



Annual Report

2013-14



‘VicForests has demonstrated that it balances the need to operate profitably with the need to support industry and socio-economic sustainability’

Victorian Auditor-General, 2013

Table of Contents



Chairman's declaration	2	Section 3: Workforce data	19
Chairman's report	3	Occupational Health and Safety	19
About VicForests	4	Incidents and injuries	19
Purpose	4	Employee 10 year incident summary	19
Role	4	Contractor 8 year incident summary	20
Values	4	VicForests' Enterprise Bargaining Agreement	20
Section 1: Governance and organisational structure	5	Employment summary	20
VicForests' Board of Directors	5	Employment and conduct principles	20
Board meetings	6	Learning and development	20
Committee meetings	6	Section 4: Legal and other compliance	21
Committees	7	Compliance with the <i>Building Act 1993</i>	21
Organisational structure	7	Disclosure of major contracts	21
Chief Executive Officer's report	8	Compliance with the <i>Freedom of Information Act 1982</i>	21
Section 2: A year in review	9	Compliance with the National Competition Policy	22
VicForests' 2014 financial performance at a glance	9	Compliance with the <i>Victorian Industry Participation Policy Act 2003</i>	22
Highlights	9	Compliance with the <i>Protected Disclosure Act 2012</i> (formerly the <i>Whistleblowers Protection Act 2001</i>)	22
Operating revenue	10	Disclosures under the <i>Protected Disclosure Act 2012</i>	23
Operating result before tax	10	Compliance with the <i>Carers Recognition Act 2012</i>	23
Net profit after tax	10	Financial Statements 2013-14	24
Gearing	10	Notes to the financial statements	29
Financial and business performance	11	Statutory certification	66
Financial position – balance sheet	11	Auditor-General's report	67
Cash flow	11	Attestation for compliance with the Ministerial Standing Direction 4.5.5.1 – Insurance	69
Leadbeater's Possum	12	Appendix 1 Disclosure index	70
Protecting biodiversity	13	Appendix 2 Consultancies	72
Gippsland fires	13	Table of acronyms	72
Stakeholder engagement	14		
Sales	14		
Forest contracting	15		
Sustainability Charter	15		
Resource outlook	15		
Business review	16		
Certification	16		
Legal proceedings	16		
Reviews, audits and judgments	17		
Progress against Corporate Plan initiatives	18		

Chairman's declaration

28 August 2014

The Hon. Peter Walsh MP
Minister for Agriculture and Food Security
Level 16, 8 Nicholson Street
EAST MELBOURNE VIC 3002



Level 7, 473 Bourke Street
Melbourne Vic 3000
GPO Box 191 Melbourne 3001
Telephone (03) 9608 9500
Facsimile (03) 9608 9566

www.vicforests.com.au
ABN 7684 6538 543



Dear Minister

VICFORESTS' ANNUAL REPORT

I am pleased to submit the 2013-14 Annual Report of VicForests, including a Report of Operations and the Financial Statements for the year ended 30 June 2014, for presentation to Parliament, pursuant to Part 7 of the *Financial Management Act 1994*.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Gordon Davis".

Gordon Davis
Chairman, VicForests Board

Risk Attestation Statement

I, Gordon Davis certify that VicForests has risk management processes in place consistent with the Australian/New Zealand Risk Management Standard and an internal control system is in place that enables the executive to understand, manage and satisfactorily control risk exposures. The Audit and Risk Committee verifies this assurance and that the risk profile of VicForests has been critically reviewed within the last 12 months.

A handwritten signature in blue ink, appearing to read "Gordon Davis".

Gordon Davis
Chairman, VicForests Board

Chairman's report

This year marks the 10th anniversary of VicForests commencing operations. As with any milestone event, it is a good time to reflect on the past decade and to look forward to the next.

The creation of VicForests as 'a separate commercial forest service entity that will transparently disentangle the commercial objectives from the regulatory functions of Government' was proposed in early 2002 and articulated through (the then) government's 'Our Forests Our Future' policy. The policy stated that the government would:

- establish VicForests as a separate, fully commercial entity to manage the commercial interface with industry, reporting through an independent Board
- clearly separate forest policy, regulatory and commercial functions
- enhance competition and efficiency in the utilisation of forest produce
- improve transparency in the allocation of rights and use of forest produce.

Since commencing operations in August 2004, VicForests has led the transformation of Victoria's native hardwood timber industry.

Timber is now sold using open and competitive processes, and as a result, the return to the state for its valuable hardwood resource has increased substantially. The entire supply chain operates in a much more professional manner, all of VicForests' ground-based operations are conducted in accordance with a management system accredited to the Australian Forestry Standard, and most importantly, the safety of our staff and contractors has improved dramatically.

VicForests is now recognised as a credible, successful and dynamic native forestry business. In 2013, the Victorian Auditor-General reviewed VicForests' operations and noted that 'VicForests has demonstrated that it balances the need to operate profitably with the need to support industry and socio-economic sustainability'.

I am pleased to report that during 2013-14 VicForests continued to achieve that balance. Our primary goals for the year were to deliver improved profitability, help secure the long-term future of the native hardwood timber industry and improve the ecological management of Victoria's native forests.

In response to those goals, we have:

- achieved no lost time injuries for staff and driven significant improvements in contractor safety management systems
- delivered a net profit after tax of \$3.4 million
- undertaken a business review resulting in a significant re-alignment of responsibilities and a reduction in the number of staff employed
- conducted the largest log allocation process since 2006, with up to 16.8 million cubic metres of sawlog and residual log on offer
- actively participated in the Leadbeater's Possum Advisory Group, helping to develop recommendations that aim to protect the possum's future
- commenced the journey towards Forest Stewardship Council certification.

These achievements, along with many others, have helped us deliver what is expected from us: a responsible business that generates the best community value from the commercial management of Victoria's State forests.

For their part in delivering this during 2013-14, I would like to thank the Board, Robert Green as CEO, the executive team and all of the staff. Their ongoing dedication, passion and hard work is acknowledged, and I look forward to working with them throughout the coming year.



Gordon Davis
Chairman

a responsible
business that
generates
the best
community
value from the
commercial
management
of Victoria's
State forests.

About VicForests

VicForests was established on 28 October 2003 by Order in Council under the *State Owned Enterprises Act 1992*. The Treasurer is the sole shareholder and the Minister for Agriculture and Food Security is the responsible Minister.

Purpose

To operate a responsible business that generates the best community value from the commercial management of Victoria's State forests.

Role

To undertake the sale, harvest and regeneration of timber resources from areas of Victoria's State forests set aside for wood production.

Values



Safe

We aim for Zero Harm in all that we do



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



Customer focused

We are responsible in our commercial dealings

Section 1: Governance and organisational structure

VicForests' Board of Directors

Gordon Davis - Chairman 7/10/2011 - 6/10/2017	BForSc(Hons), MAgSc, MBA Chair, CIBUS Group Director, Greening Australia Limited Director, Nufarm Limited Director, The Nature Conservancy
Andrew (Rob) de Fegely 01/01/2013 - 31/12/2015	MSc (Forestry), B Sc (For), FAICD President, Institute of Foresters of Australia Director, Myoora Investments Pty Ltd Co-chair, Prime Minister's Forest Industry Advisory Council
Michael Humphris 14/11/2012 - 13/11/2015	FCA, FSIA, MAICD Chair, CNPR Ltd Director, Tox Free Solutions Ltd
Therese Ryan 28/01/2013 - 31/12/2015	LLB, GAICD Chair, Advisory Committee, Office of Correctional Services Review Independent Member, Audit Committee, City of Melbourne Director, Victorian Managed Insurance Authority Director, Metropolitan Fire Brigade Director, Yarra Valley Water Director, Burson Group Ltd Director, WA Local Superannuation
Hon. Graeme Stoney 19/11/2011 - 06/10/2017	Executive Officer, Mountain Cattleman's Association of Victoria Chair, Mansfield Cultural Heritage and Arts Centre Project Chair, High Country Digital Library Project Former General Manager, FFORNE Hardwood Former Opposition spokesperson for forestry and Opposition Whip in the Legislative Council, Parliament of Victoria
Catherine Walter 07/10/2011 - 06/10/2017	AM LLB (Hons), LLM, MBA (Melb), FAICD Chair, Federation Square Director, Australian Foundation Investment Company Director, Reserve Bank's Payment Systems Board Director, Walter and Eliza Hall Institute of Medical Research Director, Victorian Funds Management Corporation Director, Victorian Opera



Board meetings

Name of meeting	Members	Meeting Frequency	Number meetings
Board	Gordon Davis (Chair)	5	5
	Andrew (Rob) de Fegely		5
	Michael Humphris		5
	Therese Ryan		5
	Graeme Stoney		5
	Catherine Walter		5

Committee meetings

Name of meeting	Members	Meeting Frequency	Number meetings
Audit and Risk	Michael Humphris, Chairman (independent)	5	5
	Therese Ryan (independent)		5
	Catherine Walter (independent)		5
	Gordon Davis (independent)#		1
OHS and Environment Advisory	Andrew (Rob) de Fegely, Chairman	4	4
	Michael Humphris		4
	Catherine Walter		3
Business Development	Graeme Stoney, Chairman	7	6
	Gordon Davis		7
	Andrew (Rob) de Fegely		7
	Michael Humphris#		1
	Catherine Walter#		1
Executive Remuneration	Gordon Davis, Chairman	1	1
	Therese Ryan		1
	Graeme Stoney		1

Attended meeting by invitation

Committees

Audit and Risk Committee

The Audit and Risk Committee (ARC) assists the Board to fulfil its corporate governance and oversight responsibilities relating to financial accounting practices, risk management, internal control systems, external financial reporting and the internal and external audit function. In fulfilling this function, the ARC must conform to the Victorian Government's Financial Management Compliance Framework.

Executive Remuneration Committee

The Executive Remuneration Committee reviews and approves executive remuneration in accordance with Government Sector Executive Remuneration Panel guidelines and policies.

Occupational Health, Safety and Environment Advisory Committee

The Occupational Health, Safety and Environment Advisory Committee is responsible

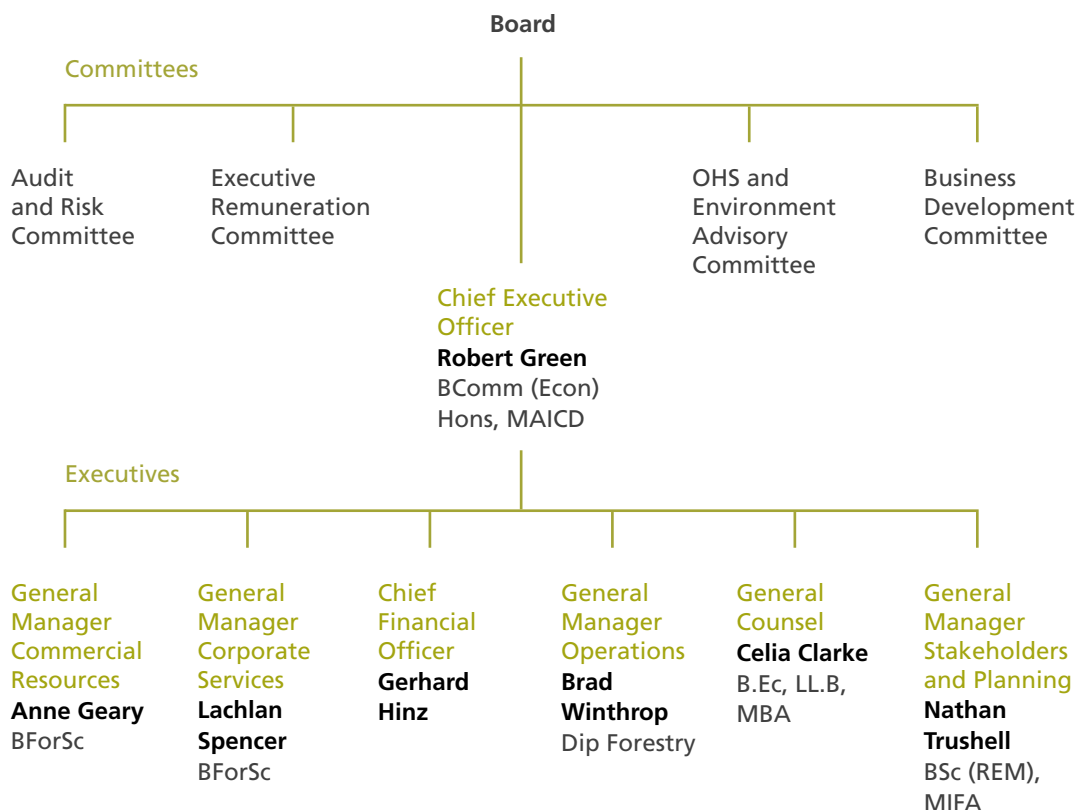
for monitoring the effectiveness of VicForests' practices to manage occupational health and safety and environmental risks. To do this, the committee monitors the effectiveness of critical systems and reviews significant incident investigations and corrective actions. This is achieved by reviewing incident statistics, statements from management, audit reports, changes in regulation and case law.

Business Development Committee

The Business Development Committee exists primarily to identify and recommend new business opportunities to the Board, identify obstacles and issues preventing the development of the timber industry and monitor communication on relevant matters between VicForests and the Victorian Government.

The committee identifies and works with VicForests staff, partners and similar organisations on business development opportunities that are consistent with the Government's Timber Industry Action Plan.

Organisational structure



Chief Executive Officer's report

In last year's Statement of Corporate Intent, we outlined that during 2013-14 we would 'focus on our future and set goals to deliver improved profitability, help secure the long-term future of the native hardwood timber industry and improve ecological management of Victoria's native forests'.

I am pleased to report we have made significant progress.

We have delivered a net profit after tax of \$3.4 million, provided a \$0.25 million dividend to our shareholder and reduced the amount outstanding to the Treasury Corporation of Victoria by \$5.3 million. This result confirms the Victorian Auditor-General's comment in December 2013 that 'Since it was established in 2004, VicForests has made \$13.5 million net profit after tax, returning a profit in all but three years. Its profitability has been affected in particular by the 2006-07 and 2009 fires'. The Auditor-General also stated that 'VicForests does not receive any government subsidies.'

With the forecast reduction in sawlog sales from 2017-18 in mind, we undertook a review of the business, with the aim of identifying opportunities for savings that would enable the business to become more profitable and sustainable. Over the year we have reduced employee numbers by 12 per cent, and while it has taken the organisation some time to adjust to lower staffing levels, I believe the results of the business review will leave the organisation on a more sustainable footing.

We undertook the largest and most comprehensive timber sales process since VicForests was created. Following a highly consultative process with all parts of the industry, we made available for offer all of the sawlog and the majority of the residual log forecast to be available from 2017-18 onwards. We are still working through the outcomes of the request for proposals process and look forward to announcing the establishment of some long-term agreements in the near future.

One of the aims of the sales process was to provide the industry – both customers and contractors, with sufficient tenure and certainty to invest, so that the future of the industry, as well as the communities that depend on it, can be more secure.

It is with pleasure that I report that VicForests, along with other members of the Leadbeater's Possum Advisory Group made good progress in securing the possum's future while maintaining a sustainable timber industry. The recommendations arising from that group will result in the biggest changes to forest management practices in Victoria in recent history, changes that we believe will help the possum survive through the forecast period of nest-tree decline.

We have also moved towards our goal of achieving certification to the Forestry Stewardship Council standard. The results of the gap audit undertaken late last year have been released publicly and we are working hard at addressing each of the identified gaps, with the intention of seeking Controlled Wood certification in mid-2015.

In addition to our progress on our stated goals, I am particularly pleased that we also achieved excellent safety results – for both staff and contractors, as well as assisting the Department of Environment and Primary Industries in fighting the extensive bushfires in East Gippsland in early 2014. I am also pleased that the Victorian Ombudsman's office reported no governance-related issues concerning VicForests when an investigation of public sector boards was undertaken during the year.

As we celebrate ten years of operations, I would like to take this opportunity to thank all of those, past and present, who have made a contribution to this organisation not just over this last year, but over our history – Board members, staff, customers, contractors, Ministers and other Members of Parliament, and our many and varied stakeholders. Your contribution has helped build VicForests into a business that we can all be proud of.



Robert Green
Chief Executive Officer



We have delivered a net profit after tax of \$3.4 million

Section 2: A year in review

VicForests' 2014 financial performance at a glance

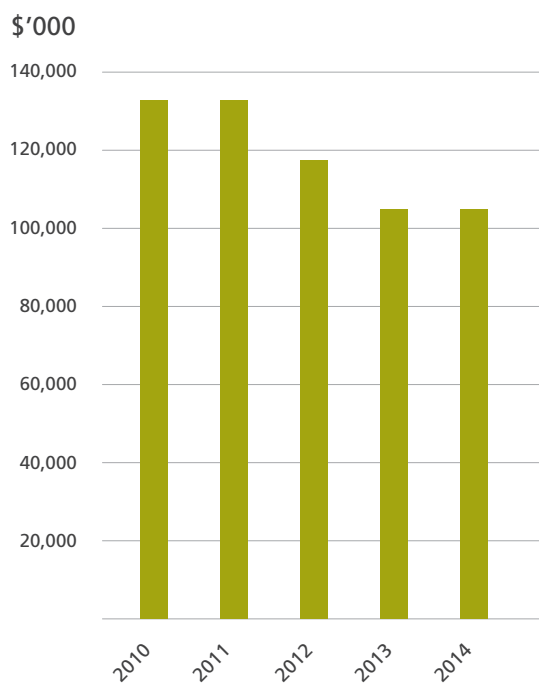
	2014	2013	2012	2011	2010
Volume (m ³)	1,270,841	1,272,439	1,453,938	1,753,151	1,812,618
\$000					
Operating revenue	104,258	104,474	116,655	131,414	131,588
Stumpage*	31,376	30,789	28,986	31,782	24,498
% of sales	30.1%	29.5%	24.9%	24.2%	18.6%
Operating result before tax	2,190	997	453	2,062	1,777
% of sales	2.1%	1.0%	0.4%	1.6%	1.4%
Net profit after tax	3,411	802	(96)	2,323	3,592
% of sales	3.30%	0.8%	0.0%	1.8%	2.7%
Net cash flow from operating activities	4,531	10,129	(45)	(5,183)	(16,307)
Total assets	89,363	80,020	93,937	88,704	73,733
Total liabilities	32,095	36,142	48,406	42,452	36,826
Net assets / equity	57,268	43,878	45,531	46,252	36,907

* Stumpage - revenue from sale of forest products less harvest and haulage expenses

Highlights

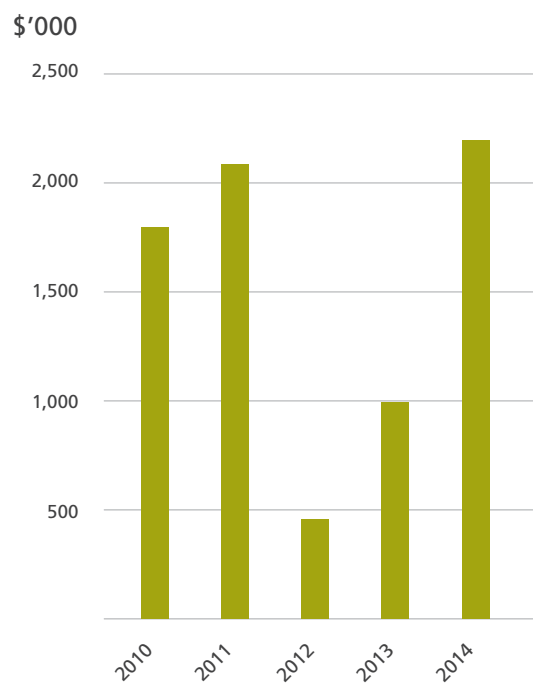
- Operating result of \$2.2 million before tax signals a further improvement in operational management
- Net cash flow from operating activities remains positive reflecting the positive operating result
- Net debt level has declined further to \$13.5 million (2013: \$16.9 million)
- Equity has increased following the positive result in 2014 and the transfer of the balance of the commercial forests from DEPI to VicForests following the amendments to the *Sustainable Forests (Timber) Act 2004*
- Payment of a dividend of \$0.25 million during 2014 with another dividend payment of \$0.5 million proposed for 2015
- Gearing of VicForests has improved further with reduced net debts and increased equity.

Operating revenue



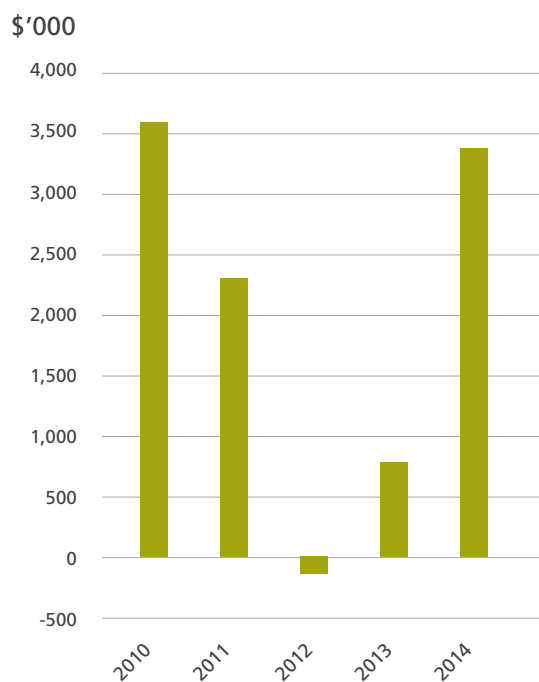
■ Operating revenue
(revenue from sales of forest products)

Operating result before tax



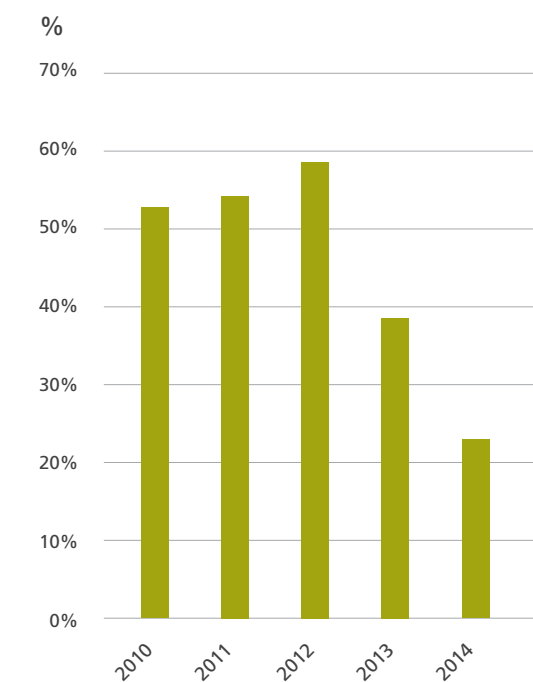
■ Operating result before tax

Net profit after tax



■ Net profit after tax
(comprehensive income)

Gearing



■ Gearing
(net debt / equity)

Financial and business performance

The financial performance of VicForests during 2013-14 signalled further improvements in the operational management of the organisation. This improvement has occurred during a period of organisational change including a restructure which commenced at the beginning of the financial year.

The reduction in staff numbers and other initiatives resulted in lower costs and a leaner organisational structure. These initiatives are anticipated to lead to further operational and financial improvements in the future and will support VicForests' primary goal of building and maintaining a sustainable business that benefits the State of Victoria as well as the Victorian timber industry.

The sawlog and residual log market remained reasonably stable in 2013-14, with VicForests achieving the budgeted overall supply, although a shortfall in sawlog supply was compensated by additional residual log supply.

The Australian Dollar settled around the \$0.93 mark and appears to be resisting further downwards pressure. The lower dollar resulted in an improvement in woodchip exports, and should encourage further import replacement, resulting in the strengthening of the domestic industry.

Despite the current demand for sawlogs, annual supply can, at times, be a challenge. In May 2014, South East Fibre Exports indicated that it would be likely to cease purchasing residual logs from VicForests from 1 January 2015.

Working through the loss of this important market will be challenging, but in the medium term, VicForests is confident of replacing it with a diverse range of domestic and export markets. Critical to realising these opportunities is ensuring that the current short-term demand issue does not affect existing customers or the availability of contractors.

VicForests is committed to meeting all existing sales and harvest and haul contracts as well as contributing to the continuation and development of a sustainable native forest timber industry in East Gippsland.

Financial position – balance sheet

The net assets increased in 2013-14 following the transfer of the commercial forest assets from DEPI to VicForests with a value of \$10.229 million. This transfer was made as a result of the amendments to the *Sustainable Forests (Timber) Act 2004*. It also led to an equal increase in VicForests' equity in accordance with the Financial Reporting Direction 119 Contributions by Owners.

Cash flow

The net cash flow from operating activities continued to be positive although the receivables increased from last year. A contributing factor was the further improvement in the stumpage and the reduction in inventory. The improved operational cash flow has led to a further reduction of VicForests' credit facility with the Treasury Corporation of Victoria (TCV).

The financial performance of VicForests during 2013-14 signalled further improvements in the operational management of the organisation.

Leadbeater's Possum

The Leadbeater's Possum is a small tree-dwelling marsupial that lives primarily in the ash eucalypt forests of Victoria's Central Highlands. The possum prefers to live and nest in large old hollow-bearing trees and feed in surrounding dense vegetation. Its population is expected to decline sharply from about the year 2020 to 2075 due to the collapse of the hollow-bearing ash trees killed in the 1939 wildfires. It is listed as endangered.

The Minister for Environment and Climate Change and the Minister for Agriculture and Food Security jointly established the Leadbeater's Possum Advisory Group in June 2013 to provide recommendations that support the recovery of the Leadbeater's Possum while maintaining a sustainable timber industry.

The advisory group was chaired by Zoos Victoria and the Victorian Association of Forest Industries, with representatives from Parks Victoria, VicForests and the Leadbeater's Possum Recovery Team. The advisory group developed 13 recommendations, using input from a broad range of stakeholders and experts as well as the most up-to-date science and information. The government announced in April 2014 that it will implement all of the recommendations.

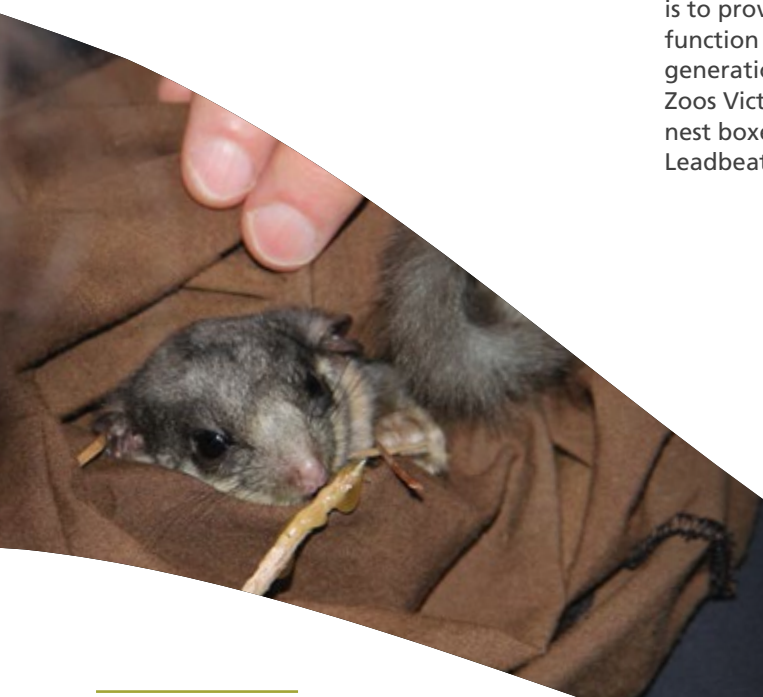
VicForests is either fully or partly responsible for the implementation of 10 of the 13 recommendations, and has already implemented those that relate to daily operations. This includes amending instructions and practices regarding the identification and protection of Leadbeater's Possum Zone 1A habitat and including additional areas into the VicForests reserve. The additional areas are those identified by the Advisory Group as having particularly good habitat characteristics for the possum.

They include:

- modelled old growth ash forest, including a 100m buffer, across the range of Leadbeater's Possum
- all known Leadbeater's Possum colonies from the last 15 years, including a 200m buffer, around each colony
- areas that have an anticipated high probability of Leadbeater's Possum occurrence. Harvesting in these areas will be delayed for at least two years, so that surveys for the possum take place during this period.

VicForests is also addressing longer-term recommendations with the aim of incorporating them into field operations, as well as monitoring. Of these, the implementation of regrowth retention harvesting will be a very significant change in coupe planning, harvesting and regeneration.

VicForests' regrowth retention goals are based primarily on the enhancement and protection of ecological values. The fundamental objective is to provide continuity in ecosystem structure, function and composition, between forest generations. VicForests is also supporting Zoos Victoria's 'Project Possum' work to install nest boxes in State forest that may contain Leadbeater's Possum colonies.



Protecting biodiversity

This year VicForests continued its science-based approach to biodiversity management and protection.

Biodiversity research and monitoring has been a key focus, particularly building our ability to seek information across broad spatial and temporal scales, to allow for continual improvement in biodiversity management.

VicForests has developed a research and monitoring strategy that identifies key short-term and long-term biodiversity projects. Many of these projects involve collaboration with various research institutions.

During 2013-14 VicForests was a partner in applying for (and receiving) two Australian Research Council linkage grants. The first grant is for a project to be undertaken with Forestry Tasmania, the University of Tasmania and the University of Melbourne. This project seeks to identify underlying patterns and processes that determine how forest biodiversity is distributed across the landscape.

The second grant is for a project to be undertaken with the University of Melbourne and DEPI. This project will investigate the development of a range of stand-scale silvicultural prescriptions that can accelerate the development of key features of Leadbeater's Possum habitat.

Both of these grants are a significant step forward in VicForests' research activities, not only involving VicForests in world-class, high-quality research, but also providing tangible decision support tools that will assist in ecologically sustainable forest management.

During 2013-14 VicForests also continued undertaking pre-harvest fauna surveys, which detected a range of threatened species including:

- 10 Long-footed Potoroos
- 4 Powerful Owls
- 1 Spot-tailed Quoll
- 1 Sooty Owl.

For each of these species, VicForests creates Special Management Plans that aim to ensure that the detected species is adequately protected from planned operations.

During 2013-14 VicForests' field staff continued to receive training in the identification of Leadbeater's Possum habitat, rainforest communities as well as regrowth retention harvesting and the identification of suitable ecological values to retain under this new harvesting system.



Gippsland fires

Following widespread lightning strikes in mid-January 2014, multiple bushfires started, eventually burning about 170,000ha of mainly forested public land in East Gippsland. The fires were declared under control on 18 March 2014.

Over those two months, about half of VicForests' staff assisted firefighting efforts.

Although extensive, the fires did not have a significant impact on the commercial timber resource. However, a number of planned coupes were burnt, with a loss of planning effort. Despite the fires and the diversion of staff from normal duties, VicForests was able to meet commitments to customers and contractors.

VicForests also assisted in DEPI's Bushfire Rapid Risk Assessment of the impact of the fire on forest and other values.

Stakeholder engagement

VicForests recognises that while harvesting operations provide many socio-economic benefits for regional communities, these operations can also directly impact communities and individuals.

Stakeholder engagement remains vital in ensuring the community has the opportunity to provide input into VicForests' planning process and operational practices. Engagement also assists VicForests to understand the issues that are important to the community as well as allowing us to improve the public's understanding of VicForests and how we operate.

A key focus of VicForests' engagement efforts in 2013-14 has been ensuring that the community know when they can have input into how our operations are undertaken. By increasing our engagement we are improving the transparency of our operations and the community's understanding of VicForests more broadly.

VicForests continues to be responsive to queries and concerns raised with it by the community and continues to look at new ways to make information available to the community, including direct, face to face engagement, online and through building relationships with groups and individuals.

Some of the engagement activities undertaken by VicForests in 2013-14 include:

- Launching a program of Open House events as another way of engaging with stakeholders. Events were held in Alexandra, Mansfield and Strathbogie.
- Comprehensively redesigned VicForests' website to better explain how the regulatory framework is incorporated into VicForests' operations
- Commencing a process to seek FSC certification including agreeing to make the results of a pre-audit evaluation publicly available
- Continuing to support local group and communities through our Community Support Program grants
- Maintaining a presence in our local communities by attending various events across eastern Victoria including the Royal Melbourne Show
- Launching a Leadbeater's Possum micro-site to provide the community with more information regarding the possum and the Leadbeater's Possum Advisory Group.

Sales

Markets for sawn timber remained subdued for much of 2013-14, but picked up in the last quarter. Sawlog sales are forecast to improve further in 2014-15 as a result of improved market conditions.

Demand for pallets during the year was strong, resulting in good sales of E grade sawlog.

Residual log sales increased marginally over 2012-13, mainly due to increased demand. There continues to be regular interest in the unsold residual log resource, for a range of end uses.

Despite this regular interest, sales of residual logs from East Gippsland are forecast to decline in 2014-15, because of the indication given in May 2014 that South East Fibre Exports would be likely to cease purchasing residual logs from VicForests from 1 January 2015. VicForests is actively seeking new markets for this resource.

Sales of firewood continue to grow, albeit from a low base, to a range of customers across eastern Victoria.

During 2013-14, VicForests sold 499,414m³ of sawlog, 756,425m³ of residual logs and 15,003m³ of other products, generating over \$104 million in revenue.

During the year VicForests also undertook the largest sales process for sawlog and residual log since VicForests commenced operations.

The sales mechanism used for the Timber Sales Process arose out of the Timber Industry Action Plan reviews, held with the industry during 2012. A request for information phase in mid-2013 gave potential proponents an opportunity to provide input into how the timber resource was described and offered to the market.

A request for proposal phase was held in late 2013. The evaluation phase, which includes negotiations with potentially successful proponents is not yet concluded.



Forest contracting

During 2013-14 VicForests conducted two open tenders for harvest and haul services. Approximately 370,000m³ per annum of contracts were awarded via 29 contracts, with tenures between two and four years. Significant engagement occurred with harvest and haul contractors in the development of these tender processes.

Thirty-nine per cent of haulage contractors now operate under contracts which require additional equipment including satellite tracking capacity and electronic braking systems fitted to trailers, as well as annual roadworthy certification. The percentage of haulage contractors operating under these higher standards is expected to increase to approximately 80 per cent in 2014-15.

In the East Gippsland Region, replacement contracts were negotiated with six harvest and haulage operators in an effort to provide security for the contractor workforce, given the anticipated challenging market conditions forecast for that region.

Sustainability Charter

The Victorian Government's Sustainability Charter for Victoria's State forests sets out a number of objectives for the sustainable management of Victoria's State forests and the sustainability of the timber industry that operates within those forests.

The *Sustainable Forests (Timber) Act 2004* requires VicForests to respond to the objectives of the charter by developing initiatives and targets to support those objectives.

VicForests addresses this requirement through its Sustainable Forest Management System which is certified to the Australian Forestry Standard (AS 4708), and through the annual Corporate and Business Plans, which outline relevant initiatives and strategies for the organisation.

VicForests' 2013-14 Statement of Corporate Intent describes the projects that VicForests initiated in response to the Charter. Progress against those initiatives and strategies will be reported in the 2014 Sustainability Report.

Resource outlook

Each year VicForests prepares a Resource Outlook that provides an indication of the medium and long-term availability of high quality sawlog from the available and commercially suitable forest stands in State forest in eastern Victoria.

The 2014 Resource Outlook is the first outlook based on the improved wood supply modelling system that completes the transition from earlier systems developed by (the former) Department of Sustainability and Environment. The model includes a new forest description, new growth models derived from long-term permanent growth plot data and estimates of product yield based on ten years of harvesting activity across a wide range of forest types in eastern Victoria.

The ability to model and evaluate a range of log grades and supply scenarios, as well as introduce new products as required, significantly improves integration of VicForests' sales and tactical and operational planning processes.

The long-term (100-year) trends for ash and mixed species sawlog are similar to those presented in the 2013 Resource Outlook. Ash sawlog availability is forecast to decrease in 2017-18 as a consequence of the 2009 bushfires and remain steady until 2045 before increasing as regrowth stands from previous harvesting operations mature.

Mixed species sawlog availability is forecast to remain steady until 2040 and then increase slowly as previously harvested stands mature, and the forest recovers from a series of bushfires over the last 30 years.

The 2014 Resource Outlook is the first outlook based on the improved wood supply modelling system...

Business review

VicForests undertook a business review during 2013, with the aim of identifying opportunities for savings that would enable the business to become more profitable and sustainable.

Following broad internal consultation, a number of proposals were received. These included additional revenue proposals, cost reduction proposals, general and specific efficiency improvements and business structure proposals.

Voluntary departure packages were offered in late 2013. Thirteen employees accepted packages. During the year a further three employees also departed, with their positions not replaced. The organisation was also restructured, with a reduction in the number of divisions. This will lead to the removal of one role from the senior management team.

Other outcomes of the review include improved business planning and monitoring processes to ensure tighter expenditure control, review of harvest and haul terms and conditions, a review of facilities, offices, vehicles and the provision of IT services.

The cost savings of the business review are estimated to be approximately \$1.7 million per annum, comprising savings in salaries, vehicles and accommodation costs.

Certification

VicForests retained its certification to the Australian Forestry Standard AS 4708:2007. This certification covers VicForests' Sustainable Forest Management System for the processes involved in the planning, harvesting, haulage and regeneration of native eucalypt forests for which it has control.

Surveillance audits were conducted in December 2013 and June 2014. The next re-certification audit will be conducted in late 2014 to check compliance against the revised Australian Standard® for forest management AS4708-2013.

VicForests continued to pursue its aim of achieving certification to the Forest Stewardship Council during 2013-14. A pre-evaluation gap audit for both the Forest Stewardship Council Full Management and Controlled Wood standards was conducted in late 2013. The audit report was received in June 2014 and released publicly soon after.

VicForests completed a self-assessment of the audit report and commenced reviewing its Sustainable Forest Management System to align with Forest Stewardship Council requirements.

Further work is required for the definition, identification, management and monitoring of high conservation value forests, management and monitoring of indigenous use rights, and engagement with various stakeholder groups.

VicForests intends to apply for Controlled Wood certification in mid-2015 and full certification the following year.

Legal proceedings

In August 2011 a local environment group, MyEnvironment, sought an injunction to stop harvesting operations in three coupes near Toolangi, claiming that VicForests had failed to correctly identify Leadbeater's Possum habitat. The matter went to trial in 2012 and Justice Osborn in the Supreme Court of Victoria delivered his judgment in favour of VicForests. MyEnvironment appealed the decision and the matter was heard in the Court of Appeal on 24 June 2013. On 10 December 2013 the Court handed down its judgment unanimously upholding the Supreme Court's original finding that the harvesting operations near Toolangi comply with Victoria's regulatory framework.

The Court ordered that MyEnvironment pay VicForests' costs for both the trial and the appeal. VicForests is endeavouring to recover those costs from MyEnvironment in accordance with due process.

VicForests retained its certification to the Australian Forestry Standard AS 4708:2007.

Reviews, audits and judgments

Each year, VicForests is subject to a wide range of external reviews and audits in addition to any investigations and legal proceedings that may be initiated. In 2013-14 these included:

Organisation / institution	Process
Court of Appeal	Appeal by MyEnvironment
Freedom of Information Commissioner	Request for review of Freedom of Information (FOI) decision
Victorian Civil and Administrative Tribunal	Application for review of FOI decision
Department of Environment and Primary Industries	Forest Audit Program
Victorian Auditor-General's Office	Performance audit Financial Audit
Victorian Ombudsman	A review of the governance of public sector boards in Victoria
SAI Global	Australian Forestry Standard certification audit
SCS Global Services	Preliminary Forest Stewardship Council evaluation audit

This level of audit demonstrates that a rigorous governance framework is in place for oversight of VicForests' operations.

It is estimated that during 2013-14 the time VicForests staff spent contributing to these processes was about 170 person days.

Progress against Corporate Plan initiatives

Strategic Initiative	Progress
2013-14 Initiatives	
Identify potential forest management and other opportunities	Completed
Improve profitability and cash flow	Completed. See Financial year at a glance.
Implement the outcomes of the Business Review by 30 June 2014	Completed. Actions included offering and acceptance of Voluntary Departure Packages, organisational restructure, improved business planning and monitoring processes to ensure tighter expenditure control, review of harvest and haul terms and conditions, and a review of facilities, offices, vehicles and the provision of IT services.
Reduce ash sales and harvest levels by 2017	Completed. Implemented through the ash sawlog volume on offer through the Timber Sales Process. The estimated availability has been reduced further following the acceptance of the recommendations of the Leadbeater's Possum Advisory Group.
Contribute to initiatives to improve the management of Leadbeater's Possum habitat	Completed. VicForests was an active member of the Leadbeater's Possum Advisory Group. Following approval of the recommendations by the government in April 2014, VicForests is fully or partly responsible for the implementation of 10 out of the 13 recommendations.
Achieve progress towards Forest Stewardship Council certification	Ongoing. A gap audit was undertaken in late 2013 and the report released publicly. Based on the identified gaps, VicForests now aims to apply for Controlled Wood certification in mid-2015 and full certification the following year.
Review the capacity to manage the costs and risks associated with commercially marginal operations	Ongoing. Following the indication by South East Fibre Exports that it would be likely to cease purchasing residual logs from VicForests from 1 January 2015, this project has a new focus and will be carried over to 2014-15.
Complete the Timber Sales Process 2013	Ongoing. Progress to date has included finalisation of the request for information phase, registration phase and request for proposals phase. The evaluation phase, which includes negotiations with proponents is continuing. Offers to successful proponents have commenced.
Identify, develop and test other business opportunities	Completed
Identify and determine future of non-commercial activities	Completed
2012-13 Initiatives	
Implement outcomes arising from the Heyfield mill sale	Completed
Resolve customer pricing and future supply issues	Completed
2011-12 Initiatives	
Review harvesting rotations for faster growing forests	Completed. A report, including recommendations for a new growth modelling system has been provided to DEPI.

Section 3: Workforce data



Occupational Health and Safety

The safety of VicForests' employees and contracting workforce remains a key priority for the organisation.

A strong safety culture is developing in terms of incident and near miss reporting. We continued towards our aim of 'Zero Harm' by increasing awareness of hazards and implementing corrective actions designed to eliminate them. Continued implementation of these corrective actions, as well as reviewing their effectiveness will remain a priority for the coming year.

Compliance by contractors to their individual safety management systems remained a key focus area during 2013-14. All contractors audited addressed any identified non-conformances. The resulting safety management systems are both robust and current. VicForests will maintain this focus on safety management systems as they are a key part of VicForests' safety strategy.

Alcohol and drug random testing continued during the year, with no positive results recorded.

Incidents and injuries

No lost time injuries for employees were recorded during 2013-14 and 'Zero Harm' (no lost time injuries and no medically treated injuries) was reported for eleven months. Although six lost time injuries were recorded for contractors, 'Zero Harm' was recorded for seven months.

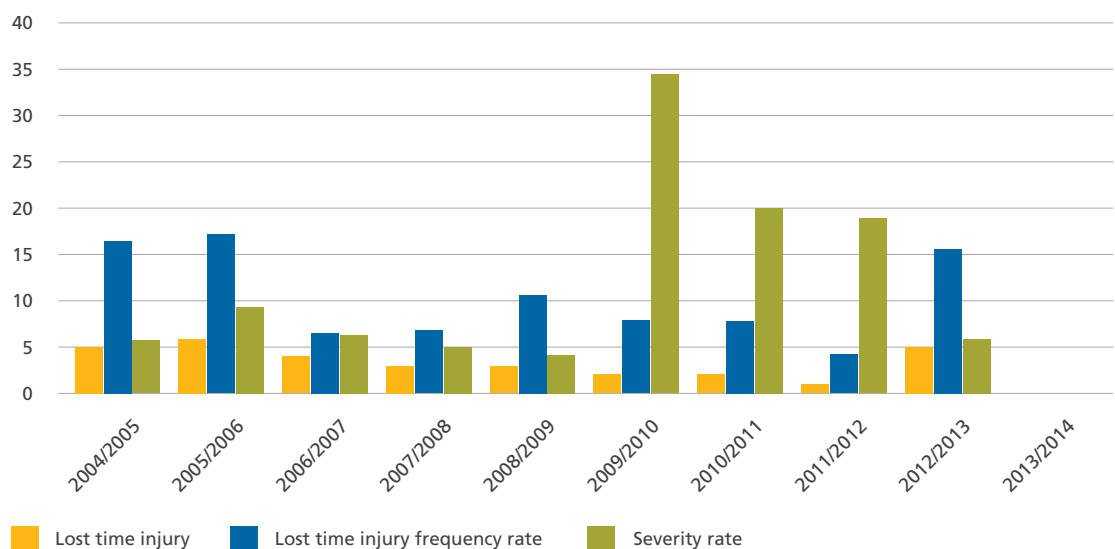
Incident reports were of an improved standard and received promptly after the relevant incidents.

Significant time was spent examining serious incidents with all truck rollovers being investigated and reviewed.

As part of 'Zero Harm', 100 per cent of slips and trips that were reported by employees were subject to an investigation process.

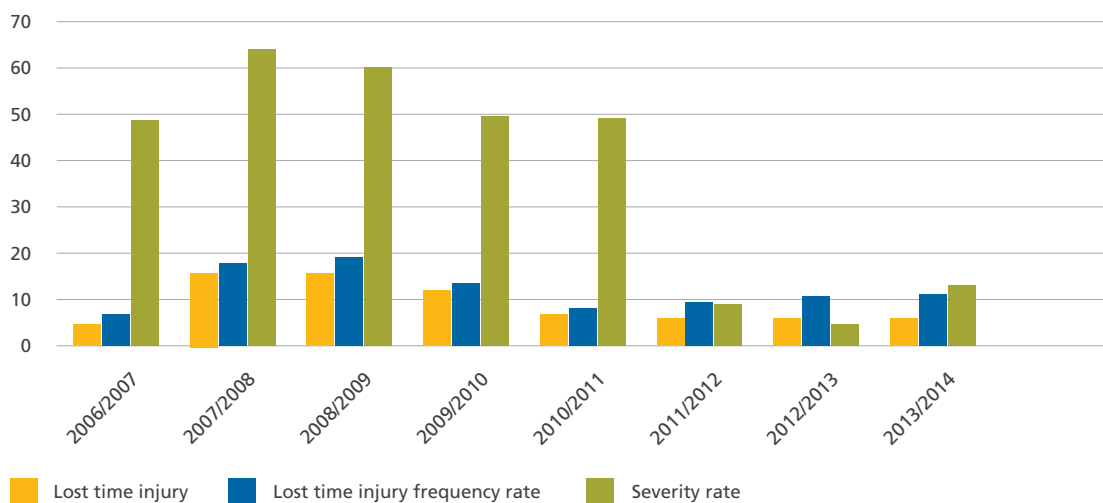
The severity rate (the number of days lost per lost time injury) recorded for contractors continued to decline and was zero for employees.

Employee 10 year incident summary



Note: The lost time injury and lost time injury frequency rate and severity rate for employees in 2013-14 was zero.

Contractor 8 year incident summary



VicForests' Enterprise Bargaining Agreement

No time was lost due to industrial disputes during 2013-14.

As the VicForests Agreement 2012 expires on 30 June 2015, it will be re-negotiated in 2014-15.

Employment and conduct principles

VicForests is committed to applying merit and equity principles when appointing staff. The selection processes ensure that applicants are assessed and evaluated fairly and equitably on the basis of the key selection criteria and other accountabilities.

The selection processes ensure that applicants are assessed and evaluated fairly and equitably...

Employment summary

Full time equivalent

	Female	Male	Total
Executives	2	5	7
Senior managers	1	11	12
Operations	13.5	45.6	59.1
Support	10.4	9.8	20.2
Grand Total	26.9	71.4	98.3

*Senior managers are employees at a career level 6 or higher.

Learning and development

During 2013-14, over 770 training entries were recorded, across areas including Occupational Health and Safety, technical skills, on-the-job learning, and personal development.

Section 4:

Legal and other compliance

Compliance with the *Building Act 1993*

VicForests does not own or control any government buildings and consequently is exempt from notifying its compliance with the building and maintenance provisions of the *Building Act 1993*.

Disclosure of major contracts

In 2013-14 VicForests entered into two contracts with a value of over \$10 million, one for timber sales and one for harvest and haulage services.

Contractual details have not been disclosed for these contracts as disclosure is exempted under the *Freedom of Information Act 1982* and/or government guidelines.

Compliance with the *Freedom of Information Act 1982*

The *Freedom of Information Act 1982* (FOI Act) allows the public a right of access to documents held by VicForests subject to various exemptions provided for under the FOI Act.

From 1 July 2013 to 30 June 2014, VicForests received six FOI requests – one from a member of the public and five from non-governmental environmental organisations. Two requests were granted partial access, three requests were refused and one request was dealt with outside of the FOI regime. Two decisions were the subject of review by the FOI Commissioner (both of which were resolved). One decision was appealed to the Victorian Civil and Administrative Tribunal but was resolved between the parties in advance of any hearing.

Making a request

Access to documents may be obtained through written request to the FOI Officer, as detailed in s17 of the *Freedom of Information Act 1982*. In summary, the requirements for making a request are:

- it should be in writing;
- it should identify as clearly as possible which document is being requested; and
- it should be accompanied by the application fee (the fee may be waived in certain circumstances).

Requests for documents in the possession of VicForests should be addressed to:

General Counsel - Freedom of Information
VicForests
GPO Box 191
Melbourne VIC 3001

Access charges may also apply once documents have been processed and a decision on access is made; for example photocopying and search and retrieval charges.

Further information regarding FOI can be found at www.foi.vic.gov.au.

Additional information available upon request

In compliance with the requirements of the Standing Directions of the Minister for Finance, details in respect to additional information (subject to the provisions of the *Freedom of Information Act 1982*) are available from VicForests' Freedom of Information Officer.

Compliance with the National Competition Policy

Under the National Competition Policy, the guiding legislative principle is that legislation, including future legislative proposals, should not restrict competition unless it can be demonstrated that:

- the benefits of the restriction to the community as a whole outweigh the costs; and
- the objectives of the legislation can only be achieved by restricting competition.

VicForests continues to comply with the requirements of the National Competition Policy.

Competitive neutrality requires government businesses to ensure where services compete, or potentially compete with the private sector, any advantage arising solely from their government ownership be removed if they are not in the public interest. Government businesses are required to cost and price these services as if they were privately owned and thus be fully cost reflective. Competitive neutrality policy provides government businesses with a tool to enhance decisions on resource allocation. This policy does not override other policy objectives of government and focuses on efficiency in the provision of service.

Compliance with the Victorian Industry Participation Policy Act 2003

The Victorian Industry Participation Policy Act 2003 requires public bodies and departments to report on the implementation of the Victorian Industry Participation Policy (VIPP).

Amendments to the VIPP in 2012-13 require that a contestability assessment be carried out prior to any procurement process to determine the extent to which the VIPP applies to that process. The contestability assessments for VicForests' procurement processes in 2013-14, returned a nil/limited contestability outcome. As a result of this, the 19 regionally-based contracts with values above the threshold for application of VIPP did not require VIPP plans as part of the procurement process. The average estimate of local content from the contracts awarded was 97 per cent.

Three contracts to which VIPP applied were completed in 2013-14.

Compliance with the *Protected Disclosure Act 2012* (formerly the *Whistleblowers Protection Act 2001*)

The *Protected Disclosure Act 2012* (PD Act) encourages and assists people in making disclosures of improper conduct by public officers and public bodies. The PD Act provides protection to people who make disclosures in accordance with the PD Act and establishes a system for the matters disclosed to be investigated and rectifying action to be taken.

VicForests is committed to the aims and objectives of the PD Act. VicForests does not tolerate improper conduct by employees, nor the taking of reprisals against those who come forward to disclose such conduct. VicForests is committed to ensuring transparency and accountability in its administrative and management practices and supports the making of disclosures that reveal corrupt conduct, conduct involving a substantial mismanagement of public resources, or conduct involving a substantial risk to public health and safety or the environment.

VicForests will take all reasonable steps to protect people who make such disclosures from any detrimental action in reprisal for making the disclosure. It will also afford natural justice to the person who is the subject of the disclosure to the extent it is legally possible.

Reporting procedures

Disclosures of improper conduct or detrimental action by VicForests or any of its employees and/or officers may be made to the Independent Broad-based Anti-corruption Commission (IBAC):

IBAC
Level 1, North Tower
459 Collins Street
Melbourne, VIC 3000
Phone: 1300 735 135
Internet: www.ibac.vic.gov.au
Email: [see the website above for the secure email disclosure process, which also provides for anonymous disclosures]

VicForests cannot receive disclosures made under the PD Act. All such disclosures should therefore be made directly to IBAC.

Further information

VicForests has established procedures for the protection of persons from detrimental action in accordance with the requirements of the PD Act. These can be obtained from VicForests or viewed on the website: www.vicforests.com.au.

Disclosures under the *Protected Disclosure Act 2012*

	2013-14 number	2012-13 number
The number of disclosures made by an individual to VicForests and notified to the Independent Broad-based Anti-corruption Commission		
Assessable disclosures	0	0

Compliance with the *Carers Recognition Act 2012*

VicForests has taken all practical measures to comply with its obligations under the Act. These include considering the carer relationships principles set out in the Act when setting policies and providing services. VicForests policies support carers to balance work and their caring responsibilities. Carer's leave is provided for in our enterprise agreement as are a number of flexible working conditions that support staff with these responsibilities.

Financial Statements

Table of Contents



Financial Statements	Page
Comprehensive Operating Statement for the financial year ended 30 June 2014	25
Balance sheet as at 30 June 2014	26
Statement of changes in equity for the financial year ended 30 June 2014	27
Cash flow statement for the financial year ended 30 June 2014	28
 Notes to the Financial Statements	
Note 1 Summary of significant accounting policies	29
Note 2 Financial risk management objectives and policies	38
Note 3 Comprehensive Operating Statement-disclosures	41
Note 4 Income tax	43
Note 5 Cash and cash equivalents	44
Note 6 Trade and other receivables	44
Note 7 Inventories	47
Note 8 Biological assets	47
Note 9 Tax assets and tax liabilities	49
Note 10 Property, plant and equipment	51
Note 11 Intangible assets	55
Note 12 Payables	55
Note 13 Borrowings	56
Note 14 Employee benefits	57
Note 15 Provisions	57
Note 16 Contributions by owners	59
Note 17 Reserves	59
Note 18 Financial instruments	59
Note 19 Commitments	61
Note 20 Contingent liabilities and contingent assets	62
Note 21 Superannuation	62
Note 22 Ex-gratia expenses	63
Note 23 Responsible persons and executive officer disclosures	63
Note 24 Reconciliation of profit / (loss) for the period after related income tax to net cash flows from operating activities	65
Note 25 Dividends	65
Note 26 Remuneration of auditors	65
Note 27 Events occurring after the balance sheet date	65
Statutory certification	66
Auditor-General's report	67
Attestation for compliance with the Ministerial Standing Direction 4.5.5.1 – Insurance	69
Appendix 1 Disclosure index	70
Appendix 2 Consultancies	72

Comprehensive Operating Statement for the financial year ended 30 June 2014

	Note(s)	2014 \$'000	2013 \$'000
Revenue from operating activities			
Revenue from sales of forest products	3(a)	104,258	104,474
Services provided to other government entities	3(a)	1,190	1,457
Other income	3(a)	99	43
Interest	3(a)	264	330
Total revenue		105,811	106,304
Expenses from operating activities			
Production expenses	3(b)(i)	(73,171)	(73,862)
Employee expenses	3(b)(ii)	(13,719)	(13,851)
Roading expenses	3(b)(iii)	(4,796)	(5,932)
Depreciation	3(b)(v)	(815)	(988)
Amortisation	3(b)(vi)	(4,086)	(3,430)
Borrowing expenses	1(f)	(528)	(798)
Other expenses	3(b)(iv)	(6,506)	(6,446)
Total expenses		(103,621)	(105,307)
Operating result before tax		2,190	997
Income tax (expense) / credit	4 (b)	(659)	(215)
Operating result after tax		1,531	782
Other economic flow for the year, included in net result	3(c)	2,686	29
Income tax (expense) / credit relating to other economic flows	4(c)	(806)	(9)
Other economic flow for the year, net of tax	4(c)	1,880	20
Net result		3,411	802
Comprehensive income		3,411	802

The above Comprehensive Operating Statement should be read in conjunction with the accompanying notes.

Balance sheet as at 30 June 2014

	Note(s)	2014 \$'000	2013 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	5, 18	75	1,960
Trade and other receivables	6, 18	24,332	21,237
Inventories	7	11,065	14,782
Biological assets	8 (b)	7,984	7,182
Prepayments		204	239
Total current assets		43,660	45,400
Non-current assets			
Property, plant and equipment	10	2,358	2,817
Intangible assets	11	1,195	1,219
Biological assets	8 (b)	40,647	28,139
Deferred tax assets	9 (b)	1,503	2,445
Total non-current assets		45,703	34,620
TOTAL ASSETS		89,363	80,020
LIABILITIES			
Current liabilities			
Payables	12, 18	8,225	7,107
Interest bearing liabilities	13, 18	7,401	10,755
Employee benefits	14	2,891	3,114
Provisions	15	4,711	4,708
Deferred tax liability	9 (a)	523	0
Total current liabilities		23,751	25,684
Non-current liabilities			
Interest bearing liabilities	13, 18	6,209	8,138
Employee benefits	14	424	447
Provisions	15	1,710	1,873
Non-current tax liability		1	0
Total non-current liabilities		8,344	10,458
TOTAL LIABILITIES		32,095	36,142
NET ASSETS		57,268	43,878
EQUITY			
Contributions by owners	16	45,000	34,771
Accumulated surplus		12,268	9,107
TOTAL EQUITY		57,268	43,878

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of changes in equity
for the financial year ended 30
June 2014

	Note(s)	Physical asset revaluation surplus \$'000	Accumulated surplus \$'000	Contribution by owner \$'000	Total at 30 June \$'000
Balance at 30 June 2012		0	8,305	37,226	45,531
Net result for the year		0	802	0	802
Biological asset transfer to the Department of Environment and Primary Industries (formerly DPI) (net)	16	0	0	(2,455)	(2,455)
Balance at 30 June 2013		0	9,107	34,771	43,878
Net result for the year		0	3,411	0	3,411
Dividend payment	25	0	(250)	0	(250)
Biological asset transfer from the Department of Environment and Primary Industries	16	0	0	10,229	10,229
Balance at 30 June 2014		0	12,268	45,000	57,268

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

Cash flow statement for the financial year ended 30 June 2014

	Note(s)	2014 \$'000	2013 \$'000
Cash flows from operating activities			
Receipts			
Receipts from customers		141,196	128,071
Interest received on cash and cash equivalents		62	9
		141,258	128,080
Payments			
Payments to suppliers and employees		(134,313)	(115,973)
Interest and other costs of finance paid		(392)	(618)
GST / FBT net paid to the Australian Taxation Office		(2,022)	(1,360)
Income tax (National Tax Equivalent Regime)		0	0
		(136,727)	(117,951)
Net cash inflow / (outflow) from operating activities	24	4,531	10,129
Cash flows from investing activities			
Payments for property, plant, and equipment		(357)	(20)
Payment for intangible assets		(527)	(639)
Proceeds from sale of property, plant and equipment		1	14
Net cash / (outflow) from investing activities		(883)	(645)
Cash flows from financing activities			
Proceeds from borrowings and deposits		71,391	86,680
Repayment of borrowings and deposits of funds		(76,674)	(94,609)
Dividend paid		(250)	0
Net cash inflow / (outflow) from financing activities		(5,533)	(7,929)
Net increase /(decrease) in cash held		(1,885)	1,555
Cash and cash equivalents at the beginning of the financial year		1,960	405
Cash and cash equivalents at the end of the financial year	5	75	1,960

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

Note 1 Summary of significant accounting policies

VicForests is a State Owned Enterprise established on 28 October 2003 by the Governor in Council acting under Section 14 of the *State Owned Enterprises Act 1992*. VicForests commenced operations on 1 August 2004.

These annual financial statements represent the audited general purpose financial statements for VicForests for the year ended 30 June 2014. The purpose of the report is to provide users with information about VicForests' stewardship of resources entrusted to it.

a. Statement of compliance

These general purpose financial statements have been prepared in accordance with the *Financial Management Act 1994* (FMA) and applicable Australian Accounting Standards (AAS) which include Interpretations, issued by the Australian Accounting Standards Board (AASB).

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

b. Basis of accounting

Accounting policies

The accrual basis of accounting has been applied in the preparation of these financial statements whereby assets, liabilities, equity, income and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid. Unless otherwise stated, all accounting policies applied are consistent with those of the prior year. Where appropriate, comparative figures have been amended to accord with current presentation and disclosure made of material changes to comparatives.

These financial statements are presented in Australian Dollars ('the functional currency') and prepared in accordance with the historical cost convention except for:

- Non-financial physical assets which, subsequent to acquisition, are measured at a revalued amount being their fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent impairment losses.

- Biological Assets (productive trees in commercial native forests) which are measured at their fair value less costs to sell (refer Note 1(l))

Consistent with AASB 13 *Fair Value Measurement*, VicForests determines the policies and procedures for recurring fair value measurements such as property, plant and equipment and biological assets in accordance with the requirements of AASB 13 and any relevant financial reporting directions.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identified assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly observable; and
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For the purpose of fair value disclosure, VicForests has determined classes of assets and liabilities, on the basis of the nature, characteristics and risks of the assets or liability and the level of the fair value hierarchy as explained above.

In addition, VicForests determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Classification between current and non-current

In the determination of whether an asset or liability is current or non-current, consideration is given to the time when each asset or liability is expected to be realised or paid. The asset or liability is classified as current if it is expected to be turned over within the next 12 months, being VicForests' operational cycle – see Note 1(t) for a variation in relation to employee benefits.

Rounding

Unless otherwise stated, amounts in the report have been rounded to the nearest thousand dollars.

Historical cost convention

These financial statements have been prepared under the historical cost convention, except for the revaluation of biological assets and all classes of property, plant and equipment.

Accounting judgements, estimates and assumptions

Judgements, estimates and assumptions are required to be made about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on professional judgements derived from historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected by the revision. Judgements and assumptions made by management in the application of Australian Accounting Standards (AAS) that have significant effects on the financial statements and estimates relate to:

- the fair value of buildings, infrastructure, plant and equipment (refer Note 1(h))
- assumptions for employee benefit provisions based on likely tenure of existing staff, patterns of leave claims, future salary movements and future discount rates (refer Note 1(t)).

c. Changes in accounting policies

Subsequent to the 2012-13 reporting period, the following new and revised standards have been adopted in the current period with their financial impact detailed as below.

AASB 13 Fair Value Measurement

AASB 13 establishes a single source of guidance for all fair value measurements. AASB 13 does not change when VicForests is required to use fair value, but rather provides guidance on how to measure fair value under Australian Accounting Standards when fair value is required or permitted. VicForests has considered the specific requirements relating to highest and best use, valuation premise, and principal (or most advantageous) market. The methods, assumptions, processes and

procedures for determining fair value were revisited. In light of AASB 13, VicForests has reviewed the fair value principles as well as its current valuation methodologies in assessing the fair value, and the assessment has not materially changed the fair values recognised.

However, AASB 13 has predominantly impacted the disclosures of VicForests. It requires specific disclosures about fair value measurements and disclosures of fair values, some of which replace existing disclosure requirements in other standards, including AASB 7 *Financial Instruments: Disclosures*.

The disclosure requirements of AASB 13 apply prospectively and need not be applied in comparative information before first application. Consequently, the 2012-13 comparatives of these disclosures have not been provided, except for financial instruments, of which the fair value disclosures are required under AASB 7 *Financial Instruments: Disclosures*.

AASB 119 Employee benefits

In 2013-14, VicForests has applied AASB 119 employee benefits (September 2011, as amended) and the related consequential amendments for the first time.

The revised standard also changes the definition of short-term employee benefits. These were previously benefits that were expected to be settled within twelve months after the end of the reporting period in which the employees render the related service, however, short-term employee benefits are now defined as benefits expected to be settled wholly within twelve months after the end of the reporting period in which the employees render the related service. As a result, accrued annual leave which were previously classified by VicForests as short-term employee benefits and no longer meet this definition could now be classified as long-term employee benefits. However, after analysing the current short-term employee benefits, it was determined that all benefits will be wholly settled within twelve months and that no long-term employee benefits are to be disclosed in relation to annual leave.

As the same applied to 2012-13 with no impact on the comprehensive result, a re-statement was not required.

d. Comparative amounts

Where necessary, figures for the previous year have been reclassified to facilitate comparison.

e. Revenue recognition

Revenue is measured at the fair value of consideration received or receivable. VicForests is recognising revenue for its major business activities as follows:

Sales of forest products

Revenue is generated from timber sales (sawlogs, residual logs and other products), forestry related activities and licence fees. Revenue is recognised when the significant risks and rewards of ownership have passed to the owner and the costs incurred or to be incurred in respect of the transaction can be measured reliably. The point at which the majority of revenue is billable for the products sold is when the timber is delivered to the mill door. Deliveries are billed progressively throughout the year by way of a monthly invoice at which time the sales revenue is recognised.

Rendering of services

VicForests provides services to government agencies, primarily to DEPI. Services are charged on a cost recovery basis and brought to account as work is completed.

Interest

Interest income includes interest received on bank deposits and charged to customers on overdue balances. Interest is recognised as revenue when earned.

f. Borrowing expenses

Borrowing expenses are recognised as expenses in the period in which they are incurred. Borrowing expenses include interest on loan facilities provided by TCV, finance lease charges and the financial accommodation levy charged by the Department of Treasury and Finance (DTF) in order to align VicForests' borrowing costs with the private sector to achieve competitive neutrality.

g. Other economic flows included in the Total comprehensive income for the year

Net gain / (loss) on non-financial assets

The net gain/(loss) on non-financial assets and liabilities includes realised and unrealised gains and losses as follows:

Revaluation gains / (losses) of non-current physical assets

The revaluation of inventories, biological assets, property, plant and equipment is disclosed in the other economic flows.

Gain / (loss) arising from the fair value changes of biological assets

Biological assets are measured at fair value, and the resultant gain / (loss) is reported as other economic flows.

Disposal of non-financial assets

Any gain or loss on the sale of non-financial assets is recognised at the date that the control of the asset is passed to the buyer and is determined after deducting from the proceeds the carrying value of the asset at the time.

h. Recognition and measurement of assets

Property, plant and equipment represent non-current assets comprising buildings, roads and bridges, plant and equipment, motor vehicles and assets under construction, used by VicForests in its operations. Items with a cost or value in excess of \$1,000 (2013: \$1,000) are recognised as an asset and depreciated over their useful lives. All other assets acquired are expensed directly to the Comprehensive Operating Statement.

Initial recognition / acquisition

Assets purchased or constructed are recognised initially at cost. The initial cost of the asset is determined by aggregating the purchase or subcontract price and directly attributable costs. VicForests examined all assets and specifically roads and determined that any make good costs were not material and therefore were not recorded in the asset cost base.

Repairs and maintenance

Routine maintenance, repair costs and minor renewal costs are expensed as incurred. Where the repair relates to the replacement of a component of an asset and the cost exceeds the capitalisation threshold, the cost is capitalised and depreciated.

Revaluations of non-current physical assets

Non current physical assets are measured at fair value on a cyclical basis, in accordance with the Financial Reporting Directions (FRDs) issued by the Minister for Finance. A full revaluation normally occurs every five years, based upon the asset's government purpose classification but may occur more frequently if fair value assessments indicate material changes in values. Independent valuers are generally used to conduct these scheduled revaluations. Any interim revaluations are determined in accordance with the requirements of the FRDs. Revaluation increases or decreases arise from differences between an asset's carrying value and fair value.

Net revaluation increases (where the carrying amount of a class of assets is increased as a result of a revaluation) are recognised in 'other economic flows – other comprehensive income', and accumulated in equity under the asset revaluation surplus. However, the net revaluation increase is recognised in the net result to the extent that it reverses a net revaluation decrease in respect of the same class of property, plant and equipment previously recognised as an expense (other economic flows) in the net result.

Net revaluation decrease is recognised in 'other economic flows – other comprehensive income' to the extent that a credit balance exists in the asset revaluation surplus in respect of the same class of property, plant and equipment. Otherwise, the net revaluation decreases are recognised immediately as other economic flows in the net result. The net revaluation decrease recognised in 'other economic flows – other comprehensive income' reduces the amount accumulated in equity under the asset revaluation surplus.

Revaluation increases and decreases relating to individual assets in a class of property, plant and equipment, are offset against one another in that class but are not offset in respect of assets in different classes.

Impairment of assets

Intangible assets with indefinite useful lives are tested annually as to whether their carrying value exceeds their recoverable amount. All other assets are assessed annually for indicators of impairment, except for:

- Financial assets
- Biological assets
- Inventories
- Deferred tax assets

If there is an indication of impairment, the assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset's carrying amount exceeds its recoverable amount, the difference is written-off by a charge to the other economic flows except to the extent that the write-down can be debited to an asset revaluation reserve amount applicable to that class of asset.

The recoverable amount for most assets is measured at the higher of depreciated replacement cost and fair value less costs to sell. Recoverable amount for assets held primarily to generate net cash inflows is measured at the higher of the present value of future cash flows expected to be obtained from the asset and fair value less costs to sell.

It is deemed that, in the event of the loss of an asset, the future economic benefits arising from the use of the asset will be replaced unless a specific decision to the contrary has been made.

A reversal of an impairment loss on a re-valued asset is credited directly to equity under the heading revaluation reserve. However, to the extent that an impairment loss on the same class of asset was previously recognised in the Comprehensive Operating Statement, a reversal of that impairment loss is also recognised in the Comprehensive Operating Statement.

i. Depreciation and amortisation of non-current assets

Where assets have separate identifiable components that have distinct useful lives and/or residual values, a separate depreciation rate is determined for each component.

Depreciation is calculated using the straight-line method to allocate their cost or re-valued amounts, net of their residual values, over their estimated useful lives, commencing from the time the asset is held ready for use.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Depreciation periods used are listed below and are consistent with the prior year, unless otherwise stated:

Buildings	30-40 years
Roads and bridges	
Short-term	5 years
Long-term	10 years
Other assets	
Computers and communication equipment	3 years
Fixtures and fittings, office equipment	10 years
Plant and equipment	4 years
Motor vehicles	5 years

Amortisation is allocated to intangible assets with finite useful lives on a systematic basis over the asset's useful life. Amortisation begins when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each annual reporting period.

A summary of the policies applied to VicForests intangible assets is as follows:

Intangible asset	Software
Useful life	Finite
Method used	3 years prime cost
Internally generated / acquired	Acquired
Impairment test / Recoverable amount testing	Amortisation method and indicators of impairment reviewed annually

The amortisation rates for 2014 have remained unchanged to the previous year's rates.

j. Intangibles

Intangible assets represent identifiable non-monetary assets without physical substance. Intangible assets are initially recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Costs incurred subsequent to initial acquisition are capitalised when it is expected that future economic benefits will flow to VicForests.

k. Leased assets

Finance leases

Leases of property, plant and equipment, where VicForests has all the substantial risks and rewards incidental to ownership are classified as finance leases. Finance leases are capitalised at the leases' inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the Comprehensive Operating Statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Motor vehicles acquired under finance leases are depreciated over the assets' useful life or the lease term, whichever is the shorter.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Comprehensive Operating Statement on a straight-line basis over the period of the lease, in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

Leasehold improvements

Leasehold improvements are recognised at cost and are depreciated over the unexpired period of the lease or the estimated useful life of the improvement, whichever is the shorter. At balance date, leasehold improvements are depreciated over a period of 3-10 years.

l. Biological assets

In previous years the biological assets capitalised in VicForests' accounts represented the value of timber allocated to VicForests in the form of Timber Release Plans (TRP's) approved by the Secretary of the DEPI. During 2012-13 the Victorian Government reviewed the legislated environment governing the timber resource management and provided greater resource security to the timber industry through amendments to the *Sustainable Forests (Timber) Act 2004*, which allocated the timber resource to VicForests indefinitely. This amendment required all timber resources and associated timber rights to be transferred from DEPI to VicForests and this was effected in the form of an Allocation Order as at 1 October 2013.

As at 30 June 2014, the biological assets comprised the estimated standing timber available for harvest for the next eighty years, stated in line with AASB 13 Fair Value Measurement at fair value, less estimated costs necessary to get the assets to the market. Compliant with AASB 141 Agriculture regeneration expenses are excluded. There is no existing active and liquid market for large areas of native forest; therefore the timber stands were valued in accordance with AASB 141 Agriculture using a discounted cash flow method based on expected cash flows adjusted for known variances to derive a net present value.

The discount rate applied in the calculation is 7.91% (2013: 7.24%) and reflects the specific risk profile of the organisation. This rate is based on a weighted average cost of capital calculation (WACC) which indicates that a discount rate of 7.91% (real, pre tax) appropriately reflects the expected returns on equity and debt and the capital structure of VicForests.

VicForests regenerates coupes at the conclusion of harvesting. In order to recognise this obligation, at harvest completion VicForests sets aside a provision for the expected costs of regeneration. In previous years the regeneration process resulted in the creation of a forestry asset which was to be transferred back to DEPI once the regenerated coupes had met all stringent regeneration conditions as established by DEPI as regulator. Following the amendments to the *Sustainable Forests (Timber) Act 2004* the stringent regeneration conditions still apply, however VicForests is no longer required to transfer any regenerated and accepted coupes back to DEPI but will reconcile them within their overall biological

assets. Therefore the make good assets, previously shown under other assets, have been consolidated within the biological assets class. (see Note 8)

m. Taxation

VicForests is subject to the National Tax Equivalent Regime (NTER), which is administered by the Australian Taxation Office (ATO). The income tax expense or revenue for the period is the tax payable or receivable on the current period's taxable income, based on the national corporate income tax rate of 30%, adjusted by changes in deferred tax assets and liabilities, attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantially enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction that at the time of the transaction did not affect either accounting profit or taxable profit or loss. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax is recognised in the Comprehensive Operating Statement.

n. Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

o. Receivables

Trade receivables are recognised initially at fair value of the consideration received or receivable and subsequently measured at amortised cost, less an allowance for impaired receivables. Amounts disclosed as revenue are net of returns and taxes paid. Normal trading terms are 30 days from date of invoice rendered for both trade and other receivables. Special trading terms have been granted to selected customers in line with VicForests' Customer Credit Policy. Interest is levied on overdue accounts under the *Penalty Interest Rate Act 1983*.

Collectability of trade receivables is reviewed on an ongoing basis. Debts, which are known to be uncollectible, are written off. An allowance for impaired receivables is established when there is objective evidence that VicForests will not be able to collect all amounts due according to the original terms of sale. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amounts credited to the allowance are recognised as expenses in the Comprehensive Operating Statement.

p. Goods and Services Tax

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

Trade receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows arising from operating activities are disclosed in the cash flow statement on a gross basis – i.e. inclusive of GST. The GST component of cash flows arising from investing and financing activities which is recoverable or payable to the ATO is classified as operating cash flows.

q. Inventories

Inventories primarily comprise of harvested logs stored for future sales and seeds which are to be used for the regeneration of harvested coupes. All inventories are valued at the lower of cost or net realisable value.

(i) Harvested logs

Log stocks in transit yards at 30 June 2014 represent timber harvested for sale. There are two components of the cost of logs in transit yards:

- The net market value of the biological timber asset prior to it being harvested. This is the deemed cost of the harvested logs.
- The costs of extraction. These are the operating costs for the relevant VicForests region, incurred in the harvesting, haulage and management of the process in getting the logs to the transit yard.

Where applicable, the net realisable value is based on the sales price for the particular destination for the product, less the remaining haulage expense.

(ii) Seed

VicForests uses seed to regenerate coupes subsequent to harvest but is generally restricted from selling seeds to third parties. Furthermore, there is a limited market for Victorian native forest seed within Victoria thus not allowing the establishment of the net realisable value. Therefore the seed inventory is valued at cost only which is assigned to seed stock quantities on hand at balance date on a weighted average cost basis. The cost calculation is based on direct labour and materials used in the seed collection and extraction processes.

r. Payables

Payables consist predominantly of trade and sundry creditors. These amounts represent liabilities for goods and services provided to VicForests prior to the end of the financial year, which are unpaid at financial year end. The amounts are unsecured and are usually paid within 60 days of recognition.

Payables are initially recognised at fair value, being the cost of the goods and services, and subsequently measured at amortised cost.

s. Interest bearing liabilities

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the initial amount recognised (net of transaction costs) and the redemption amount is recognised in the Comprehensive Operating Statement over the period of the borrowings, using the effective interest method. Borrowings are classified as current liabilities unless VicForests has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

t. Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave for services rendered to the reporting date.

Wages and salaries and annual leave

Liabilities for wages and salaries and annual leave including non-monetary benefits annual leave are all recognised in the provision for employee benefits as 'current liabilities' because VicForests does not have an unconditional right to defer settlements of these liabilities.

Depending on the expectation of the timing of settlement, liabilities for wages and salaries and annual leave are measured at:

- Undiscounted value – if VicForests expects to wholly settle within 12 months; or
- Present value – if VicForests does not expect to wholly settle within 12 months.

Long service leave (LSL)

Current liability – unconditional LSL

(representing 7 or more years of continuous service) is disclosed as a current liability even where VicForests does not expect to settle the liability within 12 months because it does not have the unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months.

The components of this current LSL liability are measured at:

- Present value – component that VicForests does not expect to wholly settle within 12 months; and
- Nominal value – component that VicForests expects to wholly settle within 12 months.

Non-current liability – conditional LSL

(representing less than 7 years of continuous service) is disclosed as a non-current liability. There is an unconditional right to defer the settlement of the entitlement until the employee has completed the requisite years of service. Conditional LSL is required to be measured at present value.

In calculating present value, consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Superannuation

The amount charged to the Comprehensive Operating Statement in respect of superannuation represents the contributions made by VicForests to the superannuation plans in respect of the current services of staff. Superannuation contributions are made to the plans based on the relevant rules of each plan.

The Department of Treasury and Finance (DTF) in their annual financial statements disclose on behalf of the State as the sponsoring employer the net defined benefit cost related to the members of these plans as an administered liability. Refer to DTF's annual financial statements for more detailed disclosure in relation to these plans.

Employee benefit on-costs

Employee benefit on-costs, including payroll tax and workers' compensation are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

Performance payments

Performance payments for VicForests executive officers and staff are based on a percentage of the annual salary package provided under their contract(s) of employment. A liability is recognised and is measured as the aggregate of the amounts accrued under the terms of the contracts to balance date.

u. Dividend policy

VicForests is required to pay a dividend in accordance with a determination of the Treasurer of Victoria under the *State Owned Enterprises Act 1992*. An obligation to pay a dividend only arises after consultation between VicForests' Board of Directors and the Treasurer of Victoria and a formal determination is made by the Treasurer.

v. Provisions

Regeneration of harvested coupes

Under the provisions of the *Sustainable Forests (Timber) Act 2004*, VicForests undertakes the regeneration of harvested areas. A provision is maintained representing the residual value of the costs of regenerating areas harvested for which regeneration works had not yet been completed at the reporting date due to seasonal factors. The provision is based on the current area of land to be regenerated and the per hectare cost of regeneration based on the expected method to be employed.

Legal

VicForests has recognised provisions for legal expenses where it has a present legal obligation as a result of ongoing litigation and the amounts can be measured reliably.

Other

VicForests has recognised provisions for potential price adjustments and credit notes where current contract negotiations could lead to some retrospective adjustments.

w. Contributions by owners

Additions to net assets which have been designated as contributions by owners are recognised as contributed capital. Other transfers that are in the nature of contributions or distributions have also been designated as contributions by owners.

x. Reserves

VicForests' building assets are valued at fair value with any changes to the values of the assets recognised in the property revaluation reserve. The reserves are adjusted by the deferred tax component.

y. Commitments

Commitments are disclosed at their nominal value and inclusive of GST payable.

z. Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the balance sheet, but are disclosed by way of a note and, if quantifiable, are measured at nominal value. Contingent assets and liabilities are presented inclusive of GST receivable or payable respectively.

aa. New accounting standards and interpretations

Certain new and relevant accounting standards and interpretations applicable to VicForests have been published that are not mandatory for the 30 June 2014 reporting period. VicForests has not adopted and does not intend to adopt these standards early.

Standard/ interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on VicForests' financial statements
AASB 9 Financial Instruments	This standard simplifies requirements for the classification and measurement of financial assets resulting from Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement).	1 Jan 2017	While the preliminary assessment has not identified any material impact arising from AASB 9, it will continue to be monitored and assessed.

In addition to the new standard above, the AASB has issued a list of amending standards that are not effective for the 2013-14 reporting period (as listed below). In general, these amending standards include editorial and references changes that are expected to have insignificant impacts on public sector reporting.

The AASB Interpretation in the list below is also not effective for the 2013-14 reporting period and is considered to have insignificant impacts on public sector reporting.

- AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)

- 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets
- 2013-6 Amendments to AASB 136 arising from Reduced Disclosure Requirements
- 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments
- AASB Interpretation 21 Levies.

Note 2 Financial risk management objectives and policies

VicForests' activities expose it to a limited variety of financial risks: market risk, credit risk and liquidity risk. VicForests' overall financial risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of VicForests. VicForests does not use derivative financial instruments such as foreign exchange contracts and interest rate swaps but uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate risks and foreign exchange risks where applicable and aging analysis for credit risk.

Financial risk management is carried out by the Finance Department under policies including a Treasury Management Policy approved by VicForests' Board of Directors.

The main financial risks VicForests is exposed to are as follows:

a. Market risk

Market risk is the risk that changes in market prices will affect the fair value or future cash flows of financial instruments. Market risk comprises foreign exchange risk, interest rate risk and other price risk. VicForests' exposure to market risk is primarily through interest rate risk, there is no material exposure to foreign exchange risk and no exposure to other price risks.

Objectives, policies and processes used to minimise these risks are disclosed in the paragraphs below:

(i) Interest rate risk

VicForests minimises its exposure to interest rate changes on its borrowings by holding a mix of fixed and floating rate debt. The short-term funding is required in order to bridge the gap between the payments to harvest and haulage contractors (a mix of 14 and 30 days after month end) and the receipt of customer payments (largely 30 days after invoice rendered date). A long term loan at a fixed rate has been obtained in 2013 in order to finance part of the non-current assets. Both these loan facilities are sourced from TCV and the interest rate risk exposure is not material.

In previous years finance leases have been entered into on fixed rates in order to eliminate any interest rate risk. There were no finance leases as at 30 June 2014 (2013: \$18,694).

(ii) Foreign exchange risk

VicForests has no material direct exposure to any foreign exchange risk as all Timber Sales Agreements are executed in Victoria and in Australian Dollars. Purchases from foreign vendors are on an immaterial scale and are in principle affected on an Australian Dollar basis only. Isolated foreign currency transactions are affected on spot rates.

(iii) Other price risk

VicForests has no exposure to other price risk.

Summarised sensitivity analysis

The following table summarises the sensitivity of VicForests' financial assets and financial liabilities to interest rate risk. It illustrates the impact on the net result and the net assets

(equity) of VicForests. A 1% increase (and decrease) has been used to show sensitivities for interest rates for both the year ended 30 June 2014 and also the comparative year ended 30 June 2013.

30 June 2014	Carrying amount \$'000	Interest rate risk			
		-1%		+1%	
		Result \$'000	Equity \$'000	Result \$'000	Equity \$'000
Cash in bank	75	(1)	(1)	1	1
TCV loan - on call	5,472	55	55	(55)	(55)
TCV loan - fixed	8,138	0	0	0	0
Lease liability short term	0	0	0	0	0
Total increase/ (decrease)		54	54	(54)	(54)

30 June 2013	Carrying amount \$'000	Interest rate risk			
		-1%		+1%	
		Result \$'000	Equity \$'000	Result \$'000	Equity \$'000
Cash in bank	1,960	(20)	(20)	20	20
TCV loan - on call	8,876	89	89	(89)	(89)
TCV loan - fixed	10,000	0	0	0	0
Lease liability short term	17	0	0	0	0
Total increase/ (decrease)		69	69	(69)	(69)

While the above sensitivity analysis was based on the year-end balances, it needs to be acknowledged that the TCV loan fluctuates within any month and within its facility limit. The actual risk exposure could vary and might

not exist for a whole month or year. The above analysis therefore is considered to be realistic and confirms that the market risk exposure is minor.

b. Credit risk

Credit risk is the risk of financial loss to VicForests as a result of a customer or counterparty to a financial instrument failing to meet its contractual obligations. VicForests' maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the balance sheet. Authorised counterparties for cash at bank and deposits must be Australian banks or domestic government agencies.

Credit risk arising from trade receivables is managed on an individual customer basis through a stringent credit assessment process before entering into sales contracts. Further assessments with mercantile agencies are instigated when monthly reviews of the ageing analysis of receivables require additional intervention. Customers exceeding their capacity and credit limits are required to support these excesses with appropriate securities.

Other receivables consist of receivables from third parties and are considered fully recoverable.

c. Liquidity risk

Liquidity risk is the risk that VicForests will not be able to meet its financial obligations as they fall due. VicForests under normal circumstances is not exposed to any substantial liquidity risks and is able to pay its debts as and when they fall due. Short-term liquidity requirements during each month, due to the gap between the payments of harvesting and haulage contractors and the payments receivable from customers, are covered by a loan facility, approved by the Treasurer of Victoria and extended to VicForests by TCV. Monthly and rolling 12-monthly cash forecasts ensure that liquidity requirements are met.

The liquidity analysis below details VicForests' remaining contractual maturities for its financial liabilities. The analysis has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which VicForests can be required to pay. The analysis includes both interest and principal cash flows.

2014	< 1 mth	1-3 mths	3 mths – 1 year	1-2 yrs	2-5 yrs	5-10 yrs	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Payables	8,225	0	0	0	0	0	8,225
TCV loan - on call	0	0	5,472	0	0	0	5,472
TCV loan - fixed	182	364	1,638	2,184	4,368	0	8,736
Lease liabilities	0	0	0	0	0	0	0
	8,407	364	7,110	2,184	4,368	0	22,433

2013	< 1 mth	1-3 mths	3 mths – 1 year	1-2 yrs	2-5 yrs	5-10 yrs	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Payables	7,107	0	0	0	0	0	7,107
TCV loan - on call	0	0	8,876	0	0	0	8,876
TCV loan - fixed	182	364	1,638	2,184	6,552	0	10,920
Lease liabilities	0	1	16	0	0	0	17
	7,289	365	10,530	2,184	6,552	0	26,920

Note 3 Comprehensive Operating Statement-disclosures

a. Revenue

	2014 \$'000	2013 \$'000
Sales of forest products		
Sawlogs	55,710	56,634
Residual logs / other products	48,403	47,692
Licence fees	145	148
Total sales of forest products	104,258	104,474
Other revenue		
Services provided to other government entities	1,190	1,457
Other	99	43
Total other revenue	1,289	1,500
Interest		
Interest on cash and cash equivalents	53	9
Interest on overdue trade receivables	211	321
Total interest	264	330

b. Operating expenses

	Note(s)	2014 \$'000	2013 \$'000
(i) Production expenses			
Harvesting expenses		35,564	35,560
Haulage expenses		37,318	38,125
Other production expenses		289	177
Total production expenses		73,171	73,862
(ii) Employee expenses			
Salaries and wages	22	10,525	10,319
Superannuation		965	978
Employee benefits (annual leave and long service leave)		1,146	1,291
Other employee expenses		1,083	1,263
Total employee expenses		13,719	13,851

Note 3 Comprehensive Operating Statement-disclosures

	Note(s)	2014 \$'000	2013 \$'000
(iii) Roothing expenses			
Road access fee		1,818	2,986
Road maintenance		2,978	2,946
Total roading expenses		4,796	5,932
(iv) Other expenses			
Bad and doubtful debts		0	3
Contractors and consultants		1,010	1,088
External audit	26	88	86
Facilities expenses		1,311	1,380
Internal audit		68	120
Motor vehicle expenses		1,652	1,778
Other expenses		1,942	1,540
Professional fees		435	451
Total other expenses		6,506	6,446
(v) Depreciation			
Property, plant and equipment		815	988
Total depreciation		815	988
(vi) Amortisation			
Biological assets		3,535	3,165
Software		551	265
Total amortisation		4,086	3,430

c. Other economic flows included in net result

	Note(s)	2014 \$'000	2013 \$'000
Other economic flows			
Net gain / (loss) on disposal of assets	1(g)	0	(5)
Net gain / (loss) arising from the revaluation of long service leave liability		23	(22)
Change in net market value of biological assets due to:			
Increase in average stumpage / cash flow	8 (c)	7,258	1,799
Increase / (decrease) due to change in discount rate	8 (c)	(4,449)	195
Other biological timber asset valuation adjustments	8 (c)	65	(1,528)
Write (down) of timber assets in log storage facility		(318)	(380)
Write up / (down) of seed inventory		107	(30)
Other economic flow for the year		2,686	29

Note 4 Income tax

The income tax expense for the financial year differs from the amount calculated on the net result. The differences are reconciled as follows:

a. Components of tax expense

	Note(s)	2014 \$'000	2013 \$'000
Current tax payable	9(a)	523	0
Deferred tax relating to temporary differences		942	224
Income tax expense / (credit)		1,465	224

Deferred income tax expense included in income tax expense comprises:

	Note(s)	2014 \$'000	2013 \$'000
(Increase) / decrease in deferred tax assets	9(b)	942	(164)
Revenue losses utilised / (recognised)		0	475
Under provision previous year		0	(87)
		942	224

b. Reconciliation of income tax to prima facie tax payable

	Note(s)	2014 \$'000	2013 \$'000
Net operating result before income tax expense		2,190	997
Tax at the Australian tax rate of 30% (2013: 30%)		658	299
<i>Tax effect of amounts which are not deductible in calculating taxable income:</i>			
Adjustments for prior periods		0	(86)
Adjustment for the current period		1	2
Income tax expense on operating result		659	215
Income tax expense / (credit) relating to other economic flows for the year	4(c)	806	9
Income tax expense / (credit)		1,465	224

c. Income tax expense relating to other economic flows for the year

	2014 \$'000	2013 \$'000
Other economic flows for the year	2,686	29
Tax at the Australian tax rate of 30% (2013: 30%)	(806)	(9)
Other economic flows, net of tax	1,880	20

Note 5 Cash and cash equivalents

	Note(s)	2014 \$'000	2013 \$'000
Cash at bank		75	1,960
Total cash and cash equivalent	18	75	1,960

a. Reconciliation to cash at the end of year

The above figures are reconciled to cash at the end of the financial year as shown in the cash flow statement, as follows:

	Note(s)	2014 \$'000	2013 \$'000
Balance as above		75	1,960
Balance as per cash flow statement		75	1,960

Note 6 Trade and other receivables

	Note(s)	2014 \$'000	2013 \$'000
Current			
Trade receivables		24,254	21,124
Net trade receivables		24,254	21,124
Other receivables		66	45
Goods and services tax recoverable		12	68
Total current trade and other receivables		24,332	21,237

The trade receivables are shown net after receivables from the DEPI amounting to \$2,525,311 (2013: \$7,148,985) were off-set with the equivalent amount of payables to the DEPI, as these amounts were only transacted in order to reflect the legal arrangements in relation to the Agreement ratified by the *Forests*

(*Wood Pulp Agreement*) Act 1996 ("Legislated Agreement") between Paper Australia and the State of Victoria. VicForests as delegate for this agreement will only receive and pay these amounts once the transaction has been paid by Paper Australia.

a. Provision for doubtful debts

During 2013-14 VicForests required no provisions for doubtful debts (2013: \$nil) after a review of the trade receivables in accordance with the Customer Credit Policy did not identify any amounts which VicForests will not be able to collect.

As of 30 June 2014, trade receivables of \$6,630,424 (2013: \$5,801,784) were past due but not doubtful. These relate to a number of customers for whom there is no recent history of default and/or where extended payment terms have been agreed in order to ensure a structured reduction of the debt. The amounts overdue for more than 1 year were repaid in July 2014.

The ageing analysis of these receivables is as follows:

	2014 \$'000	2013 \$'000
Past due to 3 months	6,153	3,908
3 months to 1 year	322	1,023
Over 1 year	155	871
	6,630	5,802

Movements in the provision for doubtful debts are as follows:

	2014 \$'000	2013 \$'000
Opening balance 1 July	0	37
Provision for doubtful debts recognised during the year	0	3
Utilisation of provision	0	(40)
	0	0

The creation and release of the provision for doubtful debts has been included in 'other expenses' in the Comprehensive Operating Statement. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

The other amounts within receivables do not contain impaired assets and are not past due. Based on credit history, it is expected that these amounts will be received when due.

b. Fair value and credit risk

Due to the short-term nature of the current receivables, their carrying value is assumed to approximate their fair value. The management of the credit risk is determined following the below ageing of the receivables:

2014	TOTAL \$'000	Not past due and not impaired \$'000	Past due and not impaired				TOTAL \$'000	Impaired / doubtful \$'000
			< 1 mth \$'000	1-3 mths \$'000	3 mths -1 yr \$'000	> 1 year \$'000		
Trade receivables	24,254	17,624	3,991	2,162	322	155	6,630	0
- of which under payment plan	12,001	5,643	3,914	2,035	254	155	6,358	0
- of which secured by bank guarantee / security payment	54	13	17	24	0	0	41	0
Other receivables	66	66	0	0	0	0	0	0

The balance of the past due but not impaired trade receivables and the balance in payment plans has increased slightly compared with the previous year.

2013	TOTAL \$'000	Not past due and not impaired \$'000	Past due and not impaired				TOTAL \$'000	Impaired / doubtful \$'000
			< 1 mth \$'000	1-3 mths \$'000	3 mths -1 yr \$'000	> 1 year \$'000		
Trade receivables	21,124	15,321	2,703	1,206	1,023	871	5,803	0
- of which under payment plan	8,208	3,841	2,306	1,004	1,023	34	4,367	0
- of which secured by bank guarantee / security payment	58	58	0	8	0	0	8	0
Other receivables	45	45	0	0	0	0	0	0

The maximum exposure to credit risk at the reporting date is the higher of the carrying value and fair value of each class of receivables mentioned above. VicForests does hold collateral as security. Refer to Note 2 for more information on VicForests' risk management policy.

Note 7 Inventories

	2014 \$'000	2013 \$'000
Current		
Seed – at cost	6,804	6,995
Logs in log storage facilities – at the lower of cost or net realisable value	4,261	7,787
Total inventories	11,065	14,782

Note 8 Biological assets

VicForests recognises productive trees in commercial native forests as biological assets.

a. Volume of standing timber

	Note(s)	2014	2013
Estimated volume of standing timber available for harvest within 12 months (thousand cubic metres)	1(l)	1,202	1,264

b. Net market value of standing timber

	Note(s)	2014 \$'000	2013 \$'000
Current – available for harvesting within 12 months	1(l)	3,545	3,181
– Regeneration make-good assets		4,439	4,001
Sub-total current		7,984	7,182
Non-current – available for harvesting after 12 months	1(l)	14,849	5,646
– regenerated coupes	1(l)	24,088	20,620
– Regeneration make good assets		1,710	1,873
Sub-total non-current		40,647	28,139
Valuation 30 June		48,631	35,321

The current (year 1) and non-current (subsequent years) standing timber represent 80 years timber supply which has been evaluated on the basis of the discounted cash flow methodology (refer also Note 1 (l)) representing fair value as per AASB 13 taking the current budget and corporate plan into account.

The regeneration coupes reflect the balance of regeneration expenses on coupes which have been regenerated but not yet finalised in line with DEPI's finalisation procedures.

c. Reconciliation of net market value of standing timber (including make good assets)

	Note(s)	2014 \$'000	2013 \$'000
Carrying amount at 1 July		35,321	37,606
Transfer from DEPI	1(l)	10,229	0
Additions – regenerated coupes		3,467	4,621
Provisions recognised during year (make good assets)		5,643	6,549
Payments/other sacrifices of economic benefits (make good assets)		(5,368)	(8,301)
Return of regenerated coupes to DEPI (formerly DPI)		0	(2,455)
Decrement due to harvesting – amortisation		(3,535)	(3,165)
Increase / (decrease) in average stumpage / cash flow		7,258	1,799
Increase / (decrease) due to change in discount rate		(4,449)	195
Revaluation (fair value adjustment)		65	(1,528)
Closing balance 30 June	1(l)	48,631	35,321

Disclosure of biological assets measured at fair value and their categorisation in the fair value hierarchy can be seen below.

	Carrying amount as at 30 June 2014 (\$'000)	Fair value measurement at end of reporting period using:		
		Level 1 (i) (\$'000)	Level 2 (i) (\$'000)	Level 3 (i) (\$'000)
Natural forests	48,631	-	48,631	-

Note:

(i) Classified in accordance with the fair value hierarchy, see Note 1(b).

Biological assets are held at fair value using the current market value. AASB 141 Agriculture determines fair value as the amount for which the asset could be exchanged or a liability settled between knowledgeable parties in an arm's length transaction.

There were no changes in the valuation techniques throughout the period to 30 June 2014.

d. Discount rates

The following discount rate has been applied to the estimated cash flow of the estimated standing timber as per 30 June 2014 to derive a net present value:

	2014	2013
Discount rate	7.91%	7.24%

The discount rate, which is real and pre-tax, reflects VicForests' average costs of funds and the current risk profile of the organisation.

Note 9 Tax assets and tax liabilities

a. Current tax liability

Current tax liability is derived as follows:

	Note(s)	2014 \$'000	2013 \$'000
Opening balance 1 July		0	0
Payments made		0	0
Current tax payable	4(a)	523	0
Adjustment for prior period in current tax	4(a)	0	0
Closing balance 30 June		523	0

The closing balance represents:

	Note(s)	2014 \$'000	2013 \$'000
Income tax payable		523	0
Closing balance 30 June		523	0

b. Deferred tax assets

The balance comprises temporary differences attributable to:

	Note(s)	2014 \$'000	2013 \$'000
Movement in amounts recognised in Comprehensive Operating Statement			
Doubtful debts		0	(37)
Provisions		712	226
Tax losses carried forward		0	0
Other movements		2,431	558
Balance		3,143	747
Multiply by 30% tax rate		942	224
Balance		942	224

Movements

Opening balance 1 July	2,446	2,670
(Debited) / credited to the Comprehensive Operating Statement	(81)	165
Utilisation of tax losses	(861)	(475)
Adjustment for prior period in accumulated surplus	0	86
Closing balance 30 June	1,504	2,446

c. Deferred tax liabilities

The balance comprises temporary differences attributable to:

	Note(s)	2014 \$'000	2013 \$'000
Amounts recognised in Comprehensive Operating Statement			
Depreciation		0	0
Balance		0	0
Multiply by 30% tax rate	4(a)	0	0
Movements			
Opening balance 1 July		1	1
(Debited) to other economic flows		0	0
Revaluation through equity		0	0
Closing balance 30 June		1	1

(d) Reconciliation to balance sheet

Deferred tax assets and liabilities are offset against each other for disclosure in the balance sheet.

	Note(s)	2014 \$'000	2013 \$'000
Deferred tax assets	9 (b)	1,504	2,446
Deferred tax liabilities	9 (c)	(1)	(1)
Net deferred tax assets		1,503	2,445

Note 10 Property, plant and equipment

a. Classes of property, plant and equipment

	2014 \$'000	2013 \$'000
Buildings		
At fair value	4	4
Less: accumulated depreciation	(1)	(1)
	3	3
Roads and bridges		
At fair value	5,596	5,335
Less: accumulated depreciation	(3,702)	(3,243)
	1,894	2,092
Plant and equipment		
At fair value	1,729	1,723
Less: accumulated depreciation	(1,399)	(1,225)
	330	498
Leasehold improvements		
At fair value	1,423	1,420
Less: accumulated depreciation	(1,292)	(1,206)
	131	214
Vehicles		
At fair value	51	51
Less: accumulated depreciation	(51)	(51)
	0	0
Assets under construction at cost	0	10
Total property, plant and equipment	2,358	2,817

b. Movements during the reporting period

2013 – 2014	Opening WDV \$'000	Additions \$'000	Disposals \$'000	Revaluation \$'000	Transfers \$'000	Impairment \$'000	Depreciation \$'000	Closing WDV \$'000
Buildings at fair value	3	0	0	0	0	0	0	3
Roads and bridges at fair value	2,092	0	(1)	0	320	0	(517)	1,894
Plant and equipment at fair value	498	0	0	0	44	0	(212)	330
Leasehold improvements at fair value	214	0	0	0	3	0	(86)	131
Vehicles at fair value	0	0	0	0	0	0	0	0
Assets under construction at cost	10	357	0	0	(367)	0	0	0
Total	2,817	357	(1)	0	0	0	(815)	2,358

2012 – 2013	Opening WDV \$'000	Additions \$'000	Disposals \$'000	Revaluation \$'000	Transfers \$'000	Impairment \$'000	Depreciation \$'000	Closing WDV \$'000
Buildings at fair value	3	0	0	0	0	0	0	3
Roads and bridges at fair value	2,625	0	(4)	0	0	0	(529)	2,092
Plant and equipment at fair value	260	0	(2)	0	435	0	(195)	498
Leasehold improvements at fair value	392	0	0	0	83	0	(261)	214
Vehicles at fair value	15	0	(12)	0	0	0	(3)	0
Assets under construction at cost	508	20	0	0	(518)	0	0	10
Total	3,803	20	(18)	0	0	0	(988)	2,817

Fair value measurement hierarchy for assets as at 30 June 2014

	Carrying amount as at 30 June 2014 \$'000	Fair value measurement at end of reporting period using:		
		Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Buildings at fair value				
Specialised buildings	3	-	-	3
Total of buildings at fair value	3	-	-	3
Roads and bridges at fair value				
Roads and bridges	1,894	-	-	1,894
Total of roads and bridges at fair value	1,894	-	-	1,894
Plant, equipment and vehicles at fair value				
Plant and equipment	330	-	-	330
Vehicles	0	-	-	0
Total of plant, equipment and vehicles at fair value	330	-	-	330
Leasehold improvements at fair value				
Leasehold improvements	131	-	-	131
Total of leasehold improvements at fair value	131	-	-	131

Specialised buildings

Buildings comprises of a small shed and the depreciated replacement cost method is used, adjusting for the associated depreciation. As depreciation adjustments are considered as significant, unobservable inputs in nature, specialised buildings are classified as level 3 fair value measurements.

Roads and bridges

Roads and bridges represent in-forest infrastructure facilitating the harvesting and haulage of timber product from remote coupes. Roads and bridges are held at fair value. As there is no reliable market-based fair value for these assets, VicForests uses depreciated replacement cost. Individual assets are not comparable within their classification as capitalised assets can represent part or complete portions of roads. Given these are significant, unobservable inputs, roads and bridges have been classified as level 3 assets.

Plant, equipment and vehicles

Plant, equipment and vehicles includes computers and communications equipment, furniture, office equipment and a motor vehicle. Plant, equipment and vehicles are held at fair value.

As there is no evidence of a reliable market-based fair value (or other relevant fair value indicators) for plant, equipment and vehicles

(or any such evidence does not indicate a fair value significantly different from depreciated replacement cost), depreciated replacement cost is the fair value for these types of assets. The valuation of plant, equipment and vehicles is based on significant unobservable inputs and accordingly is classified as Level 3 assets.

Leasehold improvements

Leasehold improvements include office alterations and fittings in seed facility leased from DEPI. As there is no evidence of a reliable market-based fair value (or other relevant fair value indicators) for leasehold improvements (or any such evidence does not indicate a fair value significantly different from depreciated replacement cost), depreciated replacement cost is the fair value for these types of assets. The valuation of leasehold improvements is based on significant unobservable inputs and accordingly is classified as Level 3 assets.

There were no changes in valuation techniques throughout the period to 30 June 2014.

For all assets measured at fair value, the current use is considered the highest and best use.

There were no material movements for all asset classes.

Reconciliation of Level 3 fair value (in \$'000)

2014	Specialised buildings	Roads and bridges	Plant and equipment	Vehicles	Leasehold improvements
Opening balance	3	2,092	498	0	214
Purchases (sales)	0	319	44	0	3
Transfers in (out) of Level 3	0	0	0	0	0
Depreciation	0	(517)	(212)	0	(86)
Impairment loss	0	0	0	0	0
Subtotal	3	1,894	330	0	131
Revaluation	0	0	0	0	0
Subtotal	3	1,894	330	0	131
Closing balance	3	1,894	330	0	131
Unrealised gains/ (losses) on non financial assets	0	0	0	0	0

Description of significant unobservable inputs to Level 3 valuations

	Valuation technique	Significant unobservable inputs	Range (weighted average)	Sensitivity of fair value measurement to changes in significant unobservable inputs
Specialised buildings	Depreciated replacement cost	Direct cost per square metre	\$400–\$500 / m ² (\$450)	A significant increase or decrease in direct cost per square metre adjustment would result in a significantly higher or lower fair value
		Useful life of buildings	30-40 years (35 years)	A significant increase or decrease in the estimated useful life of the asset would result in a significantly higher or lower valuation
Roads and bridges	Depreciated replacement cost	Cost per unit	\$2,000 –\$408,000 per unit (\$ 52,300 per unit)	A significant increase or decrease in cost per unit would result in a significantly higher or lower fair value
		Useful life of the roads and bridges	5–10 years (7.5 years)	A significant increase or decrease in the estimated useful life of the asset would result in a significantly higher or lower valuation
Plant and equipment	Depreciated replacement cost	Cost per unit	\$1,000–\$35,000 per unit (\$3,710 per unit)	A significant increase or decrease in cost per unit would result in a significantly higher or lower fair value
		Useful life of plant and equipment	5–10 years (7 years)	A significant increase or decrease in the estimated useful life of the asset would result in a significantly higher or lower valuation
Leasehold improvements	Depreciated replacement cost	Cost per unit	\$1,000–\$1,000,000 per unit (\$84,000 per unit)	A significant increase or decrease in cost per unit would result in a significantly higher or lower fair value
		Useful life of the leasehold improvements	3 to 10 years (6 years)	A significant increase or decrease in the estimated useful life of the asset would result in a significantly higher or lower valuation

Note 11 Intangible assets

	2014 \$'000	2013 \$'000
(a) Software		
Software at cost	2,812	2,205
Less: accumulated amortisation	(1,617)	(1,066)
Written down value (WDV)	1,195	1,139
Assets under construction at cost	0	80
Total Intangible assets	1,195	1,219
(b) Movements during the reporting period		
Opening WDV 1 July	1,219	846
Additions	607	1,391
Transfers	(80)	(753)
Amortisation	(551)	(265)
Closing WDV 30 June	1,195	1,219

Note 12 Payables

	2014 \$'000	2013 \$'000
Current payables		
Trade payables	6,947	6,075
Accrued expenses	1,039	795
Other payables	239	237
Total current payables	8,225	7,107

Please refer to Note 2(c) for the maturity analysis of contractual payables.

Note 13 Borrowings

a. Overdraft, loan facilities and finance leases

During 2013-14 VicForests maintained a loan facility with TCV approved in 2013 by the Treasurer of Victoria to meet its operational cash flow requirements, part of this facility was fixed for 5 years to secure low interest rates and to finance non-current assets over a longer term. During 2013-14 VicForests finalised the sole finance lease held.

	Note(s)	2014 \$'000	2013 \$'000
Current			
Unsecured			
TCV loan – on call		5,472	8,876
TCV loan – fixed		1,929	1,862
Lease liabilities		0	17
Total unsecured interest bearing liabilities - current	18	7,401	10,755
Non-current			
Unsecured			
TCV loan – fixed		6,209	8,138
Total unsecured interest bearing liabilities - non-current	18	6,209	8,138
Credit standby arrangements			
Total TCV facilities		25,000	27,000
Used at 30 June		13,610	18,876
Unused at 30 June		11,390	8,124

b. Interest rate risk exposure

The interest rates risk exposure is addressed in Note 18.

Note 14 Employee benefits

	2014 \$'000	2013 \$'000
Current		
Annual leave (nominal value)	966	1,106
Long service leave		
Unconditional - Expected to be settled within 12 months (nominal value)	1,263	1,445
- Expected to be settled after 12 months (present value)	662	563
	2,891	3,114
Non-current		
Long service leave: conditional	424	447
	424	447
Total employee benefits	3,315	3,561

Employee numbers at end of the financial year are 98.3 full time equivalents. (30 June 2013: 111.6)

As per 30 June 2014 VicForests has changed to the Department of Treasury and Finance 2008 Long Service Leave Model and the following assumptions have been used to calculate the provision for long service leave as at 30 June 2014.

- Wage inflation rate: 4.438%
- Discount rate: 3.571%

Note 15 Provisions

	2014 \$'000	2013 \$'000
Current		
Provision for regeneration of coupes	4,439	4,001
Provision for employee entitlements	237	230
Other provisions	35	470
Provision for legal expenses	0	7
Total current	4,711	4,708
Non-current		
Provision for regeneration of coupes	1,710	1,873
Total non-current	1,710	1,873

Note 15 Provisions

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

	2014 \$'000				
	Provision for regeneration of coupes	Provision for employee entitlements	Other provisions	Provision for legal expenses	Total current
Current					
Opening balance 1 July	4,001	230	470	7	4,708
Additional provisions recognised	4,926	237	35	10	5,208
Payments or other sacrifices of economic benefits	(2,557)	(207)	(435)	(17)	(3,216)
Reduction from re- measurement or settlement without cost	(1,931)	(23)	(35)	0	(1,989)
Closing balance 30 June	4,439	237	35	0	4,711

	2013 \$'000				
	Provision for regeneration of coupes	Provision for employee entitlements	Other provisions	Provision for legal expenses	Total current
Current					
Opening balance 1 July	5,123	222	50	511	5,906
Additional provisions recognised	5,925	240	527	134	6,826
Payments or other sacrifices of economic benefits	(4,695)	(232)	(107)	(465)	(5,499)
Reduction from re- measurement or settlement without cost	(2,352)	0	0	(173)	(2,525)
Closing balance 30 June	4,001	230	470	7	4,708

	2014 \$'000	2013 \$'000
Non-current		
Opening balance 1 July	1,873	2,503
Provision recognised during year	717	624
Reduction from re-measurement or settlement without cost	(880)	(1,254)
Closing balance 30 June	1,710	1,873

Note 16 Contributions by owners

	2014 \$'000	2013 \$'000
Opening balance 1 July	34,771	37,226
Net transfer of biological assets to DEPI (formerly DPI)	0	(2,455)
Net transfer of biological assets from DEPI	10,229	0
Closing balance 30 June	45,000	34,771

Note 17 Reserves

	Note(s)	2014 \$'000	2013 \$'000
Property revaluation reserve:			
Opening balance 1 July		0	0
Transferred to retained earnings		0	0
Revaluation of buildings – net of tax		0	0
Closing balance 30 June		0	0

Note 18 Financial instruments

a. Interest rate risk exposures

The following table details exposure to interest rate risks at 30 June 2014:

		Fixed interest rate maturity				
	Weighted average effective interest rate % for 2013-14	Variable interest rate \$'000	Less than 1 year \$'000	1 to 5 years \$'000	Non interest bearing \$'000	Total \$'000
Financial assets						
Cash at bank	2.452%	75	0	0	0	75
Trade receivables	10.742%	3,626	0	0	20,628	24,254
Other receivables	0%	0	0	0	66	66
		3,701	0	0	20,694	24,395
Total financial liabilities						
Current payables	0%	0	0	0	8,225	8,225
Interest bearing liabilities (TCV on call)	2.760%	5,472	0	0	0	5,472
Interest bearing liabilities (TCV fixed)	3.520%	0	1,929	6,209	0	8,138
Finance lease liabilities	14.270%	0	0	0	0	0
Total		5,472	1,929	6,209	8,225	21,835

Note 18 Financial instruments

The following table details exposure to interest rate risks at 30 June 2013:

		Fixed interest rate maturity				
	Weighted average effective interest rate % for 2012-13	Variable interest rate \$'000	Less than 1 year \$'000	1 to 5 years \$'000	Non interest bearing \$'000	Total \$'000
Financial assets						
Cash at bank	3.066%	1,960	0	0	0	1,960
Trade receivables	10.500%	6,053	0	0	15,071	21,124
Other receivables	0%	0	0	0	45	45
		8,013	0	0	15,116	23,129
Total financial liabilities						
Current payables	0%	0	0	0	7,107	7,107
Interest bearing liabilities (TCV on call)	3.343%	8,876	0	0	0	8,876
Interest bearing liabilities (TCV fixed)	3.520%	0	1,862	8,138	0	10,000
Finance lease liabilities	14.270%	0	17	0	0	17
Total		8,876	1,879	8,138	7,107	26,000

Note: The total Other receivables amount disclosed excludes statutory amounts (e.g. GST recoverable)

b. Fair value

There is no material difference between the carrying amounts and fair value of the financial assets and financial liabilities. VicForests considers that the carrying amount of financial instrument assets and liabilities recorded in the financial statements to be a fair approximation

of their fair values, because of the short-term nature of the financial instruments and the expectation that they will be paid in full.

The following table shows that the fair values of most of the contractual financial assets and liabilities are the same as the carrying amounts.

Comparison between carrying amount and fair value

		(\$'000)		
	Carrying amount 2014	Fair value 2014	Carrying amount 2013	Fair value 2013
Contractual financial assets				
	75	75	1,960	1,960
(i) Cash and cash equivalents				
Trade receivables	24,254	24,254	21,124	21,124
Other receivables	66	66	45	45
Total contractual financial assets	24,395	24,395	23,129	23,129
Contractual financial liabilities				
Payables				
Supplies and services	6,879	6,879	5,907	5,907
(i) Amounts payable to government and agencies	1,346	1,346	1,200	1,200
Borrowings				
Finance lease liabilities	0	0	17	17
TCV loan - on call	5,472	5,472	8,876	8,876
TCV loan - fixed	8,138	8,240	10,000	10,063
Total contractual financial liabilities	21,835	21,937	26,000	26,063

Note:

- (i) The carrying amounts disclosed here exclude statutory amounts (e.g. amounts owing from Victorian government, GST input tax credit recoverable, and GST payables).

Note 19 Commitments

The following commitments are inclusive of GST:

a. Lease commitments

The operating lease commitments represent all future commitments for office and motor vehicle leases.

	2014 \$'000	2013 \$'000
Operating lease commitments		
The value of operating leases entered into at 30 June but not recognised as liabilities are expected to be payable as follows:		
Within 1 year	1,053	1,447
Later than 1 year but within 5 years	615	1,463
Total	1,668	2,910
Finance lease commitments		
VicForests had a motor vehicle finance lease. The commitments were as follows:		
Within 1 year	0	19
Total minimum lease payments	0	19
Less: future finance charges	0	(2)
Total	0	17
Represented by		
Current liability	0	17
	0	17
The present value of finance lease liabilities was as follows:		
Within 1 year	0	17
Total minimum lease payments	0	17

b. Other operating commitments

	2014 \$'000	2013 \$'000
As at 30 June, VicForests had the following other operating commitments expected to be paid as follows:		
Within 1 year	58,521	58,233
Later than 1 year but within 5 years	75,753	117,473
Later than 5 years	0	0
Total	134,274	175,706

c. Cost of road access fee

VicForests is party to an agreement with the DEPI to determine, manage and fund maintenance costs associated with timber haulage on the forest road network. The timber haulage tolls are established on the basis of the costs of maintaining the road

network and the volume hauled over the network. The agreement also includes the sharing of funding of a bridges and structures fund. This agreement and the associated charges are reviewed and confirmed on an annual basis.

Note 20 Contingent liabilities and contingent assets

There are no contingent liabilities or assets as at 30 June 2014 (30 June 2013: \$nil).

Note 21 Superannuation

VicForests makes employer superannuation contributions to a series of funds in respect of employees. These funds have two categories of membership, each of which is funded differently.

The Emergency Services Superannuation Schemes and the State Employees Retirement Benefits Scheme (SERBS) are multi-employer sponsored defined benefit plans. VicForests does not recognise any defined benefit liability in respect of the plans because it has no legal or constructive obligation to pay benefits relating to its employees; its only obligation is to pay superannuation contributions as they fall due. DTF discloses the State's defined benefit liabilities in its disclosure for administered items.

However, superannuation contributions paid or payable for the reporting period are included as part of the employee benefits in the comprehensive operating statement of VicForests.

The other funds receive both employer and employee contributions on a progressive basis. Employer contributions are normally based on a fixed percentage of employee earnings as required under Superannuation Guarantee Legislation. No further liability accrues to the employer as the superannuation benefits accruing to the employees are represented by their share of the net assets of the funds.

VicForests contributes in respect of its employees to the following superannuation schemes:

Scheme name	Type of scheme	2014		2013	
		Contribution rate	\$'000	Contribution rate	\$'000
Emergency Services Superannuation – New Scheme	Defined benefit	7.4% - 10.3%	135	7.4% - 10.3%	110
Emergency Services Superannuation – Revised Scheme	Defined benefit	17.30%	26	17.60%	44
State Employees Retirement Benefits Scheme (SERBS)	Defined benefit	13.30%	1	13.30%	13
VicSuper	Accumulated fund	9.25%	606	9.00%	600
Other	Accumulated fund	9.25%	197	9.00%	211
Total contributions to all funds			965		978

As at 30 June 2014 there were no outstanding contributions due to the Government Superannuation Office (GSO) (an operating division of the Emergency Services Superannuation Board which manages the Emergency Services Superannuation Schemes and the SERBS) (as at 30 June 2013: \$nil).

As at 30 June 2014, there were no loans to or from VicForests to any of the above funds (as at 30 June 2013: \$nil).

Note 22 Ex-gratia expenses

VicForests incurred ex-gratia payments during 2013-14 on the grounds of compassion and hardship in the overall context of the business restructure:

	2014 \$'000	2013 \$'000
Other	17	0
Total ex-gratia expenses	17	0

Note 23 Responsible persons and executive officer disclosures

a. Responsible persons

The names of persons who were responsible persons at any time during the financial year were:

- **The Hon Peter Walsh MLA, Minister for Agriculture and Food Security**

VicForests' other responsible persons were as follows:

Position	Name	Period
Chairman	Gordon Davis	1 July 2013 – 30 June 2014
Director	Andrew (Rob) de Fegely	1 July 2013 – 30 June 2014
Director	Michael Humphris	1 July 2013 – 30 June 2014
Director	Therese Ryan	1 July 2013 – 30 June 2014
Director	Graeme Stoney	1 July 2013 – 30 June 2014
Director	Catherine Walter	1 July 2013 – 30 June 2014
Accountable Officer	Robert Green, CEO	1 July 2013 – 30 June 2014

The number of responsible persons other than the responsible Minister and their total remuneration was within the specified bands as follows:

Income band (\$)	Total remuneration	
	2014 No.	2013 No.
\$0 - \$9,999	0	1
\$10,000 - \$19,999	0	4
\$20,000 - \$29,999	0	1
\$30,000 - \$39,999	5	2
\$60,000 - \$69,999	0	1
\$70,000 - \$79,999	1	0
\$320,000 - \$329,999	0	1
\$350,000 - \$359,999	1	0
Total numbers	7	10
Total amount	\$619,368	\$562,775

Remuneration paid to the Minister is reported in the Annual Report of the Department of Premier and Cabinet.

b. Executive officers' remuneration

The number of executive officers (excluding the Accountable Officer) and their total remuneration during the reporting period are shown in the table below in their relevant income bands. The base remuneration of executive officers is also shown. Base remuneration is exclusive of bonus payments, long service leave payments, redundancy payments and retirement benefits.

Income band	Total remuneration		Base remuneration	
	2014	2013	2014	2013
Under \$100,000	0	0	0	0
\$160,000 - \$169,999	1	0	1	1
\$170,000 - \$179,999	0	1	0	1
\$180,000 - \$189,999	0	1	2	0
\$190,000 - \$199,999	1	0	1	2
\$200,000 - \$209,999	2	2	1	1
\$210,000 - \$219,999	2	1	1	0
Total numbers	6	5	6	5
Total annualised employee equivalent	6	5	6	5
Total amount	\$1,196,429	\$985,002	\$1,146,929	\$935,566

The total annualised employee equivalent provides a measure of full-time equivalent executive officers over the reporting period.

There were no contractors with significant management responsibilities during the year and there were no related parties transactions during 2013-14.

Note 24 Reconciliation of profit / (loss) for the period after related income tax to net cash flows from operating activities

Reconciliation of net result after income tax expense to net cash provided by operating activities:

	2014 \$'000	2013 \$'000
Total comprehensive income for the year	3,411	802
Non-cash movements:		
Provisions for doubtful debts	0	(37)
Depreciation and amortisation	4,901	4,418
Loss on disposal of non-current assets	0	5
(Gain) / loss on revaluation of long service leave liability	(23)	22
(Gain) on revaluation of biological assets	(2,874)	(466)
Write down of log inventory in log storage facilities	318	380
Write-(up) / down of seed inventory	(107)	30
Movements in assets and liabilities:		
(Increase) / decrease in trade receivables	(3,130)	11,247
Decrease in other receivables / GST recoverable	36	2
Decrease in inventories	3,507	770
(Increase) in biological assets	(3,467)	(4,620)
(Increase) / decrease in prepayments	35	(43)
(Increase) in deferred tax asset	942	224
(Increase) / decrease in regeneration make-good asset	(275)	1,752
Increase / (decrease) in payables	1,119	(2,810)
Increase / (decrease) in employee benefit liabilities	(225)	281
Increase / (decrease) in provisions other than provision for regeneration of coupes	(435)	(76)
Increase / (decrease) in provision for regeneration of coupes	275	(1,752)
Increase / (decrease) in current tax liability	523	0
Net cash flows from operating activities	4,531	10,129

Note 25 Dividends

In the financial year ended 30 June 2014 a dividend of \$250,000 was paid (2013: \$nil) as agreed with the Treasurer of Victoria. Following the further improved result of 2014 the Board proposes to pay a dividend of \$500,000, subject to final determination by the Treasurer.

Note 27 Events occurring after the balance sheet date

No matters and/or circumstances have arisen since the end of the reporting period which significantly affect or may significantly affect the operations of VicForests, the results of those operations, or the state of affairs of VicForests in future financial years.

Note 26 Remuneration of auditors

	2014 \$'000	2013 \$'000
Victorian Auditor-General's Office (VAGO)		
Audit of financial statements	88	86
Total auditors' remuneration	88	86

Statutory certification

Statutory certification

We certify that the Financial Statements for VicForests for the year ended 30 June 2014 have been prepared in accordance with Standing Direction 4.2 of the *Financial Management Act 1994*, applicable Financial Reporting Directions, Australian Accounting Standards including Interpretations, and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the Comprehensive Operating Statement, balance sheet, statement of changes in equity, cash flow statement and accompanying notes, presents fairly the financial transactions during the year ended 30 June 2014 and the financial position of VicForests at 30 June 2014.

At the time of signing, we are not aware of any circumstance which would render any particulars included in the financial statements to be misleading or inaccurate.

We authorise the attached financial statements for issue on 28 August 2014.



Gordon Davis
Chairman
VicForests



Robert Green
Chief Executive Officer
VicForests



Gerhard Hinz
Chief Financial Officer
VicForests

28th day of August, 2014



Victorian Auditor-General's Office

Level 24, 35 Collins Street
Melbourne VIC 3000
Telephone 61 3 8601 7000
Facsimile 61 3 8601 7010
Email comments@audit.vic.gov.au
Website www.audit.vic.gov.au

INDEPENDENT AUDITOR'S REPORT

To the Board Members, VicForests

The Financial Report

The accompanying financial report for the year ended 30 June 2014 of VicForests which comprises the comprehensive operating statement, balance sheet, statement of changes in equity, cash flow statement, notes comprising a summary of significant accounting policies and other explanatory information, and the statutory certification has been audited.

The Board Members' Responsibility for the Financial Report

The Board Members of VicForests are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, and the financial reporting requirements of the *Financial Management Act 1994*, and for such internal control as the Board Members determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit, which has been conducted in accordance with Australian Auditing Standards. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

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

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

Auditing in the Public Interest

Auditor-General's report

Independent Auditor's Report (continued)

Independence

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised. In conducting the audit, the Auditor-General, his staff and delegates complied with all applicable independence requirements of the Australian accounting profession.

Opinion

In my opinion, the financial report presents fairly, in all material respects, the financial position of VicForests as at 30 June 2014 and of its financial performance and its cash flows for the year then ended in accordance with applicable Australian Accounting Standards, and the financial reporting requirements of the *Financial Management Act 1994*.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report of VicForests for the year ended 30 June 2014 included both in VicForests's annual report and on the website. The Board Members of VicForests are responsible for the integrity of VicForests's website. I have not been engaged to report on the integrity of VicForests's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in the website version of the financial report.

MELBOURNE
1 September 2014


for John Doyle
Auditor-General

Attestation for compliance with the Ministerial Standing Direction 4.5.5.1 – Insurance

Attestation for compliance with the Ministerial Standing Direction 4.5.5.1 – Insurance

I, Robert Green certify that VicForests has complied with Ministerial Direction 4.5.5.1 – Insurance.



Robert Green
Chief Executive Officer
VicForests

28th day of August, 2014

Appendix 1 Disclosure index

The Annual Report of VicForests is prepared in accordance with all relevant Victorian legislations and statutory disclosure requirements. This index facilitates identification of VicForests' compliance with statutory disclosure requirements.

Legislation	Requirement	Page
Ministerial directions		
	Report of operations	9-18
Charter and purpose		
FRD 22E	Manner of establishment and the relevant Minister	4
FRD 22E	Nature and range of services provided	4
FRD 22E	Objectives, functions, powers and duties	4
Management and structure		
FRD 22E	Organisational structure	7
Financial and other information		
FRD 10	Disclosure Index	70
FRD 12A	Disclosure of major contracts	21
FRD 15B	Executive officer disclosure	63
FRD 22E	Summary of financial results for the year	9
FRD 22E	Significant changes in financial position during the year	9
FRD 22E, SD 4.2(k)	Operational and budgetary objectives, and performance against objectives	18
FRD 22E	Major changes or factors affecting performance	3, 8-11
FRD 22E	Employment and conduct principles	20
FRD 22E	Occupational Health and Safety	19
FRD 22E	Subsequent events	65
FRD 22E	Application and operation of <i>Freedom of Information Act 1982</i>	21
FRD 22E	Application and operation of the <i>Protected Disclosure Act 2012</i>	22
FRD 22E	Statement of National Competition Policy	22
FRD 22E	Statement of availability of other information	21
FRD 22E	Building and maintenance provisions of the <i>Building Act 1993</i>	21
FRD 22E	Details of consultancies over \$10,000	72
FRD 22E	Details of consultancies under \$10,000	72
FRD 25B	Victorian Industry Participation Policy disclosures	22
FRD 29	Workforce data disclosure	20
SD 4.5.5.1	Risk management compliance attestation	69
SD 4.2(g)	General information requirements	9-18
SD 4.2(j)	Sign-off requirements	66

Legislation	Requirement	Page
Financial statements required under Part 7 of the <i>Financial Management Act 1994</i>		
SD 4.2(a)	Statement of changes in equity	27
SD 4.2(b)	Comprehensive Operating Statement	25
SD 4.2(b)	Balance sheet	26
SD 4.2(b)	Cash flow statement	28
Other requirements under Standing Directions 4.2		
SD 4.2(c)	Compliance with applicable Australian accounting standards and other authoritative pronouncements	29
SD 4.2(c)	Compliance with Ministerial Directions	29
SD 4.2(c)	Accountable Officer's declaration	66
SD 4.2(d)	Rounding of amounts	30
SD 4.2(h)	Report of Operations to be prepared in accordance with the requirements of the FRD's	9-18
Other disclosures as required by FRD's in notes to the financial statements		
FRD 11A	Disclosure of ex-gratia payments	63
FRD 17B	Long service leave wage inflation and discount rates	57
FRD 21B	Responsible persons, executive officers and other personnel disclosure	63
FRD 102	Inventories	35, 47
FRD 103E	Non-current physical assets	31-33, 51-54
FRD 104	Foreign currency	38
FRD 106	Impairment of assets	32
FRD 109	Intangible assets	33
FRD 110	Cash flow statement	28
FRD 112D	Defined benefit superannuation obligations	36, 62
FRD 114A	Financial instruments – general government entities and public non-financial corporations	38
FRD 119A	Transfers through contributed capital	37, 59
FRD 120H	Accounting and reporting pronouncements applicable to 2013-14 reporting period	30

Legislation

Audit Act 1994
Building Act 1993
Financial Management Act 1994
Forests (Wood Pulp Agreement) Act 1996
Freedom of Information Act 1982
Multicultural Victoria Act 2004
Occupational Health and Safety Act 2004
Penalty Interest Rate Act 1983
Protected Disclosures Act 2012
State Owned Enterprises Act 1992
Sustainable Forests (Timber) Act 2004
Victorian Industry Participation Policy Act 2003

Key

FMA *Financial Management Act 1994, as amended*
FRD *Financial Reporting Direction issued by the Department of Treasury and Finance*
SD *Standing Direction of the Minister for Finance*

Appendix 2 Consultancies

Consultant	Nature of Work	Fees 2013-14 (\$)
<i>(a) Consultancies in excess of \$10,000</i>		
Corporate Scorecard	Industry benchmarking project	14,014
Cutthru Pty Limited	Market research	13,200
ESRI-Australia Pty Ltd	IT review (special)	10,500
Fish and Nankivell Ogilvie Watson Pty Ltd	Review Board performance	12,000
Forest Strategy Pty Ltd	Regrowth retention strategy review	16,364
Futureye Pty Ltd	Stakeholder engagement	59,048
Net Balance Management Group	Sustainability reporting	11,400
Poyry Management Consulting (Australia) Pty Ltd	Australian Paper pricing audit	11,000
Rural Works Pty Ltd	Road access review	32,554
SCG Advisory Pty Ltd	Strategic advice	20,000
SCS Global Services	FSC controlled wood preliminary assessment	24,525
TechnologyOne	IT consulting / post go live support	92,106
The Lonsdale Group Pty Ltd	TIAP industry consulting support	63,541
URS Australia Pty Ltd	Timber Market Survey	27,051
<i>(b) Consultancies less than \$10,000</i>	29	108,519

Table of acronyms

Acronym	Definition	Acronym	Definition
ARC	Audit and Risk Committee	IBAC	Independent Broad-based Anti-corruption Commission
ATO	Australian Taxation Office	LSL	Long Service Leave
CEO	Chief Executive Officer	OHS	Occupational Health and Safety
DEPI	Department of Environment and Primary Industries	RFP	Request for Proposal
DTF	Department of Treasury and Finance	TCV	Treasury Corporation of Victoria
EBIT	Earnings Before Interest and Taxes	TIAP	Timber Industry Action Plan
FOI	Freedom of Information	TRP	Timber Release Plan
FRD	Financial Reporting Directions	VAGO	Victorian Auditor-General's Office
FSC	Forest Stewardship Council	VIPP	Victorian Industry Participation Policy
GST	Goods and Services Tax	WDV	Written Down Value



Authorised and published by VicForests

Level 7, 473 Bourke St
Melbourne, Vic 3000

GPO Box 191, Melbourne Vic 3001

Tel: 03 9608 9500

Fax: 03 9608 9566

Email: vfs.admin@vicforests.com.au

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Level 7, 473 Bourke St
Melbourne, Vic 3000

Tel: 03 9608 9500
Fax: 03 9608 9566

vfs.admin@vicforests.com.au

www.vicforests.com.au

