

Information Bulletin 2



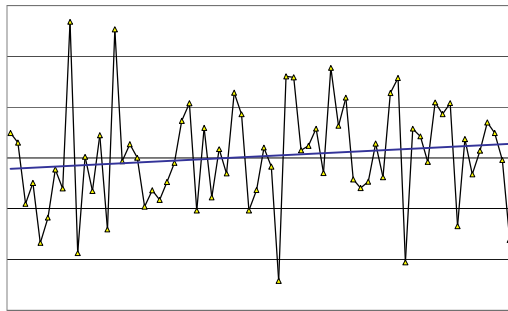
June 2002

This is the second newsletter of the YCDCo. to keep the community informed about the Yackandandah fuel situation.

THANKS FOR YOUR SUPPORT

Firstly, since our last newsletter, sales at the Yackandandah petrol station have increased marginally. We want to say 'thank you' to everyone for supporting us and buying fuel locally. We have even run out of fuel a couple of times for which we apologise to those customers affected, but this is beyond our control.

The following graph shows what has happened to fuel sales since we took over the business.



We have reduced operating costs and are now offering some new products. Everything is being done 'by the book' (ie; paying award wages, workcover insurance, public liability etc.) because this is the only way we can see the true costs of the business.

The bad news is the net result of this is that the business is **still losing money** (about \$400 per week).

CURRENT STATUS

When we took over the business in March, our first goal was to try and improve the viability of the business. After much financial modelling we have reached the conclusion that the business is essentially **unviable on the present site**. The main reasons for this are:

- The site and facilities do not comply with the current standards for fuel stations and thus can't be upgraded.
- A profit making complimentary business is required as an adjunct to the fuel supply business and there is no real scope for this.
- The small tank capacity means we don't have any say in the fuel price.

The retail price set by the distributor is usually above the going price in Albury-Wodonga (by about 2¢/litre). Even though 2¢/litre translates into less than \$1 for an average buy, petrol consumers are generally very price sensitive so the odds are stacked against us.

OUR PROPOSED STRATEGY

The good news is that we have a plan! The key to keeping fuel available in Yackandandah in the long term is centred on volume and price. We need to do 3 things:

1. Develop a new fuel station (on a new site) with all the necessary health and safety features to protect the community.

2. Include in the new site high capacity fuel tanks which will enable us to purchase fuel at better wholesale prices (and therefore sell to you at a more competitive retail prices).
3. Consolidate the fuel volumes which are presently used by the Yackandandah community and local businesses. We have already identified that substantial volumes of fuel are used in this community which are presently sourced from wholesalers or elsewhere. This includes Indigo Way and other large businesses. But we have to offer fuel on a competitive price basis.

We are confident that, with these 3 measures, we can establish a fuel business for Yackandandah that is close to being viable on a stand alone basis and won't drag down a complimentary business, but obviously we will need strong community support. We have done initial costings and have applied to the Shire for a planning permit to build a new fuel station on the vacant land at the front of the Council depot in Railway Avenue. The advantage of this is that we can aggregate the general public fuel use with the Indigo Way fuel use to increase the volume substantially.

Even though we will be building basic facilities initially and will be doing it as cheap as possible, this remains a significant capital investment (\$150,000 plus). However, before we go any further, we need to get the planning permission from the Council.

FINANCING THE PROJECT

Subject to getting a planning permit, we will need to find a lot of money very quickly. Unfortunately we don't have it lying around and we don't think we'll get it by selling cakes and scones.

We are looking at the following capital financing strategy:

1. Initially, (once we get a solid business plan done) we will seek to borrow the money to get the project started and the new facility up and running.
2. We then propose to raise equity capital (in YCDCo.) by broadening its ownership base. Presently the YCDCo. has 7 shareholders (who are currently subsidising the operating losses of the fuel station).

Initially we contained the size of the Company shareholders to 7 because we needed to make quick decisions to keep fuel flowing. In the early stages, we didn't want to deal with the complications which a large number of shareholders would inevitably involve. In the longer term, we think that it will be beneficial to the business (and the community) if there is broader-based community ownership in the YCDCo.

Exactly how all this will work is yet to be worked out. If we get the planning permit, there will be more details in the next edition about the share issue process.

In the meantime, our motto still applies to all businesses in Yackandandah

use it..or lose it!