write-offs	-	-	-	-
Overhead Movement/Recovery	(761)	(636)	(579)	(585)
	<b>3,849</b>	<b>3,637</b>	<b>3,285</b>	<b>3,325</b>
	<b>19.8%</b>	<b>20.5%</b>	<b>23.3%</b>	<b>24.8%</b>
<b>Depreciation and Amortisation</b>				
Amortisation	-	-	-	-
Depreciation	374	396	350	300
	374	396	350	300
<b>Earnings before Interest &amp; Tax (EBIT)</b>	<b>(3,237)</b>	<b>(4,107)</b>	<b>(3,704)</b>	<b>(3,726)</b>
	<b>-16.6%</b>	<b>-23.2%</b>	<b>-26.2%</b>	<b>-27.8%</b>

Table 6: Forecast 2012-13, Budget 2013-14 and Plan 2014-15 to 2015-16 for East Gippsland

The Profit and Loss for East Gippsland (without any cost distribution of the Corporate Support Office expenses) shows that in 2013-14, VicForests will incur a loss of about \$4 million. The future years show only a slightly improved picture as staff adjustments, which follow the business review, will improve the indirect expenses, however only

marginally as structural adjustments have already been implemented in East Gippsland over the last few years following the reduction in resource.

As mentioned previously, operations in East Gippsland are not commercially viable. This situation requires a solution which could either

mean discontinuing all activities in East Gippsland FMA, obtaining support from the State Government by treating the East Gippsland operations as a Community Service Obligation, or by continuing the current cross-subsidy, to the detriment of the overall profitability of VicForests.

## Sensitivity analysis

Achieving the budget requires the realisation of the anticipated volumes and planned price increases. A sensitivity analysis showing the effect on EBIT from variation in volume and price is included in Table 7. This does only reflect the potential

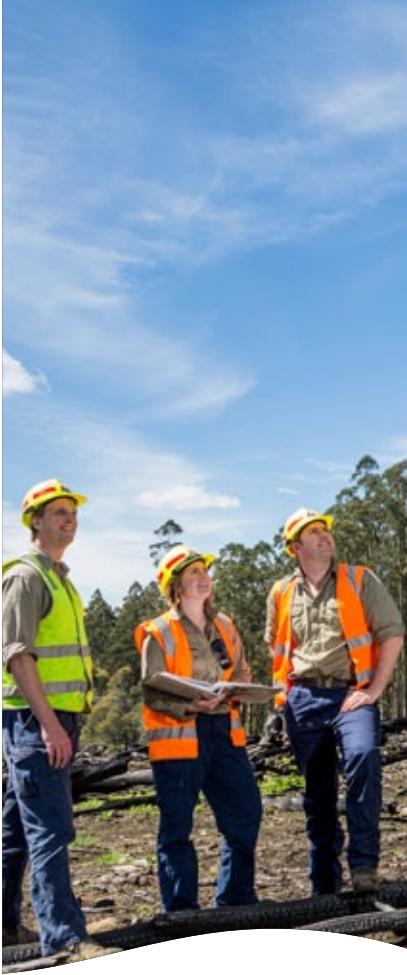
risk in volume and harvest and haul expenses which can occur in any variation following changes in the customers' requirements or coupe characteristics which could lead to these cost variances.

		<b>Budget 2013/14 \$ million</b>	
	<b>Budgeted EBIT</b>		<b>0.00</b>
	Variation in volume/price	-10%	<b>( 2.31)</b>
		-5%	<b>( 1.15)</b>
		5%	<b>1.15</b>
	Variation in Harvest & Haul expenses	-1%	<b>0.72</b>
		-5%	<b>3.62</b>
		5%	<b>( 3.62)</b>

Table 7: Sensitivity analysis

A shortfall or increase in revenue of the magnitude, as per this analysis, would also impact VicForests' cash flow; however this would be within the planned contingency of the revised TCV facility. Another risk which has been increasing over the

years is the cost of litigation. The budget does not make any allowance for such costs as they can vary substantially and consequently have a substantial negative impact on the profit.



# Measuring performance

## Quarterly reporting

VicForests will provide quarterly reports that monitor performance against the targets outlined in the Corporate Plan. As part of this quarterly reporting, VicForests will also provide highlights of important events or achievements, risk review and financial statements, as well as relevant accompanying notes.

## Annual reporting

The Annual Report will be provided to the relevant Minister following the end of the financial year and within the timeframe specified by the government.

In addition to the financial statement, the Annual Report will include an overview of major achievements, an appraisal of future prospects, a comparison of performance with the Statement of Corporate Intent targets, and other information required by the *Financial Management Act 1994*.

## 2013-14 Key Performance Indicators

Indicator	Description	Frequency	Actual	Target	
			2012-13	2013-14	2014-15
Financial performance measures					
Net cashflow	Net cashflow from operations available to stakeholders	Monthly	\$11.2 million	\$0.0 million	\$4.4 million
TCV facility	Treasury Corporation Victoria facility balance	Monthly	\$25 million	\$23 million	\$21 million
Revenue to budget	The percentage of year to date revenue that is within budgeted amount	Monthly	96%	100%	100%
Expenses to budget	The percentage of year to date indirect expenses (overheads) that is within budgeted amount	Monthly	95%	100% or less	100% or less
Debtor days outstanding	This indicator is a measure of the average number of days that customer debt was outstanding at period end	Monthly	55 days	Less than 60 days	Less than 60 days
NPAT to DTF targets	Earnings Before Interest and Tax) that is within budgeted amount agreed with DTF	Monthly	136%	100% or greater	100% or greater
Staff and contractor measures					
Lost time injury frequency rate – staff	This indicator is a measure of the number of reportable workplace incidents impacting VicForests' direct employees	Monthly	15.8	0	0
Lost time injury frequency rate - contractors	This indicator is a measure of the number of reportable workplace incidents impacting VicForests' contractors.	Monthly	10.8	0	0

Performance achievement of 90% of the target
  Performance achievement of 85% to 90% of target
  Performance below 85% of target

Figure 10: 2013-14 Key Performance Indicators

Indicator	Description	Frequency	Actual	Target	
			2012-13	2013-14	2014-15
Customer measures					
Delivered sawlog in full and on time (DIFOT)	This indicator measures the extent to which customer orders are delivered in full and on time. It reflects VicForests' performance in delivery and consistency of supply.	Monthly	99%	98%	98%
Delivered residual log in full and on time (DIFOT)	This indicator measures the extent to which customer orders are delivered in full and on time. It reflects VicForests' performance in delivery and consistency of supply.	Monthly	91%	98%	98%
Environmental performance measures					
Environmental performance score	This measure tracks the extent to which VicForests' harvesting contractors meet environmental coupe requirements as prescribed by VicForests	Monthly	98%	97%	97%
Coupe Monitoring Records completed	This measure tracks the rate at which formal coupe monitoring records are completed during the period	Monthly	77%	95%	95%
Process Measures					
Tactical planning performance	This is a measure of the number of years of approved volume against sales commitments	Annual	2.5	2.5	2.5
Silviculture liability	This is a measure of the area of harvested coupes that have not been submitted to DEPI for coupe finalisation	Annual	Not yet available	Not greater than last three years harvest area	Not greater than last three years harvest area
Cubic metre logged per staff	This measure will track general efficiency improvements in VicForests' operations	Annual	11,254 m <sup>3</sup>	2% increase	2% increase

■ Performance achievement of 90% of the target

■ Performance achievement of 85% to 90% of target

■ Performance below 85% of target

\* Due to the introduction of CENGEA, the Coupe Monitoring Record result is from 1/1/2013 - 30/6/2013

Figure 10: 2013-14 Key Performance Indicators



# Planning assumptions

VicForests' corporate direction and business plan for the next three years have been built on a number of important assumptions. These assumptions are outlined below.

## Pricing

The unit prices are anticipated to develop as outlined in Table 8.

Prices are forecast to change in line with indexation factors which have been applied to the 2013-14 revenue. Future price adjustments

have not been considered in the planning cycle as movements could go either way. The costs of harvest and haul will increase by the CPI rate annually, however VicForests has achieved savings and efficiencies in

the future harvest and haul contracts resulting in annual cost reductions which are reflected in the Budget and Plan by retaining the harvest and haul rates at the current level.

	2011/12		Actual 2012/13		Budget 2013/14		Plan 2014/15		Plan 2015/16	
<b>Sawlog (m<sup>3</sup>)</b>	468,238		503,463		528,694		544,554		516,031	
	<b>\$</b>	<b>\$/m<sup>3</sup></b>	<b>\$</b>	<b>\$/m<sup>3</sup></b>	<b>\$</b>	<b>\$/m<sup>3</sup></b>	<b>\$</b>	<b>\$/m<sup>3</sup></b>	<b>\$</b>	<b>\$/m<sup>3</sup></b>
Timber Sales	50,755	93.85	56,634	112.49	56,549	106.96	62,348	114.49	60,341	116.93
Harvesting	-13,685	-25.31	-15,282	-30.35	-15,087	-28.54	-16,301	-29.93	-15,725	-30.47
Haulage	-16,372	-30.27	-16,613	-33.00	-15,378	-29.09	-16,742	-30.74	-16,217	-31.43
<b>Net Revenue</b>	<b>20,698</b>	<b>38.27</b>	<b>24,739</b>	<b>49.14</b>	<b>26,084</b>	<b>49.34</b>	<b>29,306</b>	<b>53.82</b>	<b>28,398</b>	<b>55.03</b>
<i>increase</i>			7.8%	15.8%	5.4%	0.4%	12.4%	9.1%	-3.1%	2.3%
<b>Pulplog (m<sup>3</sup>)</b>	985,700		750,633		735,344		649,000		649,000	
Timber Sales	65,562	54.08	44,518	59.31	47,926	65.18	43,279	66.69	43,661	67.27
Harvesting	-27,527	-22.71	-20,277	-27.01	-20,148	-27.40	-16,872	-26.00	-17,022	-26.23
Haulage	-29,928	-24.69	-21,512	-28.66	-21,711	-29.53	-21,918	-33.77	-22,068	-34.00
<b>Net Revenue</b>	<b>8,106</b>	<b>6.69</b>	<b>2,729</b>	<b>3.64</b>	<b>6,068</b>	<b>8.25</b>	<b>4,489</b>	<b>6.92</b>	<b>4,571</b>	<b>7.04</b>
<i>increase</i>			-68.4%	-48.9%	122.3%	127.0%	-26.0%	-16.2%	1.8%	1.8%
Timber Licence fee	182	-	321	-	172	-	172	-	172	-
<b>Net Revenue</b>	<b>182</b>	<b>-</b>	<b>321</b>	<b>-</b>	<b>172</b>	<b>-</b>	<b>172</b>	<b>-</b>	<b>172</b>	<b>-</b>

Table 8: Unit prices for the 2012-13 budget

## Interest rates

The interest has been calculated at 3.5% - 4.5% plus the Financial Accommodation Levy. TCV is the main provider of VicForests' credit.

## Labour and other input costs

During the budget and planning period, VicForests will continue to re-tender approximately 20% to 30% of its harvest and haul requirements annually as contracts expire. The competitive environment is expected to lead to improved pricing for harvest and haul operations. A cost improvement of up to 5% of the re-tendered portion has been factored into the Corporate Plans for 2014-15 to 2015-16 off-setting normal CPI increases.

The FTE employee expenses have been established, taking the revised organisational structure into account. The employee expenses include the annual increases of 3%, in line with the enterprise bargaining agreement, and an allowance for performance and progression-related pay in the budget. In previous years, the actual employee expenses included fire fighting pay components which have been reimbursed by DSE (shown under other revenue). VicForests budget does not include any amounts for future fire events.

The roading expenses have been planned on the basis of the current roading agreement with DEPI.

The accommodation costs are based on the planned office requirements. The accommodation costs for office space provided by DEPI have been calculated at the current rate per FTE plus a CPI increase.

VicForests continues to use the ERP framework provided by DEPI/ SBS only until December 2013. As from then VicForests will replace the ORACLE Finance system with the TechnologyOne Financial Management System. The ORACLE payroll will be outsourced as from 1 July 2013. These changes will save VicForests in excess of \$200,000 annually.

In 2009-10 VicForests finalised an agreement with the then DSE which established the appropriate accounting treatment for the regeneration activities. This agreement has been transferred to DEPI during the Machinery of Government changes. During 2013-14 it is anticipated that all commercial forestry assets will be vested in VicForests. The future accounting treatment of this has been fully considered in this budget and Corporate Plan.

## Log storage facilities

With the normalisation of the supply to the Heyfield mill, it is planned that VicForests will only maintain log storage volumes (as in the past) required in relation to pulplog and E-grade sawlog year-round supply, amounting to a volume of at least 100,000 m<sup>3</sup>. This secures and balances the timely supply throughout the year for both Australian Paper and Dormit.

## Economic outlook

The budget for 2013-14 to 2015-16 builds on the economic strength of the State of Victoria but considers the significant immediate challenges which the Victorian economy is about to face. The challenges of Commonwealth policies including the carbon tax, the strong Australian Dollar and the economic uncertainties overseas, are expected to continue impacting the

economic growth and therefore also the demand for timber products. The reduction in resources is also expected to reflect in the future business model.

Below are some of the economic indicators adopted from the 2013-14 Victorian State budget papers.

	2010/11 Actual	2011/12 Actual	2012/13 Forecast	2013/14 Forecast	2014/15 Forecast	2015/16 Forecast	2016/17 Forecast
Real gross state product (in %)	2.50	2.30	1.50	2.25	2.75	2.75	2.75
Employment (in %)	3.50	0.80	0.50	1.50	1.75	1.75	1.50
Unemployment rate (in %)	5.10	5.40	5.75	5.50	5.25	5.00	5.00
Consumer price index (in %)	3.30	2.30	2.25	2.50	2.50	2.50	2.50
Wage price index (in %)	3.75	3.50	3.50	3.50	3.50	3.50	3.50
Population (in %)	1.70	1.60	1.70	1.70	1.70	1.70	1.70

Table 9: Victorian economic projections %

Sources: Australian Bureau of Statistics; Department of Treasury and Finance

## Sales demand

The budget for 2013-14 takes the current market situation into account. Sales and operational capacities have been confirmed against operational plans. The following have influenced the budget:

- the ASH contractual volume has been reduced to 90% of their entitlement following their request to reduce it even further. Future years are planned on 100% of their contractual volume of 155,000m<sup>3</sup>.
- pulplog sales have been adjusted downwards with Paper Australia taking a reduced volume in 2013-14. SEFE contracts now on an annual basis taking the difficult global wood chip market conditions into account. The current contract expires in December 2013 but it is anticipated the SEFE will continue taking pulplogs from East Gippsland, however on a reduced basis and with no profit margin.
- additional low grade timber sales have been included in the Corporate Plan but at a conservative level
- prices are based on current contractual arrangements and auction outcomes (indexed)
- the Australian Paper prices for the Legislated Agreement have been forecast at the current improved levels.



# Appendix 1

## VicForests' Risk Management Framework – Likelihood Risk Rating

Inherent or Residual Likelihood		For Single Events & Operations (FSEO)	For Recurring Events (FRE)
Almost Certain	5	Is expected to occur in most circumstances (>75% of operations)	Once per week or more frequently
Likely	4	Will probably occur in most circumstances (50-75% of operations)	At least once per month but not more than once per week
Possible	3	Might not occur, but on balance more likely to occur at some time (10-50% of operations)	At least once per year but not more than once per month
Unlikely	2	Not generally expected to occur at some time (1-10% of operations)	Approximately once every five years
Rare	1	May occur only in exceptional circumstances (<1% of operations)	Theoretically possible but not expected



# Appendix 2

## VicForests' Risk Management Framework – Consequence Risk Rating

Impact	Financial	Human	Business Interruption	Environmental	Reputation & Image	Projects
Insignificant	Loss of: < \$50,000 (in single year)	Injury requiring first aid but no lost time.	Local issue resolved with negligible impact on service, business critical service lost for less than maximum period. Senior Manager involvement <1 day	Brief pollution with effective remediation.	Issue resolved by local management.	Over budget by 10% Delay by 10%
Minor	Loss of: \$50,000 to \$100,000 (in single year)	Injury requiring medical treatment and some lost time	Local service delivery problems for less than a month, business critical service lost for less than maximum period. Senior Manager involvement <1 week	Transient environmental harm.	Issue resolved by senior management or executive.	Over budget by 10 - 20% Delay by 10 - 20%
Moderate	Loss of: \$100,000 to \$5m (in single year)	Injury involving hospitalisation and rehabilitation	Major service delivery targets not met for several weeks, business critical service not back in agreed time. Senior Manager Involvement <1 month	Moderate harm with mid-term recovery.	Minister required to be involved in VicForests operations.	Over budget by 20 – 30% Delay by 20 – 30%

## VicForests' Risk Management Framework – Consequence Risk Rating continued

Impact	Financial	Human	Business Interruption	Environmental	Reputation & Image	Projects
Major	Loss of: \$5m to \$20m (in single year)	Successful prosecution of single executive for OH&S negligence Single fatality	Cessation of major business critical service for up to one month. Senior Manager Involvement <6 month	Significant environmental harm with long-term recovery.	Embarrassment for the Government and Board extended adverse media coverage and internal inquiry leading to Government intervention.	Over budget by 30 - 50% Delay by 30 - 50%
Catastrophic	Loss of: \$20m (in single year)	Successful prosecution of multiple executives for OH&S negligence. Multiple fatalities	Cessation of major business critical services for more than one month. Senior Manager involvement 6 or more months	Serious long term or widespread environmental harm.	Severe difficulties for the Government leading to public inquiry, concerted adverse media coverage and significant intervention by the Government leading to cessation of VicForests.	Anything that may cause the cancellation or failure of the project.

# Appendix 3

## VicForests' Risk Management Framework – Risk Matrix

CONSEQUENCE	LIKELIHOOD				
	Rare	Unlikely	Possible	Likely	Almost Certain
(5) Catastrophic	Medium	High	Extreme	Extreme	Extreme
(4) Major	Medium	Medium	High	High	Extreme
(3) Moderate	Low	Medium	Medium	High	High
(2) Minor	Low	Low	Medium	Medium	Medium
(1) Insignificant	Low	Low	Low	Low	Medium

# Appendix 4

## Response to the Sustainability Charter for Victoria's State forests, 2013-14

Strategic Goal	#	Initiatives/ Projects	Biodiversity	Production	Forest health	Soil and water	Carbon cycles	Socio-economic benefits	Governance framework
Improve profitability	1.	Identify potential forest management and other opportunities							
	2.	Reduce debt through improved profitability and cash flow							
	3.	Implement the outcomes of the Business Review by 30 June 2014							
	4.	Reduce ash D+ sawlog harvest levels to 215,000 m <sup>3</sup> p.a. by 2017							
	5.	Contribute to initiatives to improve the management of Leadbeater's Possum habitat							
	6.	Aim to achieve FSC Controlled Wood by 30 June 2014							
	7.	Determine the future of the East Gippsland mixed species operations							
	8.	Complete the Timber Sales Process 2013							
	9.	Identify, develop and test other business opportunities							
	10.	Identify and determine future of non-commercial activities							

# Appendix 5

## Progress against 2012-13 Corporate Plan Initiatives

#	Strategic Initiative	Status	Comment / Action
1	Input into Government reviews	Completed	VicForests provided input into the review of the <i>Sustainable Forests Timber Act 2004</i> .
2	Understand the resource, economic and social factors influencing operations in Central Highlands, North East and East Gippsland	Ongoing	The Future Ash project which analysed the location, quality and viability of 1939 ash stands is complete, and the results used to inform the 2013 Resource Outlook. A review of future operations in East Gippsland will be considered in 2013-14 initiative #7. A review of operations in the North East will be undertaken if time and resources permit.
3	Implement outcomes arising from the Heyfield mill sale	Ongoing	Negotiations with all ash customers are complete, but final implementation is subject to mills obtaining finance.
4	Resolve Australian Paper pricing and future supply	Ongoing	The responsibility for the negotiations was transferred back to VicForests from DEPI in Q4 2012-13. Negotiations regarding the delegated powers relating to the Legislated Agreement are continuing, and will most likely continue into 2013-14.
5	Review sales mechanisms	Ongoing	The major sales process in 2013 (Timber Sales Process 2013) will use a RFP process rather than an on-line auction. The Timber Sales Process 2013 commenced in Q4 2012-13 and contracts are planned to be offered by end Q2 2013-14.
6	Implement the outcome of the review of log specifications	Completed	Some minor changes were made to the log grading specifications in Q2 2012-13. Proponents in the Timber Sales Process 2013 will be able to request amendments to log specifications as part of the RFP phase.
7	Commence implementation of the outcome of the sales mechanisms and offer wood to market	Incorporated into #5	
8	Enter into sales agreements from residual log RFP	Ongoing	The Residual Log RFP closed in Q3 2012-13. A number of sales contracts were awarded, but large volumes remain unsold and will be offered as part of the Timber Sales Process 2013.
9	Review the operating model used by VicForests	Completed	The operating model to be used in the medium-term will continue to be Mill Door Sales, with a number of improvements, The proposed Timber Sale Agreement to form part of the Timber Sales Process 2013 includes provisions for a return to stumpage sales.



### Progress against 2012-13 Corporate Plan Initiatives continued

#	Strategic Initiative	Status	Comment / Action
10	Implement outcomes of the Operating Model Review	Ongoing	The majority of the identified improvements to the Mill Door Sales operating model were implemented in Q1 and Q2 2012-13.
11	Improve harvest and haul tender process	Completed	Improvements identified during the review of the operating model were incorporated into the 2012-13 harvest and haul tender program.
12	Contractor self-management	Ongoing	This initiative will be progressed during Q4 2012-13.
13	Develop a legal strategy that includes immediate, short-term and long-term actions	Completed	A legal strategy was developed and implemented.
14	Review and implement communications plan	Completed	The Communications Plan was reviewed and implemented. Key components are a new Website, new internal and external newsletters, and a review of the Stakeholder database.
15	Implement best practice sustainability reporting	Completed	2012 Sustainability Report was prepared in accordance with the Global Reporting Initiative framework, meeting the requirements of an application level B report. Significant work with a variety of stakeholders identified material issues for the report.
16	Continue to build long-term relationships with traditional owners	Ongoing	Significant work has been undertaken to develop relationships with the Gunaikurnai people of East Gippsland. This work will continue. Further relationship building initiatives will be investigated as part of 2013-14 initiative #6 – FSC controlled wood.

# Appendix 6

## Income Statement, Balance Sheet and Cash Flow 2013-14 to 2015-16

	2011/12	Actual 2012/13	Budget 2013/14	Budget 2013/14			Plan 2014/15	Plan 2015/16
				Central Highlands (inc. Tambo)	East Gippsland (excl. Tambo)	CSO		
<b>Volumes - m<sup>3</sup></b>								
Sawlog	468,238	503,463	528,694	450,856	77,838	-	544,554	516,031
Pulplog	980,889	750,633	735,344	547,150	188,194	-	649,000	649,000
Other	4,811	18,343	-	-	-	-	27,872	27,872
	1,453,938	1,272,439	1,264,038	998,006	266,032	-	1,221,426	1,192,903

	2011/12 \$ 000	Actual 2012/13 \$ 000	Budget 2013/14 \$ 000	Budget 2013/14			Plan 2014/15 \$ 000	Plan 2015/16 \$ 000
				Central Highlands \$ 000	East Gippsland \$ 000	CSO \$ 000		
<b>Sawlog</b>								
Timber Sales	50,755	56,634	56,549	51,351	5,198	-	62,348	60,341
Harvesting	(13,685)	(15,282)	(15,087)	(12,997)	(2,090)	-	(16,301)	(15,725)
Haulage	(16,372)	(16,613)	(15,378)	(14,261)	(1,117)	-	(16,742)	(16,217)
	20,698	24,739	26,084	24,093	1,991	-	29,306	28,398
	<b>40.8%</b>	<b>43.7%</b>	<b>46.1%</b>	<b>46.9%</b>	<b>38.3%</b>		<b>47.0%</b>	<b>47.1%</b>
<b>Pulplog / Firewood</b>								
Timber Sales	65,562	47,518	47,926	35,396	12,531	-	43,279	43,661
Harvesting	(27,527)	(20,277)	(20,148)	(14,047)	(6,101)	-	(16,872)	(17,022)
Haulage	(29,928)	(21,512)	(21,711)	(15,166)	(6,545)	-	(21,918)	(22,068)
	8,106	5,729	6,068	6,182	(115)	-	4,489	4,571
	<b>12.4%</b>	<b>12.1%</b>	<b>12.7%</b>	<b>17.5%</b>	<b>-0.9%</b>		<b>10.4%</b>	<b>10.5%</b>
<b>Other Forest Products</b>								
Timber Sales - Stumpage / Licence fees	182	321	172	172	-	-	172	172
	182	321	172	172	-	-	172	172
<b>Stumpage</b>	<b>28,986</b>	<b>30,789</b>	<b>32,323</b>	<b>30,447</b>	<b>1,876</b>	<b>-</b>	<b>33,966</b>	<b>33,141</b>
	<b>24.9%</b>	<b>29.5%</b>	<b>30.9%</b>	<b>35.0%</b>	<b>10.6%</b>		<b>32.1%</b>	<b>31.8%</b>

## Profit and Loss Account

	2011/12 \$ 000	Actual 2012/13 \$ 000	Budget 2013/14 \$ 000	Budget 2013/14			Plan 2014/15 \$ 000	Plan 2015/16 \$ 000
				Central Highlands (inc. Tambo) \$ 000	East Gippsland (excl. Tambo) \$ 000	CSO \$ 000		
Timber Sales	116,499	104,473	104,647	86,919	17,729	-	105,799	104,174
Harvest Costs	(41,212)	(35,559)	(35,235)	(27,045)	(8,191)	-	(33,172)	(32,747)
Haulage Costs	(46,300)	(38,125)	(37,089)	(29,427)	(7,662)	-	(38,660)	(38,286)
<b>Stumpage</b>	<b>28,986</b>	<b>30,789</b>	<b>32,323</b>	<b>30,447</b>	<b>1,876</b>	-	<b>33,966</b>	<b>33,141</b>
Other Production Expenses	(1,023)	(167)	(388)	(217)	(171)	-	(350)	(150)
Dump Inventories Valuation Adjustment	(636)	-	-	-	-	-	-	-
Other	(85)	47	162	162	-	-	(150)	(150)
Standing Timber Valuation Adjustment	121	466	-	-	-	-	-	-
<b>Other Revenue</b>	<b>696</b>	<b>1,550</b>	<b>234</b>	<b>162</b>	<b>72</b>	-	<b>-</b>	<b>-</b>
<b>Gross Operating Margin</b>	<b>18,516</b>	<b>23,075</b>	<b>23,096</b>	<b>23,170</b>	<b>(74)</b>	-	<b>24,849</b>	<b>24,429</b>
	<b>15.9%</b>	<b>22.1%</b>	<b>22.1%</b>	<b>26.7%</b>	<b>-0.4%</b>		<b>23.5%</b>	<b>23.4%</b>
<b>Indirect Expenses</b>								
Employee Costs	13,656	13,946	13,562	4,307	2,765	6,490	12,571	12,885
Contractors	641	521	1,066	88	159	819	1,093	920
Accommodation Costs	1,467	1,380	1,409	473	415	521	1,308	1,341
Motor Vehicle	1,913	1,779	1,751	914	584	254	1,645	1,686
Office Equipment and IT	1,647	1,730	1,598	364	278	956	1,538	1,576
Consultants	405	566	1,275	-	-	1,275	1,507	845
Professional Fees	616	658	777	-	-	777	797	817
Litigation expenses	2,846	-	-	-	-	-	-	-
Other Expenses	1,164	781	966	39	37	889	990	1,014
Travel, Accommodation and related expenses	277	291	340	49	35	257	349	358
Silviculture	-	-	-	-	-	-	-	-
Bad and Doubtful Debts	-	3	-	-	-	-	-	-
Exceptional Write-offs	(4,551)	-	-	-	-	-	-	-
Overhead Movement/Recovery	(2,630)	(1,334)	(1,270)	(634)	(636)	-	(1,101)	(1,029)
	<b>17,450</b>	<b>20,319</b>	<b>21,474</b>	<b>5,600</b>	<b>3,637</b>	<b>12,238</b>	<b>20,695</b>	<b>20,412</b>
	<b>15.0%</b>	<b>19.4%</b>	<b>20.5%</b>	<b>6.4%</b>	<b>20.5%</b>		<b>19.6%</b>	<b>19.6%</b>

## Profit and Loss Account continued

	2011/12 \$ 000	Actual 2012/13 \$ 000	Budget 2013/14 \$ 000	Budget 2013/14			Plan 2014/15 \$ 000	Plan 2015/16 \$ 000
				Central Highlands (inc. Tambo) \$ 000	East Gippsland (excl. Tambo) \$ 000	CSO \$ 000		
<b>Depreciation and Amortisation</b>								
Amortisation	10	266	572	-	-	572	570	335
Depreciation	1,041	996	1,048	577	396	75	1,000	1,000
	1,050	1,262	1,621	577	396	648	1,570	1,335
Cost Distribution			-	-	-	-		
<b>Earnings before Interest &amp; Tax (EBIT)</b>	<b>16</b>	<b>1,494</b>	<b>1</b>	<b>16,994</b>	<b>(4,107)</b>	<b>(12,885)</b>	<b>2,585</b>	<b>2,682</b>
	<b>0.0%</b>	<b>1.4%</b>	<b>0.0%</b>	<b>19.6%</b>	<b>-23.2%</b>		<b>2.4%</b>	<b>2.6%</b>
<b>Interest</b>								
Interest Income	476	330	100				50	50
Interest Expense	(831)	(798)	(886)				(800)	(800)
	(355)	(468)	(786)				(750)	(750)
<b>Earnings before Tax</b>	<b>(339)</b>	<b>1,026</b>	<b>(785)</b>				<b>1,835</b>	<b>1,932</b>
	<b>-0.3%</b>	<b>1.0%</b>	<b>-0.7%</b>				<b>1.7%</b>	<b>1.9%</b>
Income Tax Expense	243	(224)	236				(550)	(580)
<b>Net Profit (Loss) after Tax</b>	<b>(96)</b>	<b>802</b>	<b>(548)</b>				<b>1,284</b>	<b>1,352</b>
	<b>-0.1%</b>	<b>0.8%</b>	<b>-0.5%</b>				<b>1.2%</b>	<b>1.3%</b>
Dividends paid	-	-	-				-	(500)

## Profit and Loss Account continued

	2011/12 \$ 000	Actual 2012/13 \$ 000	Budget 2013/14 \$ 000	Plan 2014/15 \$ 000	Plan 2015/16 \$ 000
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	405	1,960	91	54	58
Trade and other receivables	32,449	21,537	21,024	19,088	19,576
Inventories	15,962	14,782	13,636	10,585	10,087
Biological timber assets / SGARA	3,065	3,181	3,021	3,600	3,600
Biological timber assets-rehabilitated coups	-	-	-	-	-
Current Regeneration - Make Good	5,123	4,001	5,874	7,081	6,636
Prepayments	197	239	-	-	-
Current tax assets	-	-	236	-	-
<b>Total current assets</b>	<b>57,201</b>	<b>45,700</b>	<b>43,881</b>	<b>40,408</b>	<b>39,957</b>
<b>Non-current assets</b>					
Property, plant and equipment	3,803	2,817	2,389	3,500	3,950
Intangible assets	846	1,219	1,251	681	346
Biological timber assets / SGARA	8,460	5,646	37,730	38,386	37,324
Biological timber assets-rehabilitated coups	18,455	20,620	3,212	-	-
Other non-current assets	2,503	1,873	-	-	-
Deferred tax assets	2,669	2,445	2,445	1,300	500
<b>Total non-current assets</b>	<b>36,736</b>	<b>34,620</b>	<b>47,027</b>	<b>43,867</b>	<b>42,120</b>
<b>TOTAL ASSETS</b>	<b>93,937</b>	<b>80,320</b>	<b>90,908</b>	<b>84,275</b>	<b>82,077</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Payables	9,917	7,406	6,313	6,000	6,000
Interest bearing liabilities	26,822	10,755	11,911	10,715	9,582
Employee benefits	2,734	3,114	3,114	1,100	1,100
Short-term provisions	5,906	4,709	6,582	1,900	1,950
Current tax liability	-	-	-	550	580
<b>Total current liabilities</b>	<b>45,379</b>	<b>25,984</b>	<b>27,919</b>	<b>20,265</b>	<b>19,211</b>
<b>Non-current liabilities</b>					
Interest bearing liabilities	-	8,138	6,326	4,398	2,401
Employee benefits	524	447	834	2,500	2,500
Long-term provisions	2,503	1,873	-	-	-
Other Liability	-	-	-	-	-
<b>Total non-current liabilities</b>	<b>3,027</b>	<b>10,458</b>	<b>7,160</b>	<b>6,898</b>	<b>4,901</b>
<b>TOTAL LIABILITIES</b>	<b>48,406</b>	<b>36,442</b>	<b>35,079</b>	<b>27,162</b>	<b>24,112</b>
<b>NET ASSETS</b>	<b>45,531</b>	<b>43,878</b>	<b>55,829</b>	<b>57,113</b>	<b>57,966</b>
<b>Equity</b>					
Contributed capital	37,851	37,226	34,771	47,271	47,271
-Return of Capital/ transfer of regenerated coupes/ fixed assets	(625)	(2,455)	12,500	-	-
Reserves	-	-	-	-	-
Retained earnings	8,305	9,107	8,558	9,842	10,695
<b>TOTAL EQUITY</b>	<b>45,531</b>	<b>43,878</b>	<b>55,829</b>	<b>57,113</b>	<b>57,966</b>

## Profit and Loss Account continued

	2011/12 \$ 000	Actual 2012/13 \$ 000	Budget 2013/14 \$ 000	Plan 2014/15 \$ 000	Plan 2015/16 \$ 000
<b>Cash flows from Operating Activities</b>					
<b>Receipts</b>					
Receipts from customers	136,044	128,071	118,070	105,799	104,174
Interest received from bank	12	9	100	50	50
GST refund from the Australian Taxation Office	639	90	-	-	-
Income Tax refund	-	-	-	-	-
	136,695	128,170	118,170	105,849	104,224
<b>Payments</b>					
Payments to suppliers and employees	(133,021)	(115,973)	(115,972)	(98,591)	(97,175)
Interest and other costs of finance paid	(852)	(618)	(886)	(800)	(800)
Income taxes paid	(1,212)	-	-	(550)	(580)
GST/FBT paid to the Australian Taxation Office	(1,655)	(1,450)	(1,301)	(1,250)	(1,200)
	(136,740)	(118,041)	(118,158)	(101,191)	(99,755)
Net cash (outflow)/ inflow from operating activities	(45)	10,129	12	4,658	4,469
<b>Cash flows from Investing Activities</b>					
Payments for property, plant, and equipment	(707)	(20)	(1,225)	(1,570)	(1,335)
Payment for intangible assets	(749)	(639)	-	-	-
Proceeds from sale of property, plant, and equipment	24	14	-	-	-
Net cash outflow from investing activities	(1,432)	(645)	(1,225)	(1,570)	(1,335)
<b>Cash flows from Financing Activities</b>					
Proceeds from borrowings	111,516	86,680	100,859	101,650	104,950
Repayment of borrowings	(109,759)	(94,609)	(101,515)	(104,775)	(107,580)
Dividends paid	-	-	-	-	(500)
Return of Capital	-	-	-	-	-
Net cash outflow from financing activities	1,757	(7,929)	(656)	(3,125)	(3,130)
<b>Net Increase/ (decrease) in cash held</b>	<b>280</b>	<b>1,555</b>	<b>(1,869)</b>	<b>(37)</b>	<b>4</b>
Cash and cash equivalents at beginning of period	125	405	1,960	91	54
<b>Cash and cash equivalents at end of period</b>	<b>405</b>	<b>1,960</b>	<b>91</b>	<b>54</b>	<b>58</b>



# Appendix 7

## Phased Profit & Loss

	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
<b>Sales of Timber</b>						
Timber Sales	5,331,765	5,596,255	8,575,920	10,779,761	10,358,651	8,426,764
Timber Licence Fees	14,292	14,292	14,292	14,292	14,292	14,292
<b>Total Sales of Timber</b>	<b>5,346,056</b>	<b>5,610,547</b>	<b>8,590,212</b>	<b>10,794,053</b>	<b>10,372,943</b>	<b>8,441,055</b>
<b>Cost of Sales</b>						
Harvest	1,994,457	2,090,998	3,032,098	3,725,032	3,384,502	2,707,055
Haulage	2,597,148	2,744,964	3,679,842	3,946,991	3,369,763	2,699,458
Other Costs of Sales	0	0	0	0	0	0
<b>Total Cost of Sales</b>	<b>4,591,605</b>	<b>4,835,962</b>	<b>6,711,940</b>	<b>7,672,024</b>	<b>6,754,265</b>	<b>5,406,513</b>
<b>Stumpage</b>	<b>754,452</b>	<b>774,585</b>	<b>1,878,272</b>	<b>3,122,030</b>	<b>3,618,678</b>	<b>3,034,542</b>
<b>Other Production Expenses</b>						
Writedown of Inventories to NRV	(210,080)	(230,880)	(211,640)	(23,400)	0	0
Standing Timber Amortisation	183,401	191,676	278,015	336,642	304,444	242,735
General Production Expenses	13,416	15,583	20,416	29,082	29,082	47,582
Other Production Expenses - Log Storage	6,000	6,000	6,000	6,000	6,000	6,000
Roading Expenses	244,106	327,806	442,778	694,932	697,417	649,097
<b>Total Other Production Expenses</b>	<b>236,843</b>	<b>310,184</b>	<b>535,568</b>	<b>1,043,257</b>	<b>1,036,943</b>	<b>945,414</b>
<b>Other Revenue</b>						
Bushfire Recovery Taskforce	0	0	0	0	0	0
Services to Other Government Entities	30,000	30,000	30,000	30,000	30,000	30,000
Regeneration costs recovered	(24,000)	(24,000)	(24,000)	(24,000)	(24,000)	(24,000)
Other Income	0	0	0	0	0	0
<b>Total Other Revenue</b>	<b>6,000</b>	<b>6,000</b>	<b>6,000</b>	<b>6,000</b>	<b>6,000</b>	<b>6,000</b>
<b>Gross Operating Result</b>	<b>523,609</b>	<b>470,400</b>	<b>1,348,704</b>	<b>2,084,773</b>	<b>2,587,735</b>	<b>2,095,128</b>

## Phased Profit & Loss continued

	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	TOTAL
	10,840,953	10,859,795	11,615,181	9,220,218	8,756,182	4,113,857	<b>104,475,302</b>
	14,292	14,292	14,292	14,292	14,292	14,292	<b>171,500</b>
	<b>10,855,244</b>	<b>10,874,086</b>	<b>11,629,473</b>	<b>9,234,510</b>	<b>8,770,474</b>	<b>4,128,148</b>	<b>104,646,802</b>
	3,405,552	3,549,527	3,758,906	2,987,985	2,993,678	1,605,412	<b>35,235,203</b>
	3,441,316	3,579,086	3,722,493	2,944,156	2,873,808	1,490,108	<b>37,089,133</b>
	0	0	0	0	0	0	<b>0</b>
	<b>6,846,869</b>	<b>7,128,613</b>	<b>7,481,398</b>	<b>5,932,141</b>	<b>5,867,486</b>	<b>3,095,521</b>	<b>72,324,337</b>
	<b>4,008,375</b>	<b>3,745,473</b>	<b>4,148,075</b>	<b>3,302,369</b>	<b>2,902,988</b>	<b>1,032,628</b>	<b>32,322,466</b>
							<b>30.9%</b>
	0	0	0	0	0	676,000	<b>0</b>
	306,899	312,444	330,606	263,475	269,431	140,329	<b>3,160,095</b>
	27,582	27,582	27,582	28,749	26,749	22,749	<b>316,154</b>
	6,000	6,000	6,000	6,000	6,000	6,000	<b>72,000</b>
	578,047	701,485	576,779	410,677	354,071	235,709	<b>5,912,903</b>
	918,527	1,047,511	940,967	708,900	656,251	1,080,787	<b>9,461,153</b>
	0	0	0	0	0	0	<b>0</b>
	30,000	30,000	30,000	30,000	30,000	30,000	<b>360,000</b>
	(24,000)	(24,000)	(24,000)	(24,000)	(24,000)	(24,000)	<b>(288,000)</b>
	0	0	0	0	0	162,000	<b>162,000</b>
	6,000	6,000	6,000	6,000	6,000	168,000	<b>234,000</b>
	3,095,848	2,703,962	3,213,107	2,599,469	2,252,737	119,841	<b>23,095,313</b>
							<b>22.1%</b>

## Phased Profit & Loss continued

	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
<b>Indirect Expenses</b>						
FTE	112.7	112.7	112.7	112.7	112.7	112.7
Employee Costs	1,087,789	1,092,789	1,089,539	1,175,037	1,107,038	1,116,288
Contractors	87,417	81,417	106,417	78,417	101,417	86,417
Office Rental and Property Costs	117,402	117,402	117,402	117,402	117,402	117,402
Motor Vehicle Costs	145,931	145,931	145,931	145,931	145,931	145,931
Office Equipment & IT	142,580	138,580	210,480	128,580	135,080	154,180
Consultants	171,084	151,084	188,584	171,084	72,584	57,584
Professional Fees	50,176	71,976	55,776	65,576	53,976	106,976
Other Expenses	96,722	84,122	95,372	80,622	74,322	79,472
Travel, Accommodation and Related Expenses	26,454	23,404	37,804	23,654	26,104	34,504
Bad and Doubtful Debts	0	0	0	0	0	0
Exceptional Expenses	0	0	0	0	0	0
Overhead Movements	475,572	533,012	458,340	(216,398)	(323,501)	(261,753)
<b>Total Indirect Expenses</b>	<b>2,401,128</b>	<b>2,439,718</b>	<b>2,505,646</b>	<b>1,769,904</b>	<b>1,510,353</b>	<b>1,637,001</b>
<b>Earnings before Depreciation, Interest and Tax</b>	<b>(1,877,519)</b>	<b>(1,969,318)</b>	<b>(1,156,942)</b>	<b>314,869</b>	<b>1,077,382</b>	<b>458,127</b>
<b>Amortisation and Depreciation</b>						
Amortisation	34,997	34,252	34,252	53,004	53,004	53,004
Depreciation	100,978	98,754	95,848	95,077	92,305	88,072
<b>Total Amortisation and Depreciation</b>	<b>135,974</b>	<b>133,006</b>	<b>130,100</b>	<b>148,081</b>	<b>145,309</b>	<b>141,075</b>
<b>Earnings before Interest and tax</b>	<b>(2,013,494)</b>	<b>(2,102,324)</b>	<b>(1,287,042)</b>	<b>166,788</b>	<b>932,072</b>	<b>317,051</b>
<b>Interest</b>						
Interest Income	0	0	0	0	0	0
Interest Expenses	(70,000)	(66,860)	(66,250)	(59,583)	(55,417)	(60,625)
<b>Total Interest</b>	<b>(70,000)</b>	<b>(66,860)</b>	<b>(66,250)</b>	<b>(59,583)</b>	<b>(55,417)</b>	<b>(60,625)</b>
<b>Earnings before Tax</b>	<b>(2,083,494)</b>	<b>(2,169,184)</b>	<b>(1,353,292)</b>	<b>107,205</b>	<b>876,656</b>	<b>256,426</b>
Income Tax (Expense)/Credit	625,048	650,755	405,988	(32,161)	(262,997)	(76,928)
Dividends	0	0	0	0	0	0
<b>Retained Earnings</b>	<b>(1,458,446)</b>	<b>(1,518,429)</b>	<b>(947,305)</b>	<b>75,043</b>	<b>613,659</b>	<b>179,498</b>

## Phased Profit & Loss continued

	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	TOTAL
	112.7	112.7	112.7	112.7	112.7	112.7	112.7
	1,108,538	1,116,038	1,114,288	1,115,038	1,103,538	1,336,238	<b>13,562,162</b>
	91,417	81,417	97,417	86,417	81,417	86,417	<b>1,066,000</b>
	117,402	117,402	117,402	117,402	117,402	117,402	<b>1,408,824</b>
	145,931	145,931	145,931	145,931	145,931	145,931	<b>1,751,174</b>
	102,374	112,774	162,774	102,774	102,774	104,774	<b>1,597,722</b>
	132,584	85,084	47,584	97,584	47,584	52,584	<b>1,275,004</b>
	39,975	29,833	66,933	44,333	29,833	161,833	<b>777,200</b>
	79,452	71,722	80,472	72,722	77,122	73,372	<b>965,493</b>
	24,754	22,904	37,904	23,654	24,504	34,604	<b>340,252</b>
	0	0	0	0	0	0	<b>0</b>
	0	0	0	0	0	0	<b>0</b>
	(363,911)	(360,203)	(356,613)	(415,489)	(260,019)	(178,607)	<b>(1,269,570)</b>
	1,478,516	1,422,902	1,514,092	1,390,366	1,470,086	1,934,547	<b>21,474,261</b>
	<b>1,617,332</b>	<b>1,281,060</b>	<b>1,699,015</b>	<b>1,209,103</b>	<b>782,651</b>	<b>(1,814,707)</b>	<b>1,621,052</b>
	53,004	51,814	51,267	51,267	51,267	51,267	<b>572,399</b>
	86,514	86,528	87,648	83,516	67,502	65,644	<b>1,048,387</b>
	139,518	138,343	138,915	134,784	118,770	116,911	<b>1,620,786</b>
	<b>1,477,814</b>	<b>1,142,718</b>	<b>1,560,100</b>	<b>1,074,319</b>	<b>663,881</b>	<b>(1,931,618)</b>	<b>266</b>
							<b>0.0%</b>
	0	0	0	0	0	0	<b>0</b>
	(63,125)	(58,750)	(61,667)	(70,208)	(76,042)	(77,292)	<b>(785,819)</b>
	(63,125)	(58,750)	(61,667)	(70,208)	(76,042)	(77,292)	<b>(785,819)</b>
	<b>1,414,689</b>	<b>1,083,968</b>	<b>1,498,434</b>	<b>1,004,111</b>	<b>587,840</b>	<b>(2,008,910)</b>	<b>(785,552)</b>
	(424,407)	(325,190)	(449,530)	(301,233)	(176,352)	602,673	<b>235,666</b>
	0	0	0	0	0	0	<b>0</b>
	<b>990,282</b>	<b>758,777</b>	<b>1,048,904</b>	<b>702,878</b>	<b>411,488</b>	<b>(1,406,237)</b>	<b>(549,887)</b>

## Balance Sheet

	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
<b>Assets</b>						
<b>Current assets</b>						
Cash and cash equivalents	20,264	74,141	64,112	96,191	85,774	96,373
Trade and other receivables	18,556,323	20,480,911	22,647,250	27,149,469	27,529,441	23,817,213
Inventories	12,506,365	10,011,914	7,799,709	8,268,220	9,207,682	9,905,465
Biological timber assets	2,997,397	2,805,721	2,527,707	2,191,064	1,886,620	1,643,885
Current Regeneration - Make Good	5,874,302	5,874,302	5,874,302	5,874,302	5,874,302	5,874,302
Current Tax asset	625,048	1,275,803	1,681,791	1,649,630	1,386,633	1,309,705
<b>Total current assets</b>	<b>40,579,699</b>	<b>40,522,793</b>	<b>40,594,870</b>	<b>45,228,876</b>	<b>45,970,452</b>	<b>42,646,942</b>
<b>Non-current assets</b>						
Property, plant and equipment	2,796,805	2,698,051	2,607,203	2,562,126	2,529,821	2,491,749
Intangible assets	1,103,681	1,079,429	1,045,177	1,667,173	1,614,169	1,561,166
Deferred tax assets	2,444,616	2,444,616	2,444,616	2,444,616	2,444,616	2,444,616
Biological timber assets	5,645,572	5,645,572	18,145,572	18,145,572	18,145,572	18,145,572
Biological timber assets - Rehabilitated Coupes	20,753,997	20,882,282	21,061,721	21,198,586	21,324,076	21,453,565
<b>Total non-current assets</b>	<b>32,744,670</b>	<b>32,749,950</b>	<b>45,304,289</b>	<b>46,018,073</b>	<b>46,058,254</b>	<b>46,096,667</b>
<b>TOTAL ASSETS</b>	<b>73,324,369</b>	<b>73,272,743</b>	<b>85,899,159</b>	<b>91,246,950</b>	<b>92,028,706</b>	<b>88,743,610</b>
<b>Liabilities</b>						
<b>Current liabilities</b>						
Payables	3,192,819	5,427,960	8,870,018	13,709,260	11,745,081	9,148,210
Interest bearing liabilities	9,549,897	8,900,897	6,651,897	7,202,897	9,453,897	8,704,897
Employee benefits	3,114,221	3,114,221	3,114,221	3,114,221	3,114,221	3,114,221
Short-term provisions	6,581,617	6,581,617	6,581,617	6,581,617	6,581,617	6,581,617
Current tax liability	-	-	-	-	-	-
<b>Total current liabilities</b>	<b>22,438,553</b>	<b>24,024,694</b>	<b>25,217,753</b>	<b>30,607,995</b>	<b>30,894,815</b>	<b>27,548,945</b>
<b>Non-current liabilities</b>						
Interest bearing liabilities	7,987,067	7,836,067	7,685,067	7,534,067	7,383,067	7,232,067
Employee benefits	478,572	510,233	541,895	575,401	607,677	639,954
<b>Total non-current liabilities</b>	<b>8,465,639</b>	<b>8,346,300</b>	<b>8,226,962</b>	<b>8,109,468</b>	<b>7,990,744</b>	<b>7,872,021</b>
<b>TOTAL LIABILITIES</b>	<b>30,904,192</b>	<b>32,370,995</b>	<b>33,444,715</b>	<b>38,717,463</b>	<b>38,885,559</b>	<b>35,420,965</b>
<b>NET ASSETS</b>	<b>42,420,177</b>	<b>40,901,748</b>	<b>52,454,444</b>	<b>52,529,487</b>	<b>53,143,146</b>	<b>53,322,645</b>
<b>Equity</b>						
Contributed capital	34,770,720	34,770,720	34,770,720	34,770,720	34,770,720	34,770,720
Capital Repayment	-	-	12,500,000	12,500,000	12,500,000	12,500,000
Reserves	-	-	-	-	-	-
Retained earnings	7,649,457	6,131,028	5,183,724	5,258,767	5,872,426	6,051,925
<b>TOTAL EQUITY</b>	<b>42,420,177</b>	<b>40,901,748</b>	<b>52,454,444</b>	<b>52,529,487</b>	<b>53,143,146</b>	<b>53,322,645</b>

## Balance Sheet continued

	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14
	67,541	84,619	6,258	11,838	93,458	90,436
	25,511,313	29,197,288	31,460,921	29,821,498	27,582,021	21,023,594
	11,112,279	12,324,603	13,382,799	13,954,228	14,305,552	13,635,575
	1,336,986	1,024,543	693,936	430,462	161,031	3,020,703
	5,874,302	5,874,302	5,874,302	5,874,302	5,874,302	5,874,302
	885,298	560,108	110,578	-	-	235,666
	<b>44,787,719</b>	<b>49,065,463</b>	<b>51,528,795</b>	<b>50,092,328</b>	<b>48,016,365</b>	<b>43,880,276</b>
	2,465,234	2,463,706	2,526,058	2,522,542	2,455,040	2,389,395
	1,508,162	1,456,347	1,405,080	1,353,813	1,302,546	1,251,279
	2,444,616	2,444,616	2,444,616	2,444,616	2,444,616	2,444,616
	18,145,572	18,145,572	18,145,572	18,145,572	18,145,572	37,729,813
	21,595,892	22,020,213	22,725,833	24,414,593	25,238,142	3,212,248
	<b>46,159,477</b>	<b>46,530,455</b>	<b>47,247,159</b>	<b>48,881,136</b>	<b>49,585,916</b>	<b>47,027,351</b>
	<b>90,947,196</b>	<b>95,595,917</b>	<b>98,775,954</b>	<b>98,973,463</b>	<b>97,602,280</b>	<b>90,907,627</b>
	11,529,237	12,786,905	13,385,762	11,357,462	10,066,163	6,312,477
	7,655,897	10,406,897	12,057,897	13,508,897	12,959,897	11,910,897
	3,114,221	3,114,221	3,114,221	3,114,221	3,114,221	3,114,221
	6,581,617	6,581,617	6,581,617	6,581,617	6,581,617	6,581,617
	-	-	-	190,655	367,007	-
	28,880,972	32,889,640	35,139,497	34,752,852	33,088,904	27,919,212
	7,081,067	6,930,067	6,779,067	6,628,067	6,477,067	6,326,067
	672,230	704,506	736,783	769,059	801,336	833,612
	<b>7,753,297</b>	<b>7,634,573</b>	<b>7,515,850</b>	<b>7,397,126</b>	<b>7,278,403</b>	<b>7,159,679</b>
	<b>36,634,269</b>	<b>40,524,213</b>	<b>42,655,346</b>	<b>42,149,978</b>	<b>40,367,307</b>	<b>35,078,891</b>
	<b>54,312,927</b>	<b>55,071,704</b>	<b>56,120,608</b>	<b>56,823,485</b>	<b>57,234,973</b>	<b>55,828,736</b>
	34,770,720	34,770,720	34,770,720	34,770,720	34,770,720	34,770,720
	12,500,000	12,500,000	12,500,000	12,500,000	12,500,000	12,500,000
	-	-	-	-	-	-
	7,042,207	7,800,984	8,849,888	9,552,765	9,964,253	8,558,016
	<b>54,312,927</b>	<b>55,071,704</b>	<b>56,120,608</b>	<b>56,823,485</b>	<b>57,234,973</b>	<b>55,828,736</b>



## Cash Flow 2013-14

	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
<b>Cash flows from Operating Activities</b>						
<b>Receipts</b>						
Receipts from customers	9,354,314	6,354,314	8,050,637	8,053,799	10,456,549	12,125,310
Interest received from bank	-	-	-	-	-	-
Income Tax Refunds	-	-	-	-	-	-
GST refund from the Australian Taxation Office	-	-	-	-	-	-
	9,354,314	6,354,314	8,050,637	8,053,799	10,456,549	12,125,310
<b>Payments</b>						
Payments to suppliers	(4,835,000)	(1,295,558)	(1,364,267)	(1,716,883)	(1,902,321)	(1,712,178)
MDS contractor payments	(4,000,000)	(2,953,915)	(3,023,037)	(5,325,706)	(8,786,496)	(8,194,751)
Payments to employees	(1,032,813)	(1,032,813)	(1,032,813)	(1,093,216)	(1,052,947)	(1,052,947)
Interest and other costs of finance paid	(70,000)	(66,860)	(66,250)	(59,583)	(55,417)	(60,625)
GST paid to the Australian Taxation Office	-	(151,290)	(164,300)	(221,331)	(44,786)	(134,210)
Income Tax Payment	-	-	-	-	-	-
	(9,937,813)	(5,500,437)	(5,650,667)	(8,416,719)	(11,841,966)	(11,154,712)
Net cash (outflow)/ inflow from operating activities	(583,499)	853,877	2,399,970	(362,920)	(1,385,418)	970,599
<b>Cash flows from Investing Activities</b>						
Payments for property, plant, and equipment	-	-	(10,000)	(5,000)	(725,000)	(60,000)
Proceeds from sale of property, plant, and equipment	-	-	-	-	-	-
Net cash outflow from investing activities	-	-	(10,000)	(5,000)	(725,000)	(60,000)
<b>Cash flows from Financing Activities</b>						
Repayment of finance lease liabilities	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-
Repayment of Capital	-	-	-	-	-	-
Loan from TCV	(1,356,000)	(800,000)	(2,400,000)	400,000	2,100,000	(900,000)
Net cash outflow from financing activities	(1,356,000)	(800,000)	(2,400,000)	400,000	2,100,000	(900,000)
<b>Net Increase/ (decrease) in cash held</b>	(1,939,499)	53,877	(10,030)	32,080	(10,418)	10,599
Cash and cash equivalents at beginning of period	1,959,763	20,264	74,141	64,112	96,191	85,774
<b>Cash and cash equivalents at end of period</b>	<b>20,264</b>	<b>74,141</b>	<b>64,112</b>	<b>96,191</b>	<b>85,774</b>	<b>96,373</b>

## Cash Flow 2013-14 continued

Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	TOTAL
10,696,588	8,902,232	10,573,665	11,453,126	11,883,957	10,165,256	<b>118,069,747</b>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
10,696,588	8,902,232	10,573,665	11,453,126	11,883,957	10,165,256	<b>118,069,747</b>
(1,754,166)	(1,696,936)	(2,108,382)	(2,228,851)	(2,246,791)	(1,608,573)	<b>(24,469,905)</b>
(6,514,300)	(8,456,489)	(8,748,322)	(9,125,437)	(7,624,797)	(5,913,273)	<b>(78,666,523)</b>
(1,052,947)	(1,052,947)	(1,052,947)	(1,052,947)	(1,052,947)	(1,272,896)	<b>(12,835,182)</b>
(63,125)	(58,750)	(61,667)	(70,208)	(76,042)	(77,292)	<b>(785,819)</b>
(90,881)	(160,031)	(95,708)	(120,103)	(21,761)	(96,243)	<b>(1,300,645)</b>
-	-	-	-	-	-	-
(9,475,420)	(11,425,154)	(12,067,025)	(12,597,546)	(11,022,338)	(8,968,278)	<b>(118,058,074)</b>
1,221,168	(2,522,922)	(1,493,361)	(1,144,420)	861,620	1,196,979	<b>11,673</b>
(50,000)	(60,000)	(85,000)	(150,000)	(80,000)	-	<b>(1,225,000)</b>
-	-	-	-	-	-	-
(50,000)	(60,000)	(85,000)	(150,000)	(80,000)	-	<b>(1,225,000)</b>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
(1,200,000)	2,600,000	1,500,000	1,300,000	(700,000)	(1,200,000)	<b>(656,000)</b>
(1,200,000)	2,600,000	1,500,000	1,300,000	(700,000)	(1,200,000)	<b>(656,000)</b>
(28,832)	17,078	(78,361)	5,580	81,620	(3,021)	<b>(1,869,327)</b>
96,373	67,541	84,619	6,258	11,838	93,458	<b>1,959,763</b>
<b>67,541</b>	<b>84,619</b>	<b>6,258</b>	<b>11,838</b>	<b>93,458</b>	<b>90,436</b>	<b>90,436</b>

# Table of Acronyms



Acronym	Definition
CAIR	Corrective Action and Incident Report
CSO	Corporate Support Office
DIFOT	Delivered in Full and On Time
DEPI	Department of Environment and Primary Industries
DPI	(former) Department of Primary Industries
DSE	(former) Department of Sustainability and Environment
DTF	Department of Treasury and Finance
EBIT	Earnings Before Interest and Taxes
ENGO	Environmental non-Government Organisation
FSC	Forest Stewardship Council
FTE	Full time equivalent
OH&S	Occupational Health and Safety
PAM	Price Allocation Model
RFP	Request for Proposals
SEFE	South East Fibre Exports
SFMS	Sustainable Forest Management System
SFTA	<i>Sustainable Forests (Timber) Act 2004</i>
Stumpage	Timber value (excluding harvesting and haulage)
TCV	Treasury Corporation of Victoria
TIAP	Timber Industry Action Plan
TRP	Timber Release Plan
VAGO	Victorian Auditor-General's Office



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