



FOREST SECTOR
CHARTER COUNCIL

2014-15
ANNUAL REPORT



ACRONYMS

ABVA

Association of Black Economic Empowerment Verification Agencies

AgriBEE

Agricultural Broad-Based Black Economic Empowerment

B-BBEE

Broad Based Black Economic Empowerment

BEE

Black Economic Empowerment

BO

Black Owned

BWO

Black Women Owned

CIPC

Companies and Intellectual Property Commission

DAFF

Department of Agriculture, Forestry and Fisheries

DEA

Department of Environmental Affairs

DEDEA

Department of Economic Development and Environmental Affairs

DEDT

Department of Economic Development and Tourism

DPE

Department of Public Enterprise

DRDLR

Department of Rural Development and Land Reform

DTI

Department of Trade & Industry

DWAS

Department of Water Affairs & Sanitation

EME

Exempted Micro Enterprise

FABI

Forestry and Agricultural Biotechnology Institute

FP&M

Fibre Processing and Manufacturing

FSA

Forestry South Africa

FSC

Forest Stewardship Council

FSCC

Forest Sector Charter Council

GDP

Gross Domestic Product

Ha

Hectares

HDI

Historically Disadvantaged Individuals

ICFR

Institute for Commercial Forestry Research

IDC

Industrial Development Corporation

IPAP

Industrial Policy Action Plan

IRBA

Independent Regulatory Board of Auditors

ITC

Institute of Timber Construction

JTC

Joint Technical Committee

KZN

KwaZulu-Natal

MLE

Medium and Large Enterprise

MoU

Memorandum of Understanding

NABC

National Association of Black Economic Empowerment Consultants

NDP

National Development Plan

NGP

New Growth Path

PAMSA

Paper Manufacturers Association of South Africa

QSE

Qualifying Small Enterprise

SAFCA

South African Forestry Contractors Association

SAFCOL

South African Forestry Company LTD

SANAS

South African National Accreditation System

SAUPA

South African Utility Pole Association

SAWPA

South African Wood Preservers Association

SCG

Small Scale Growers

SSA

Sawmilling South Africa

SSP

Sector' Skills Plan

WULAs

Water Use License Applications





2014-15 | TABLE OF CONTENTS

Acronyms	2
Message from the Chairperson	5
The Executive Director's Report	7
Charter Council Members	7
Forest Sector Profile	11
Report of progress made in the implementation of the undertakings	18
Status of Transformation in the Forest Sector	21
Annual Financial Statements	32



Message from the Chairperson



Pasco Dyani

Chairperson
Forest Sector Charter Council

As I look back to the day when I joined the Forest Sector Charter Council (FSCC) as a Chairman, I am extremely happy of the success we have achieved as a team. Success comes with a number of factors; transformed mind set, visionary leadership, good team work, smart goals, good governance, and obviously trust, which I believe these, are all values the team I led possessed.

Amongst the Council's major accomplishment is the leadership role it has undertaken since the conception of the Forest Sector Code in 2009. Taking firm decisions and staying focus during our term was not only necessary but was like the order of the day. More importantly we strived to take decisions when we still had the time and space to do so; We did not wait for a crisis.

Our strategic review to seek tangible and high impact solutions aimed to radically transform the sector showed that the Council matured like wine. We proved that rather than being the judge and criticiser of industry and government practices in support of Black Economic Empowerment, we are also willing to be judged. The results obviously from the Charter review and assessment did not portray us as a bad Council, but indicated our true weaknesses. We wish to pass these to the incoming Council as a means of recalibrating their focus and strengthening their efforts in support of BEE in the Forestry setting. The industry's maintained level four (4) status is also indicative of our continuous and proactive approach in championing transformation in the sector.

The government and industry at large is encouraged to continue to invest in meaningful initiatives that will stimulate and accelerate black participation into the economy. These initiatives should be the factual engineers of racial and economic change. Community and labour is also heartened to be the voice of the

less and previously deprived, the mentor for the youth and be the visible sponsors of the transformation process.

The year 2015 is indeed the year for Forestry. The world at large will be gathered in the South African continent in of course our beautiful country South Africa for the World Forestry Congress. The Department together with its supporting stakeholders must be congratulated for hosting such an important event. Even though some of us will not be there, our modest appeal to the stakeholders involved is to ensure that such an occasion does not only benefit the very few individuals, but ensures a participative empowerment deal.

IN MY LAST WORDS

I wish to acknowledge the Council for the good work it has done. The Handover report (prepared for the incoming Council) says it all. But more importantly, sincere gratitude goes to all members of the Council for the value they have added. Today one can earnestly say that if we were in business, I would say we have been excellent business partners. I thank you all for the support you have given me and the entire staff. My work would not be an easier one if it wasn't for your enthusiasm, and your direct focus.

The support from the Departments; Department of Agriculture, Forestry & Fisheries, (DAFF), Department of Trade and Industry (dti), Department of Water Affairs and Sanitation (DWAS), Department of Public Enterprises (DPE) and Department of Rural Development and Land Reform (DRDLR), the business sector at large, our communities, labour and all our supporting stakeholders are greatly acknowledged.

As an outgoing Chairperson, and on behalf of the outgoing Council, I wish to extend our warmest welcome to the new Council. We all wish them the very best in taking the Council to better and bigger heights.





The Executive Director's Report

This Executive Report describes accomplishments undertaken in the year under review as indicated in the Annual Business Plan. The summary reflects achievement under each objective

MEETINGS

In the year 2014-2015, four Council meetings were held by the Council. Other meetings were scheduled specifically for the Charter Review and realignment process.

Council has always supported the principles of Good Corporate Governance. As a result, the fiduciary requirement to declare and disclose of any interests in an existing or proposed transaction has become the norm in the Council meetings. The table below details each Council director's meeting attendance for the current year.

Council Directors	23 May	15 August	13 November	18 February
Mr Pasco Dyani (Chair)	✓	✓	✓	✓
Mr Themba Siyolo (Vice-Chair)	✓	/	/	/
Mr Watson Nxumalo	—	—	—	—
Mr Dinga Mncube	✓	✓	✓	✓
Ms Jane Molony			✓	✓
Ms Mary-Anne Mngomezulu	✓	✓	✓	✓
Dr Jaap Steenkamp	✓	✓	✓	✓
Ms Viv McMEnamin	—	—	✓	—
Dr Diphoko Mahango	✓	✓	—	—
Mr Lulamile Xate	—	✓	✓	—
Mr Ben Nkambule	✓	—	—	✓
Mr Simangaliso Mkhwanazi	—	—	—	—
Mr Stephen Bila	✓		✓	✓
Mr Bruce Breedt	—	✓	✓	✓
Mr Jacob Maphutha	—	—	✓	✓
Mr Roy Southey		✓	✓	✓
Mr Sakhiwo Zako	✓	✓	✓	✓
Ms Lizeka Matsekga	—	—	—	—
Mr Khwezilomusa Mabasa	✓	✓	✓	✓
Dr Nthabiseng Motete	/	✓	—	/
	Present ✓	Absent —	Other /	



CHARTER REVIEW PROCESS

In the year 2014/15 Council undertook the Charter review process as informed by the published Forest Sector Code. This process was conducted in order to assess the extent to which the Council has been effective in advancing the objectives of the Forest Sector Code. The key research questions for the review project included gathering views and opinions from impacted stakeholders and constituencies, assessing progress made with regards to scorecard targets and assessing the relevancy of timeframes for the undertakings. Other factors impacting on the work of the Council were explored.

The process has been completed; two reports namely reports on the performance evaluation for the strategic review & report on the qualitative assessment component have been endorsed by the Council. These two reports have given out, desired strategic and prioritized recommendations, which have been critical in the planning of priority activities of the Council.

REPORT ON PERFORMANCE EVALUATION FOR STRATEGIC REVIEW

This report was as result of the Charter Review process that was conducted by the Forest Sector Charter Council. It assessed the effectiveness of Council's operations and capacity to implement its approved strategy and its mandate. Discussions with relevant stakeholders were undertaken. Stakeholders included government departments, industry associations, Council members and impacted communities.

The assessment revealed that the non-performance when it comes to the implementation of the strategic plan. Further to that the mandate of the Council was seen to be limited in terms of effective reporting and monitoring. The structure and membership of the Council was also a matter that need consideration.

REPORT ON THE QUALITATIVE ASSESSMENT COMPONENT

This report was also as a result of the Charter Review process. It was meant to solicit views and opinions on the overall effectiveness of the application of the Forest Sector Code and the principles added in the Revised Codes of Good Practice. Key government departments, industry associations, Council members, funding institutions, municipalities and impacted communities were consulted.

From the assessment it was observed that the Forest Sector Code was still the relevant policy to bring about a transformed forest industry though the awareness level with some of the key stakeholders was minimal. More over representation in terms of constituents should be inclusive and progress achieve to be substantive. The principles proposed in the revised Codes were accepted and believed to be effective in bringing about the desired and radical transformation. Challenges perceived were mainly related to available resources such as funding, skills, licenses and land for afforestation.

DRAFT AMENDED FOREST SECTOR CODE

The slow pace towards achieving transformation goals and objectives has led to the revision of the B-BBEE Act as well as the Codes of Good Practice. These are the basis of all sector codes which are aimed at advocating for the sectorial mainstream economy in a manner that has a significant impact on entrepreneurs, employment, income redistribution and adjustment to economic growth.

The Council has completed the amendment process through a transparent and consultative process with all its stakeholders based on the Amended Codes of Good Practice as well as the B-BBEE Act as Amended. The revisions on the Codes have also taken into account government's key priority development programmes outlined in the New Growth Path (NGP), the

Industrial Policy Action Plan (IPAP) as well as the National Development Plan (NDP).

A Draft Amended Forest Sector Code has been submitted to the Minister of Agriculture, Forestry and Fisheries for approval before final gazette by the Minister of Trade and Industry.

The principles entrenched in the Draft Amended Forest Sector Codes will no doubt advance and strengthen the economic participation of black people with the focus mainly on marginalised groupings of black women, youth, disabled, rural and under developed communities. The Draft Amended Forest Sector Code is available on the Forest Sector Charter Council (FSCC) website at www.forestsectorcharter.co.za.

JOINT TECHNICAL COMMITTEE (JTC)

The Joint Technical Committee is a committee established through the Department of Trade and Industry. Council is also represented in this committee constituted also by the Association of Black Economic Empowerment Verification Agencies (ABVA), South African National Accreditation System (SANAS), Independent Regulatory Board of Auditors (IRBA), and National Association of Black Economic Empowerment Consultants (NABC). The role of the committee is to assist and support the dti by clarifying and providing guidance on technical issues relating to the Codes of Good Practice. This forum also enables sector Councils to share sector specific matters with regards to the reporting, verification process and B-BBEE implementation.

APPOINTMENT



The Council wishes to express its excitement on the appointment of Simangaliso Mkhwanazi as the Executive Director effective 1 February 2015. Simangaliso is a highly experienced executive who brings with him many successful years of leadership and experience of the forest sector and related industries with primary focus on skills development, sector growth and B-BBEE initiatives. He has served in a number boards including the Forest Sector Charter Council. We as the Council, are confident that with his objective vision, experience, dynamic attitude and management, the Forest sector would reach even greater heights and accomplish even more. We all wish him well in this new endeavor.



Forest Sector Profile

The forest sector, which includes the forestry and forest products group, is an important contributor to the South African economy, accounting for 1% of the national GDP and utilising about 1% of the total land. The sector contributes meaningfully to job creation as it provides both direct and indirect jobs. It further provides livelihood support to about 850 000 people, of the South African rural population. This makes it a unique sector with the potential to contribute

significantly to poverty alleviation and rural economic development. The forest sector also supports government's responsibility in providing social infrastructure and generates an increased tax base. The income generated in the sector boosts local economic growth and development. The information presented on pages 11-16 provide an overview of the forest sector as at 2013, taken from a report by Forestry South Africa.

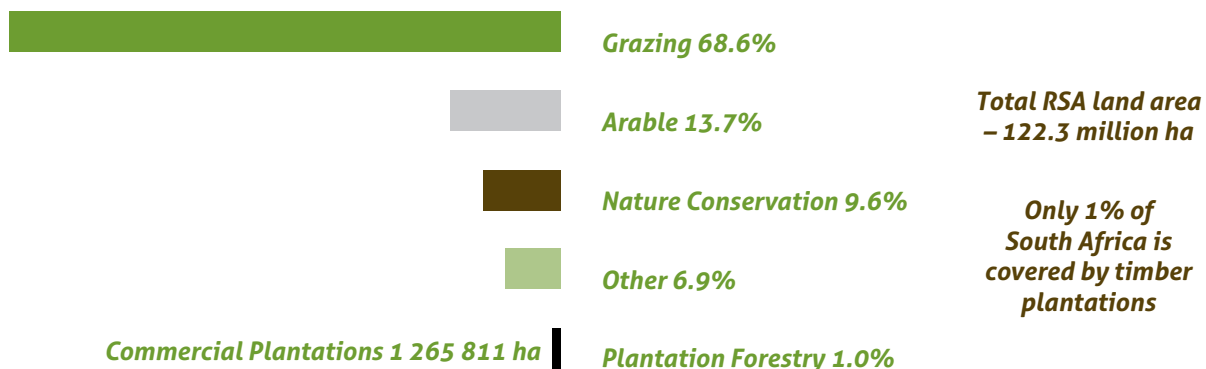
Map of Forestry in South Africa



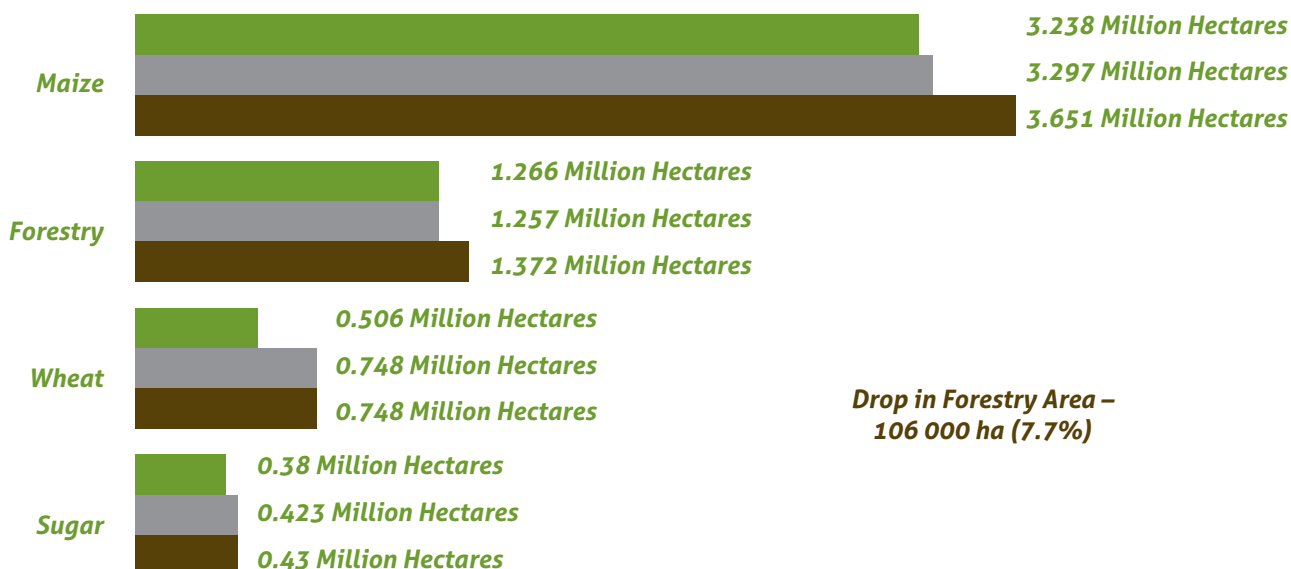
(Source: Forestry South Africa, Genesis Report)

South Africa's timber plantations are located in a narrow belt along the Eastern escarpment mainly due to climatic reasons.

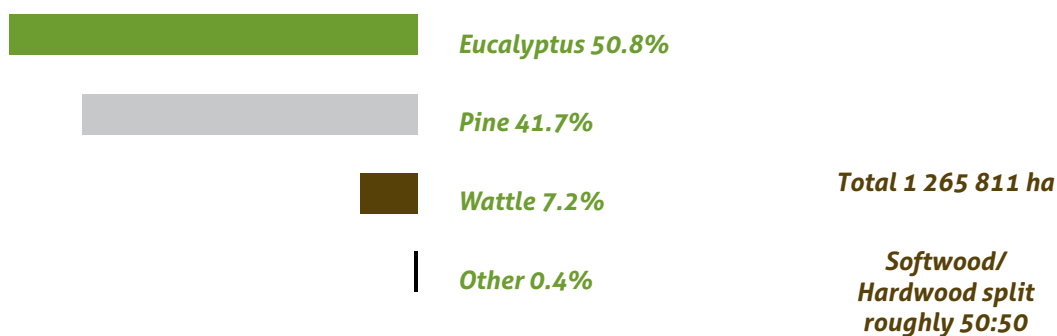
Land Use in South Africa



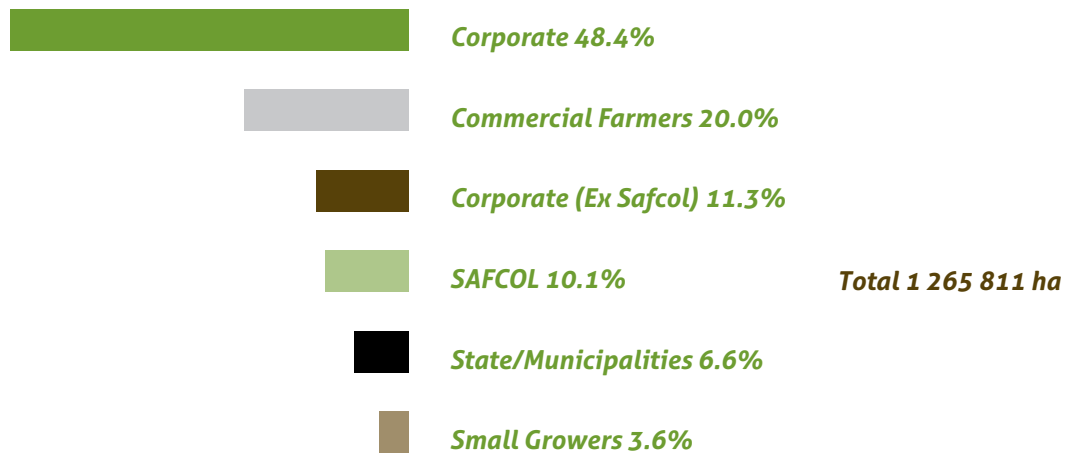
Land Use Comparisons 2003, 2008 & 2013



Plantation Area by Species 2013



Plantation Area by Ownership 2013



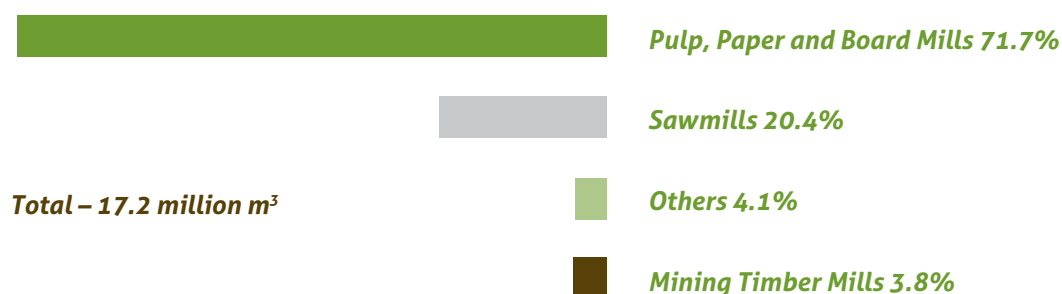
Plantation Area by Management Objectives 2013



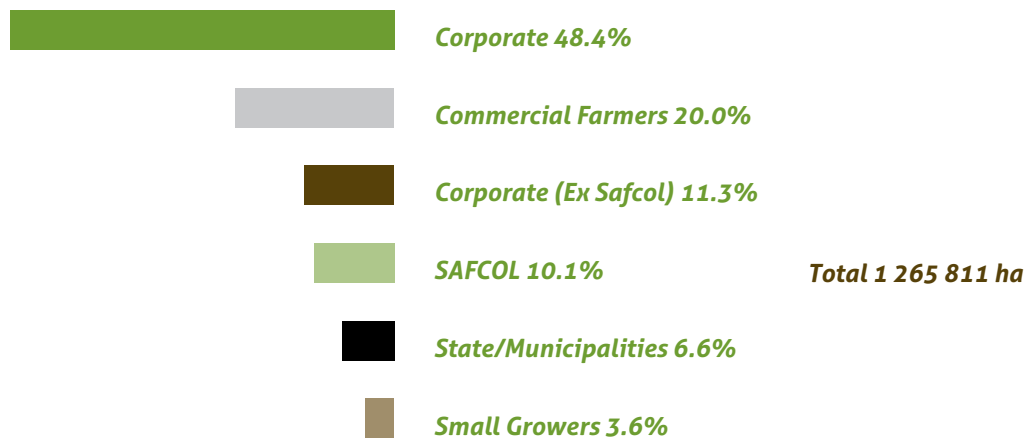
Roundwood Production by Product 2013



Intake of Roundwood into Processing Plants 2013



Plantation Area by Ownership 2013



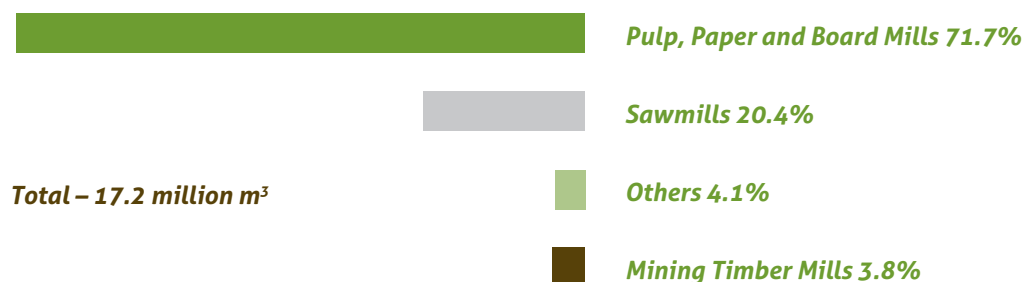
Plantation Area by Management Objectives 2013



Roundwood Production by Product 2013



Intake of Roundwood into Processing Plants 2013

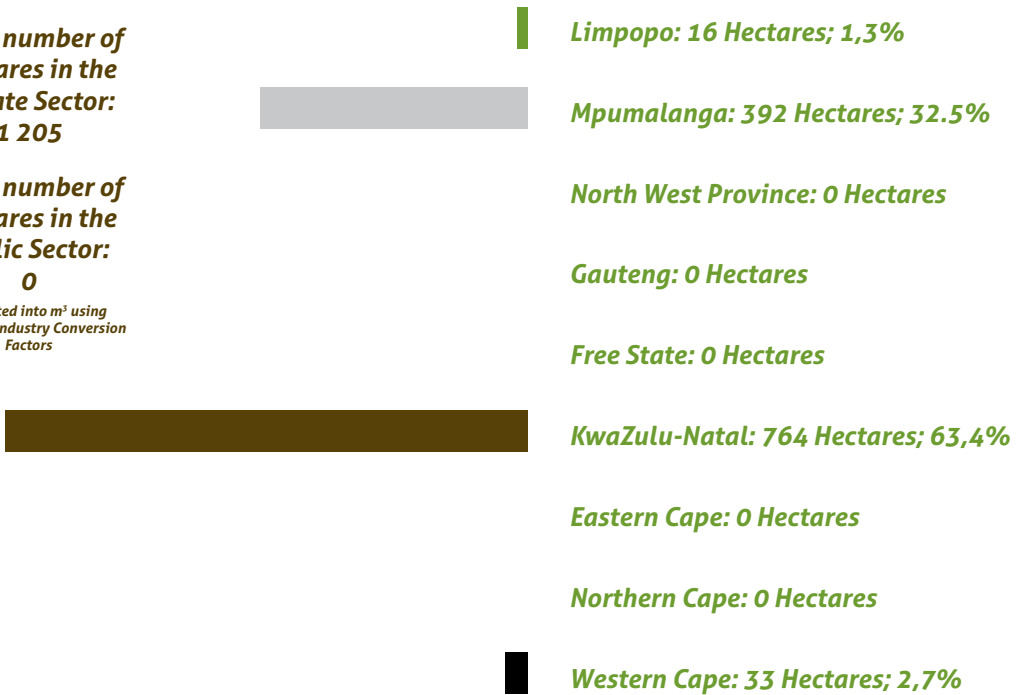


Plantation Area by Ownership 2013

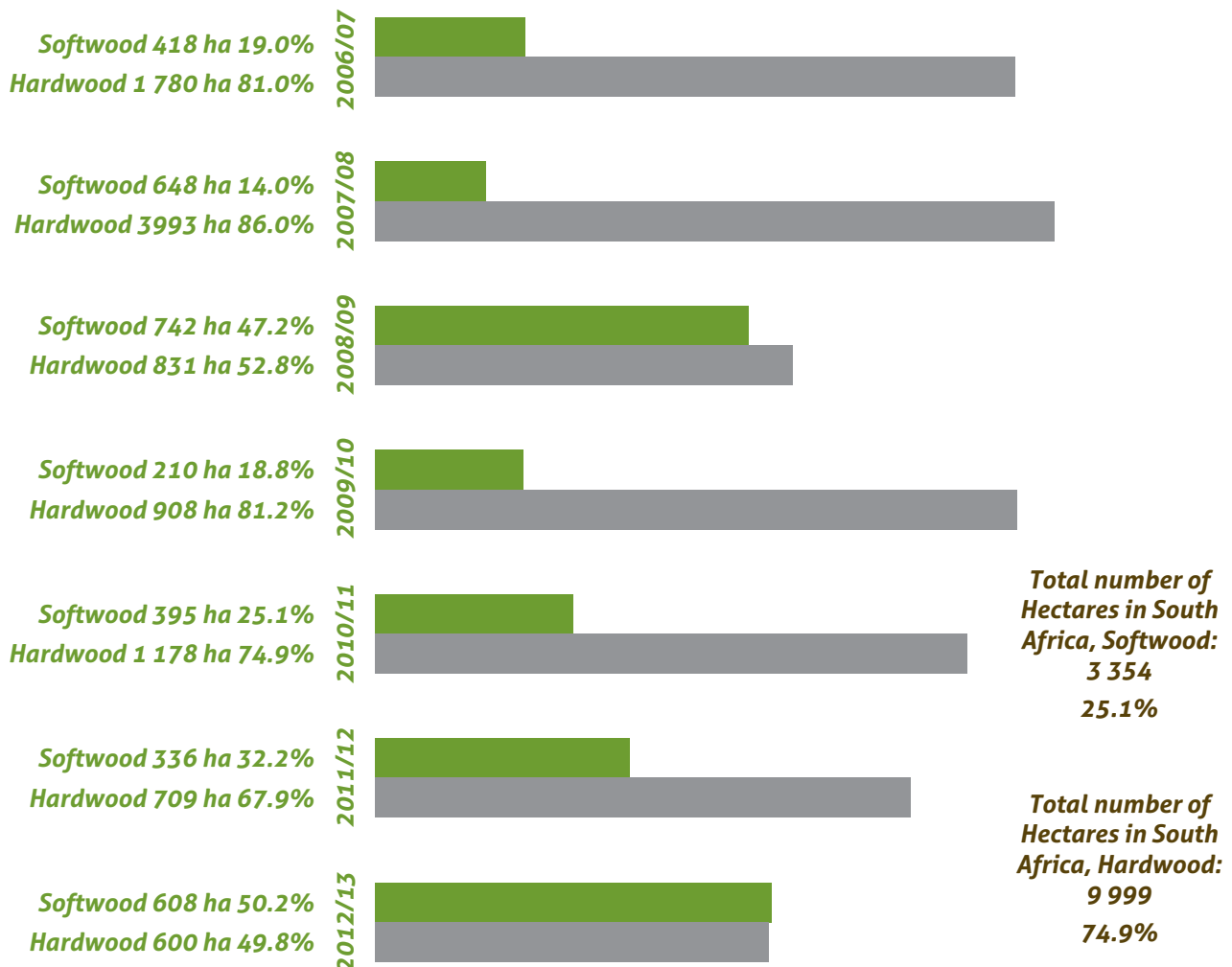
Total number of Hectares in the Private Sector:
1 205

Total number of Hectares in the Public Sector:
0

Converted into m² using Standard Industry Conversion Factors

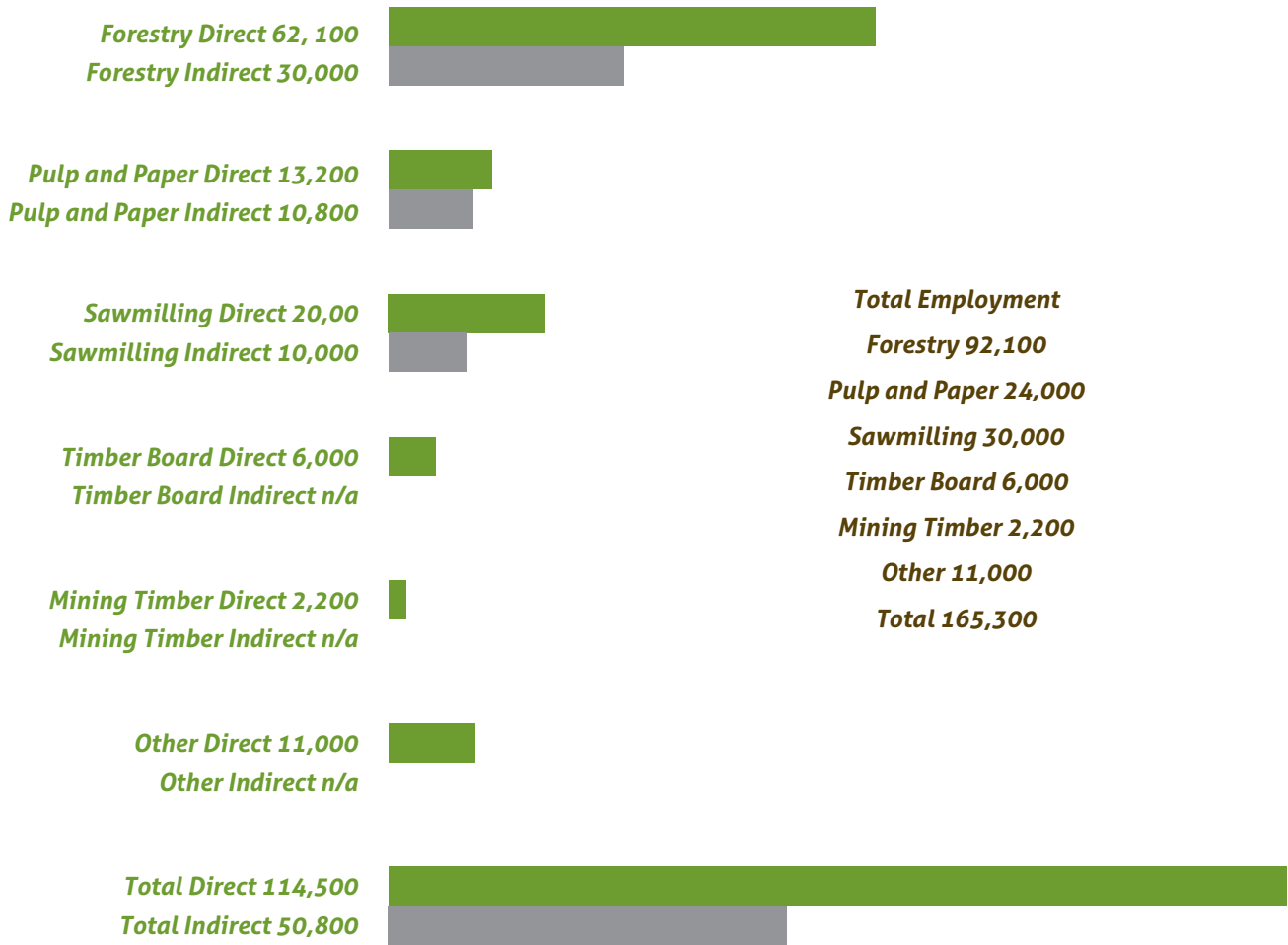


New Afforestation by Species over the last 7 years



Plantation Area by Ownership 2013

Employees by Sector in South Africa 2013







Report of Progress Made in the Implementation of the Forest Sector Charter Undertakings

The Forest Sector Code commits the Industry and Government to certain activities to enhance forest enterprises performance in terms of the B-BBEE set compliance targets. The report below provides a synopsis of the progress achieved in the year under review.

INSTRUMENTS TO SUPPORT OWNERSHIP TARGETS

Funding facility for B-BBEE transaction

The commitment by the Department of Agriculture, Forestry and Fisheries of ensuring that the AgriBEE fund, support funding for equity is still being negotiated.

Even though funding still remains a challenge, the Department of Agriculture, Forestry and Fisheries (DAFF), Department of Trade and Industry (dti), Department of Rural Development and Land Reform (DRDLR), Industrial Development Corporation (IDC) and industry has provided financial support for a number of forestry based activities.

INSTRUMENTS TO SUPPORT SKILLS DEVELOPMENT TARGETS

Sector skills plan for the Forest Sector

The industry and government continues to make meaningful contributions to the annual Sector Skills Plan (SSP) developed by the Fibre, Processing and Manufacturing (FP&M) Seta. Industry has participated in the DAFF led sectoral funded training review programme.

The task team lead by DAFF on Forest Enterprise Development Fund has finalised the concept document for the funding aspect of the Forestry based activities.

Industry through Forestry South Africa (FSA) approved its grower development programme and held a business development forum in August.

INSTRUMENTS TO SUPPORT ENTERPRISE DEVELOPMENT TARGETS

Access to funds and financial services for emerging black entrepreneurs.

Capacity building and business support for emerging black entrepreneurs

Forestry cooperatives and companies continue in their endeavours in capacity building and business support for emerging black entrepreneurs. This is observed through the extensive forest enterprise development programmes supported by most forest companies.

DAFF has also provided training through the use of extension officers to a number of small scale growers.

Expedite the authorisation of afforestation licenses

The department of Water and Sanitation has participated in a number of Forestry based stakeholder workshops. This initiatives were meant to empower relevant stakeholders about the licensing processes.

For the year under review, the Department has issued four (4) water use license applications (WULAs) covering a total area of 166.36 hectares. The hectares issued to Historically Disadvantaged Individuals (HDI) amounts to 1492.97.

Small grower certification

The industry still prioritises the development and implementation of appropriate forestry certification methodologies for emerging growers.

Industry through, FSA jointly with DAFF have funded the development of small-scale grower certification initiatives both under the Forest Stewardship Council (FSC) and PC + Is.

INSTRUMENTS SUPPORTING INDUSTRY SPECIFIC INITIATIVES

Integrated planning for Forest Sector Development Forestry Protection Services

Forest protection services aim to implement integrated strategies to manage, control, reduce and where possible eradicate the threats and infestation levels of pests and diseases in timber plantations. Industry through, FSA is currently evaluating proposals for Sector Innovation Funding many of which deal with pest and disease management FSA and DAFF concluded a five year MoU on Sirex and related protection activities.

FSA, DAFF, Institute for Commercial Forestry Research (ICFR) and Forestry and Agricultural Biotechnology Institute (FABI) have also established a pests and diseases committee (similar to the Sirex Control Committee) exclusively to deal with all pests and diseases.

Transport infrastructure development

Industry has been actively participating in provincial Freight Task Groups and Corridor Freight Committees to ensure that the transport needs of the forest industry receive the required attention from stakeholders and decision-makers in the transport sector. Industry has also forwarded a list of other key lines to benefit Transnet Feight Rail recapitalisation programme.

Strengthening representative industry structures

The sub-sector organisations where they exist aim to increase representation and effectively lobby on behalf of all its members for the efficient access to support services particularly for small and emerging enterprises.

Industry has further lobbied for support to the Wood Foundation under the Sector Promotion Strategy. In addition, FSA have assisted in forming of two SGG co-operatives, one of which is already seeking development funding from the kwazulu Natal (KZN) Department of Economic Development and Tourism

(DEDT).

Enhance co-operation between the sub-sector organisations There is continued support of the Wood Foundation funded by all subsectors to promote the interests of industry. Additionally, the implementation of the jointly funded forestry input into the National Schools Curriculum that was rolled out in Gauteng in 2013 has been extended to the Western Cape.

Sub-sectors continues to collaborate strongly in several other



areas of shared interest e.g. skills, government interactions, media interactions, climate change and carbon tax proposals. FSA, Sawmilling South Africa (SSA) and Paper Manufacturers of South Africa (PAMSA) in particular, have collaborated with the Department of Environmental Affairs (DEA) and National Treasury on carbon accounting system which is being developed through the ICFR. The industry is also in discussion with the Institute of Timber Construction (ITC) and SSA on an initiative to promote timber in the built environment.

Further to that, industry associations are in the process of deliberating on the creation of an umbrella association to represent entire value chain.

Restitution claims on forest land

Land claims on state owned land are being prioritized because of funding challenges.





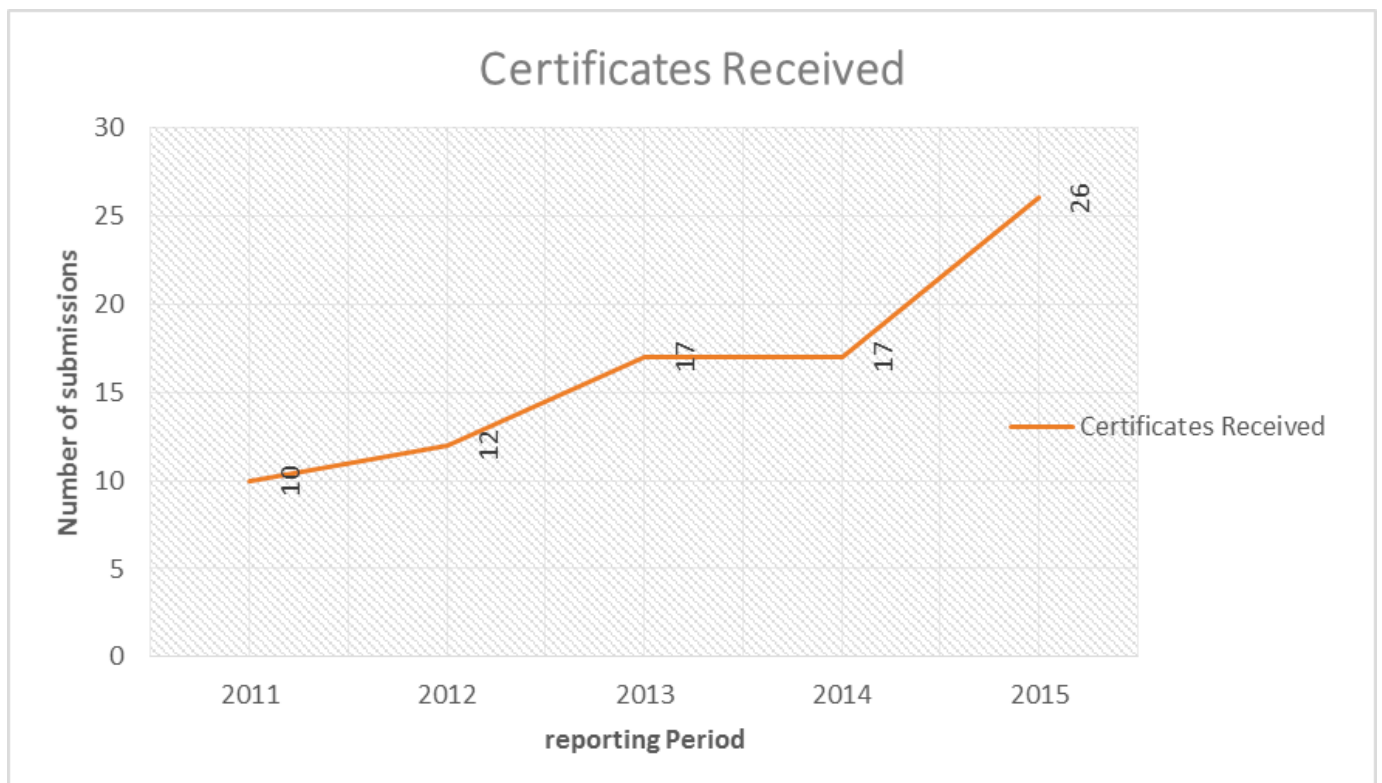
Status of Transformation in the Forest Sector

The purpose of this section is to elaborate on the performance of the industry in terms of their compliance with the Forest Sector B-BBEE Codes of Good Practice as the main driver of transformation. This is achieved by assessing the scorecard performance of two categories of reporting entities namely the Medium & Large Enterprises (MLEs) and Qualifying Small Enterprises (QSEs). The Exempt Micro Enterprises (EMEs) assume an automatic level 4 status or level 3 only if they are more than 50% black owned and have proven to be compliant with the codes of good conduct.

Certificates Received

The figure 1 below compares the certificates received from MLEs in the last reporting years. One notable aspect for this reporting period was the significant increase in B-BBEE certificates received from the MLEs. This could be attributed to a number of reasons, one possibly being that MLE companies are beginning to understand the benefits of implementing B-BBEE within their entities. MLE Average scores.

Figure 1: MLE certificates received



Medium and Large Enterprises (MLEs) Analysis

Forestry operations that receive a turnover above R35 million are classified as Medium and large enterprises. They are usually the large companies or enterprises in the sector that have the potential to make meaningful strides in effective B-BBEE implementation. These enterprises are verified using all seven

scorecard elements. The analysis of the performance of these enterprises gives the general performance of the sector. The performance of the Medium to Large Enterprises will be discussed in the following section. The table inserted below provides an overview of the MLE scorecard performance.

Table 1: MLE scorecard performance

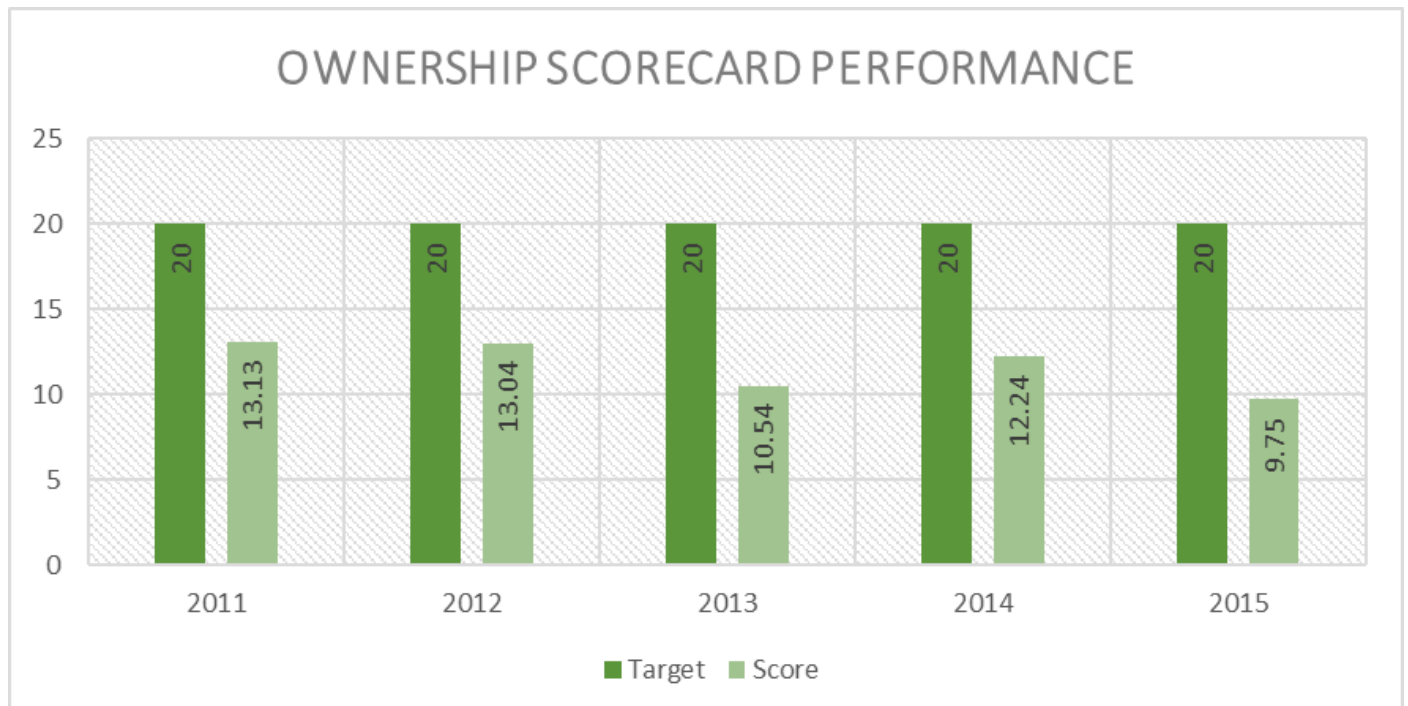
Element	Change Description
Ownership	Significant decrease (20.3% decrease)
Management Control	Significant decrease (17.5% decrease)
Employment Equity	Slight decrease (4.3% decrease)
Skills Development	Slight decrease (9.7% decrease)
Preferential Procurement	Slight decrease (0.9% decrease)
Enterprise Development	Significant decrease (12.3% decrease)
Socio-Economic Development	Significant decrease (12% decrease)

The above table clearly depicts a dim picture of the performance of the sector during the current reporting period. All the elements showed a slight decrease in their performances. The Ownership and Management Control elements showed the greatest decline. The drop in performance might be attributed

to a number of factors. These factors could be attributable to the current unfavourable economic conditions of the sector leading to less resources being spent on “non-essential” operations or it could be that forestry organisations have grown less inclined to participate in B-BBEE initiatives. ce.

Ownership

Graph 1- Ownership scorecard performance

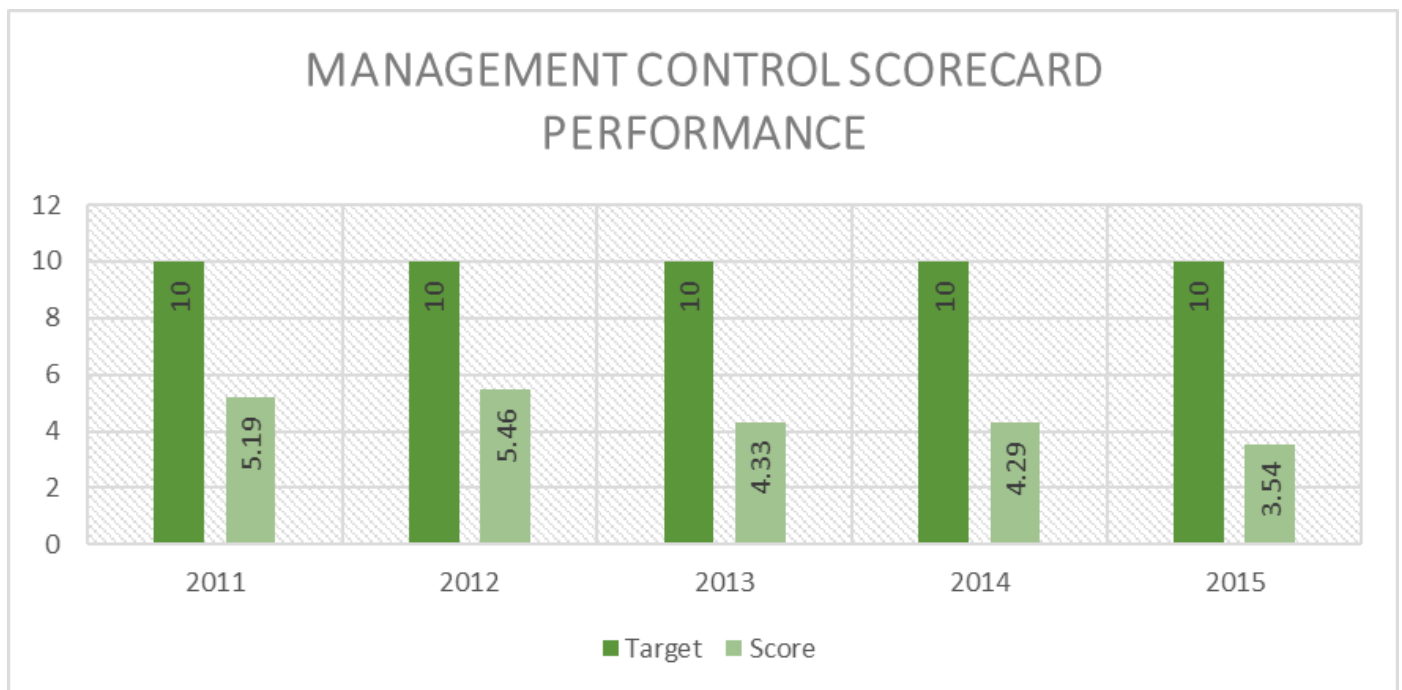


The graph above shows the Ownership performance for the current reporting period compared to previous reporting periods. The 2015 period shows the poorest performance when compared, with the performance failing to reach even 50% of the compliance target points. The trouble with the Ownership element must however, not be solely attributed to incompliance or attitude of the sector. Other factors such as the short supply of qualified and competent ownership candidates, a profile

change due to acquisitions and mergers and the current economic state of the sector could be possible factors. The 2011 period showed the best performance thus far and the score has progressively declined in the following periods. Perhaps the initial implementation of the B-BBEE codes was met with fervour and energy but has since diminished and given way to despondency or a change in priorities.

Management Control

Graph 2- Management Control scorecard performance

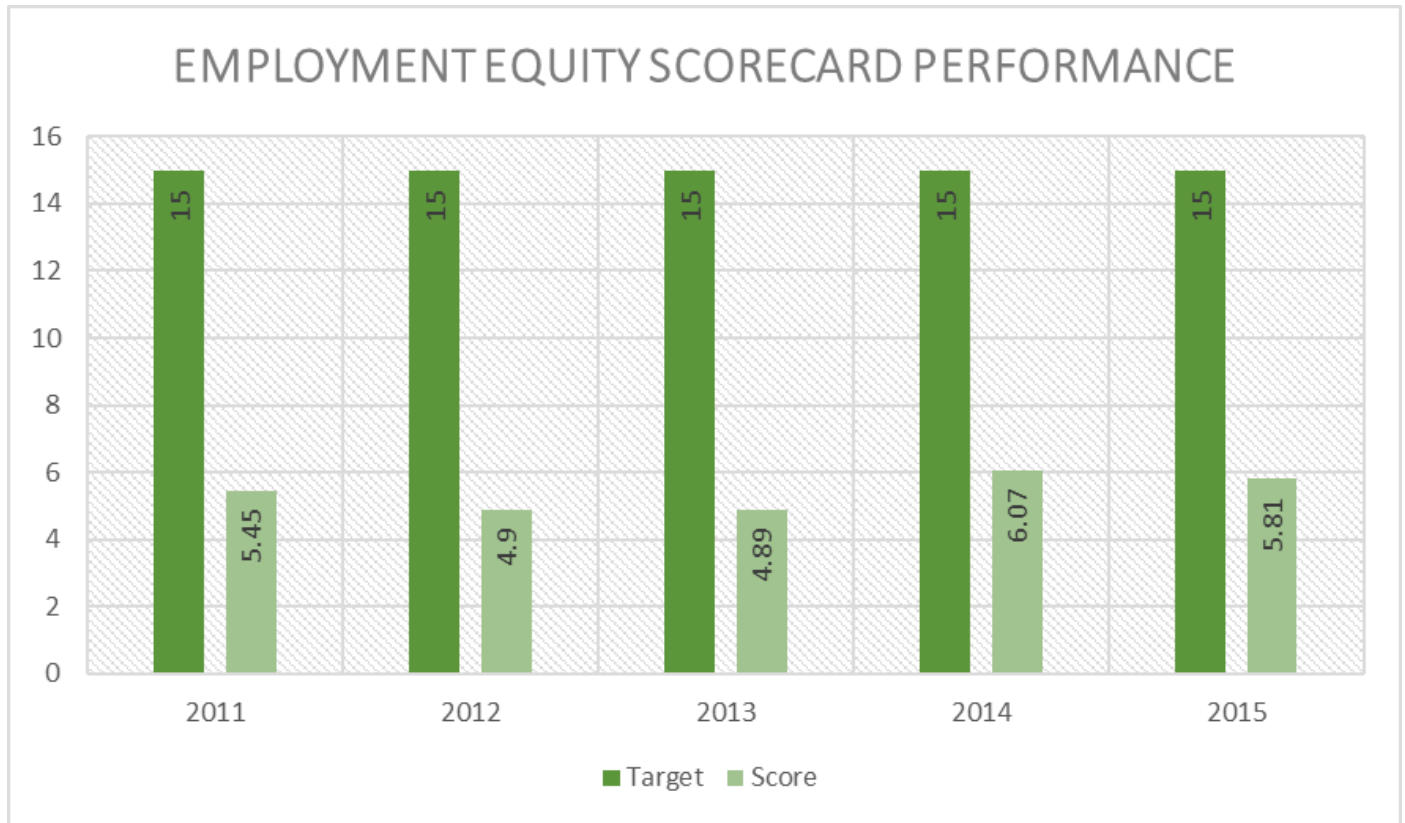


The purpose of this particular element is to achieve equitable and fair representation of black people in all professional executive categories. The 2015 year also saw a significant decline in the management control performance as indicated in graph 2 above. The performance has continued to perform below 50% of the target score since the 2013 reporting year. This alarming statistic may be an indicator that the Management Control element is not a priority amongst MLEs in the Forest Sector. Despite both the Ownership and Management Control elements both failing to reach 50% of their target scores, the management control element was by far the worst performing

in the current reporting period. The MLE group scored 3.54 out of a possible 10 points putting them at 36% of the target. The Ownership element scored 9.75 points out of a possible 20 points putting them at 49% of the target. The inference being that there is a focus on ownership, often through employee shares schemes, and not as big a focus on the succession planning of individuals into management. The development of individuals into management levels normally is a lengthier process and needs to make out a firm part in the business objectives of the organisation.

Employment Equity

Graph 3- Employment Equity scorecard performance

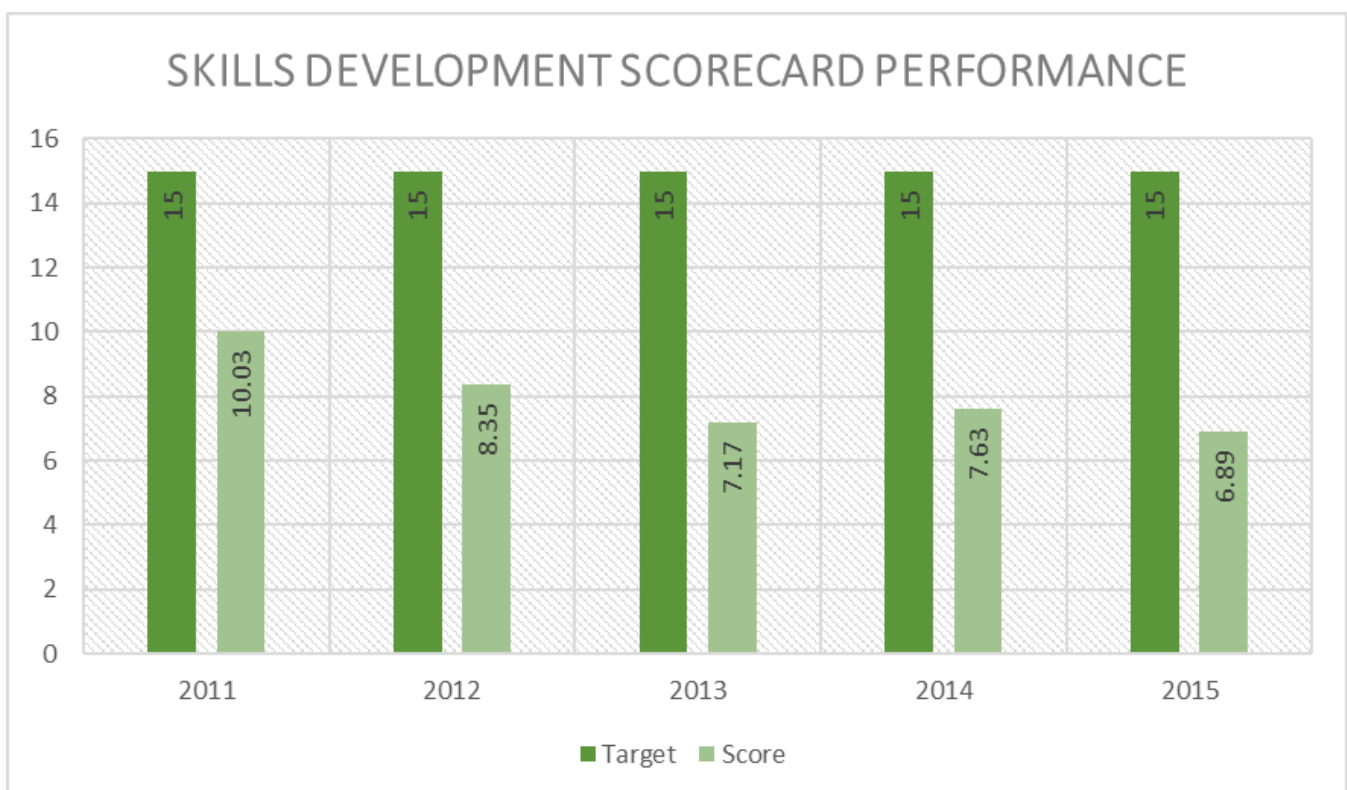


The target weighting points for employment equity is 15 points with an additional 3 bonus points allocated for achieving higher targets. The above graph shows that the sector achieved 5.81 points which is just over a third of the total weighting points and average points acquired. The score achieved further shows a decline of about 4.3% compared to the previous achievement.

The performance of this element shows a similar trend as that demonstrated by the management control element's performance, in that it struggles to at least achieve 50% of the target. Moreover, it is also one of the worst performing elements. The decline in performance of this element is less drastic as the previous two elements.

Skills Development

Graph 4- Skills Development scorecard performance

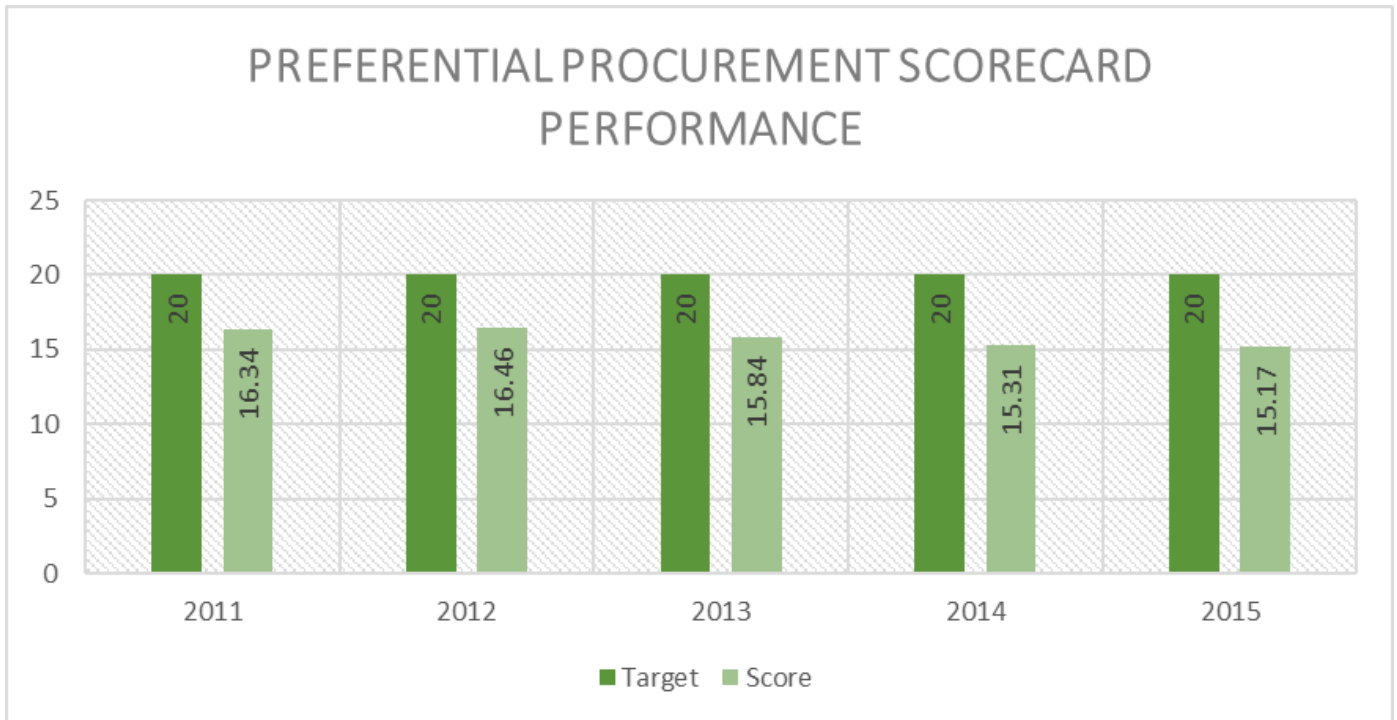


Graph 4 above highlights the industry’s performance in the Skills Development element over the last 5 reporting periods. The Skills Development element is critical in underpinning the management control and employment equity targets. Skills development aims to provide accredited skills for black and disabled employees. This element is important as it can provide black employees (non-employees in the Amended Codes) with the skill set and experience required to be employed and placed in more elevated positions within forestry organisations. The sector continues to observe a decline of about 9.7% in the

current year. The score achieved of 6.89 points as illustrated in the above graph shows to be the lowest when compared to the last 5 reporting periods. This trend is worrying in the sense that there seems to be a constant decline. Such a performance also has an impact on the employment statistics in the workforce and black people representation in the management categories. This particular element is capital and resource intensive and under the current economic state of the sector and the country as a whole Skills Development initiatives may not necessary be given a priority.

Preferential Procurement

Graph 5- Preferential Procurement scorecard performance

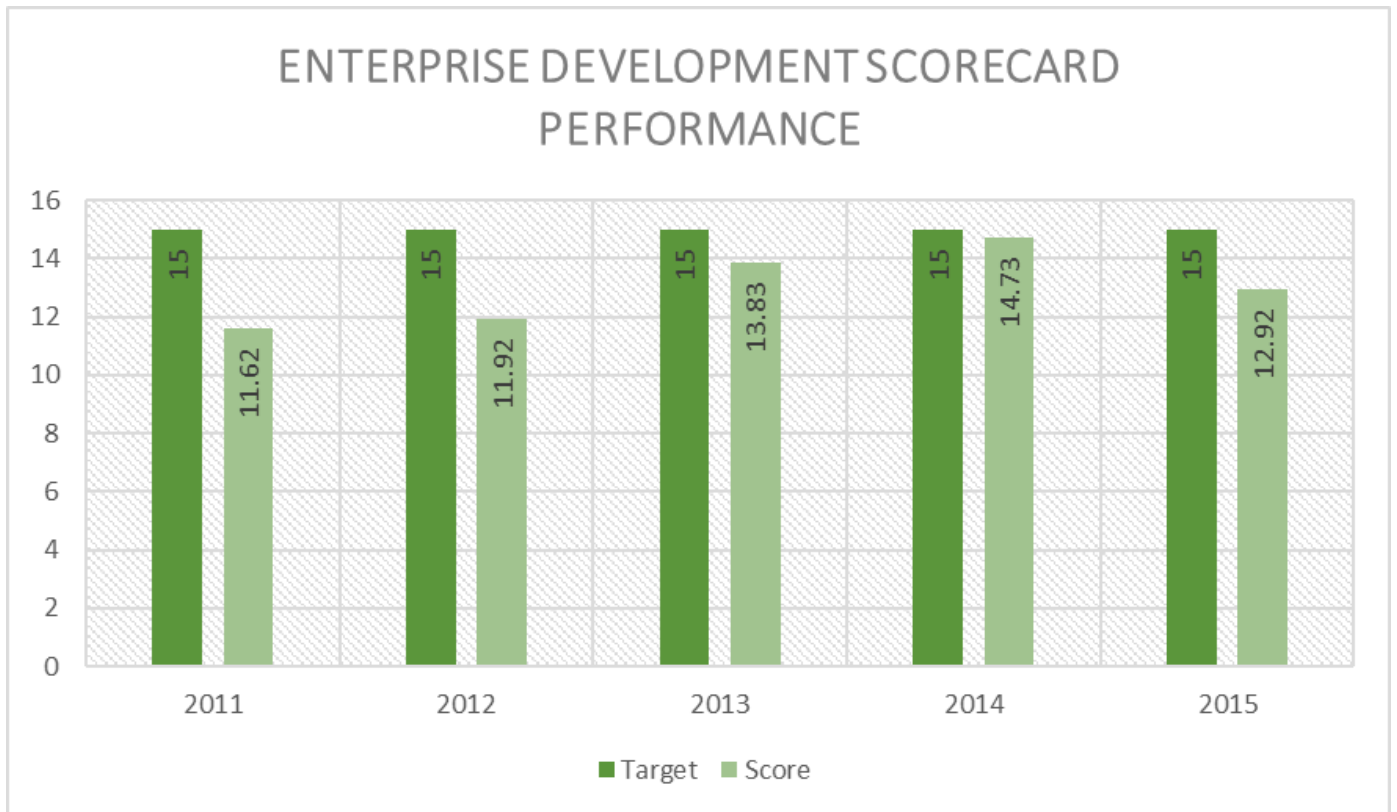


The sector’s Preferential Procurement performance has seen a consistent but slight declines since 2012. However, an acceptable score of 15.17 points out of a potential 20 points has been achieved in the year under review. This is satisfactory as MLEs have continued to achieve a score above 75% of the target score throughout the reporting period. The slight

declines in performance could be as a result of a shrinkage in the support of Black Owned (BO) and Black Women Owned (BWO) companies. Due to the constant decrease in this element it can be suggested that more initiatives could be undertaken to support BO and BWO companies.

Enterprise Development

Graph 6- Enterprise Development scorecard performance



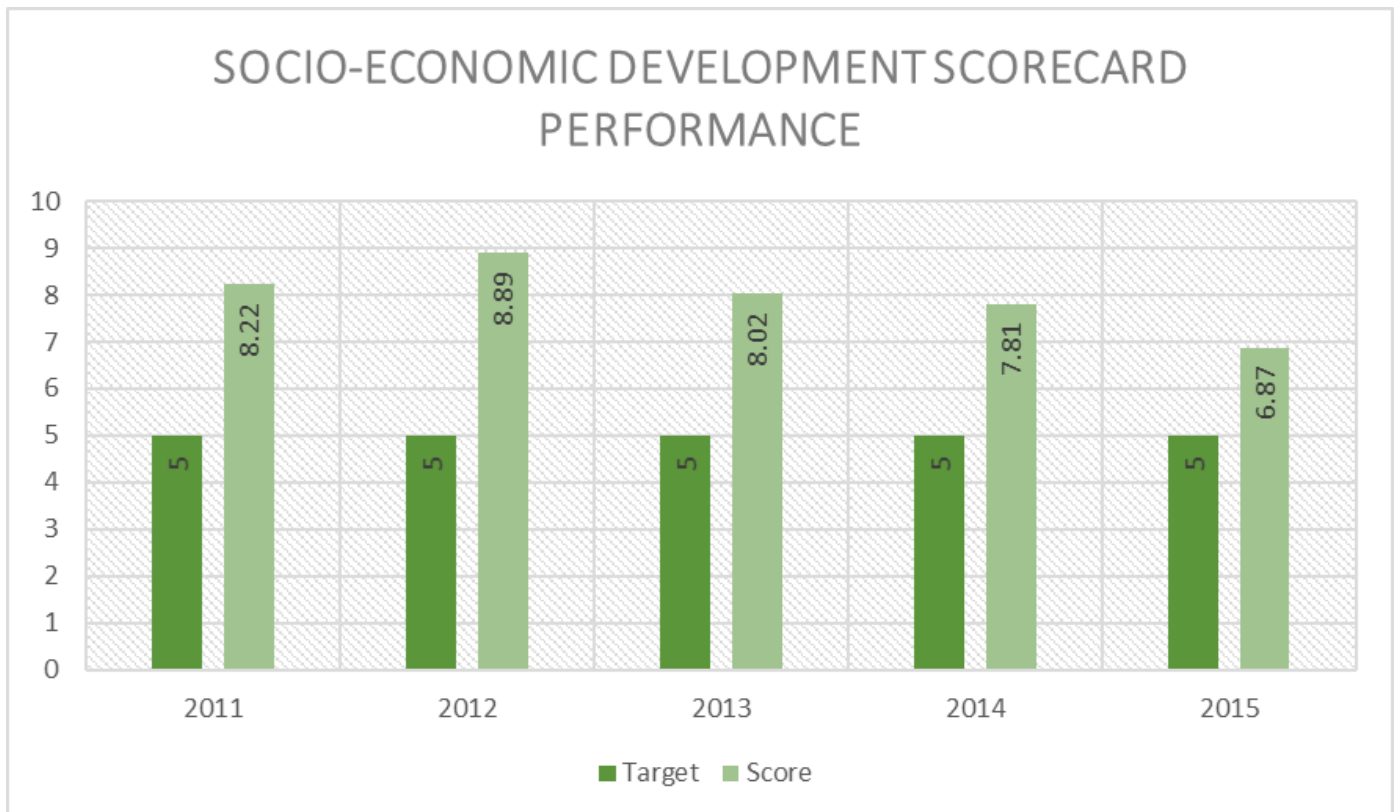
The development of sustainable black-owned and black women owned enterprises is critical in promoting equity with growth in the sector. The important role of Small, Medium & Micro Enterprise development in underpinning economic growth and ensuring that black economic empowerment is broad-based and vital to the success of the B-BBEE codes.

In terms of Enterprise Development, the sector has experienced

a steady growth from 2011, but experienced a slight decline of 1.81 points in the current reporting period. The performance stills confirms that, despite a slight decline, the sector still feels comfortable to implement this element as the score achieved is above 80% of the compliance target. This achievement confirms industry support towards creating new businesses.

Socio-Economic Development

Graph 7- Socio- Economic Development scorecard performance



The weighting on this element is 5, with the additional 3 bonus points being awarded for additional Contributions made by the Measured Entity. However, the performance continues to exceed the target score of 5 as indicated in graph 7 above. Despite the industry's decline in spend year-on-year, the industry still

achieved an above average performance on the development of communities. .

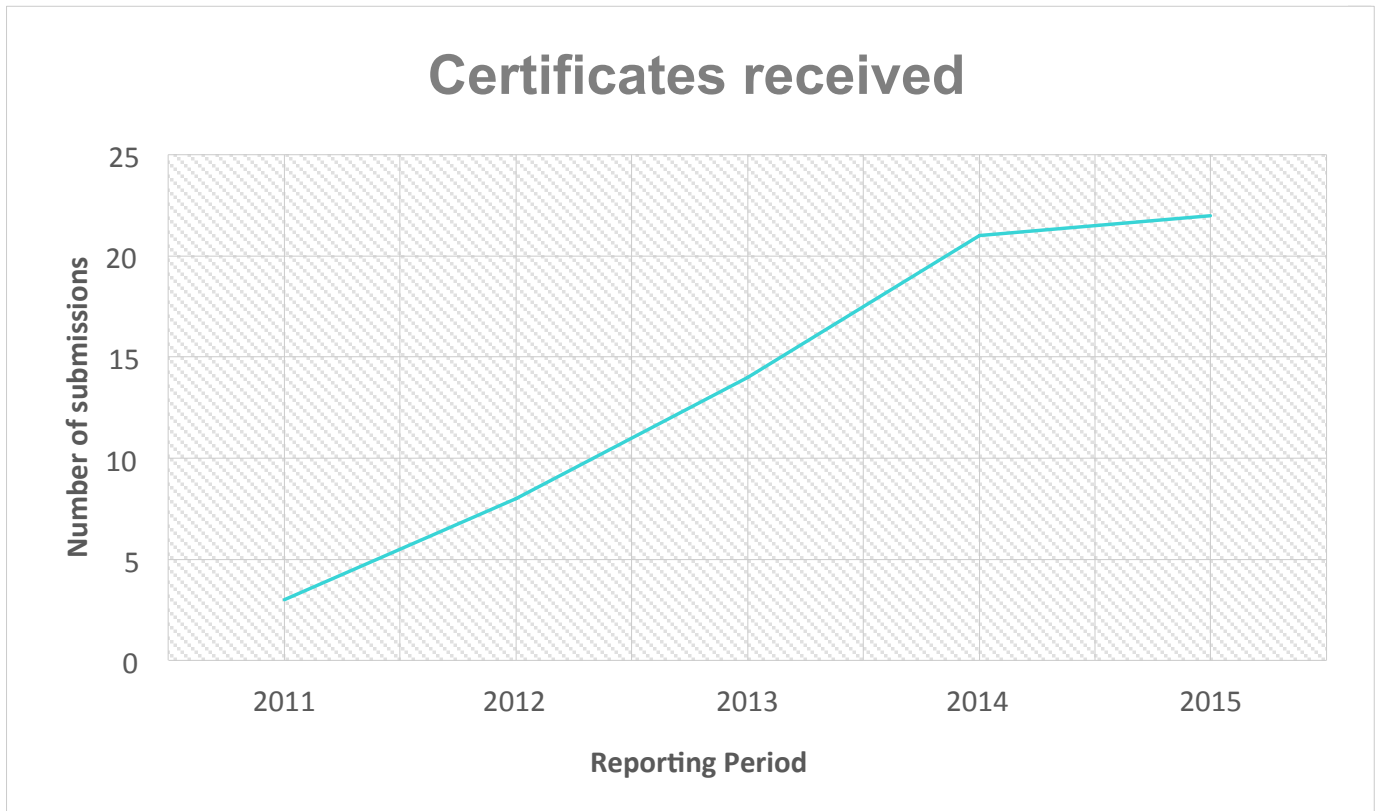
Mostly all the entities that reported scored five or more points on this element. This proves that industry still has the best interest in developing its communities.

Qualifying Small Enterprises (QSEs) Analysis

QSEs have the opportunity to choose any preferred four of the seven elements. Since a QSE is rated against four elements, each element has a weighting target of 25 points excluding those that have bonus points attached. However in the new proposed provisions, this will not be the case. QSEs will be

verified using the five elements. However 100 and 51 percent black owned QSEs stand to enjoy better benefits as they will be automatically assume a level 1 and level 2 status.

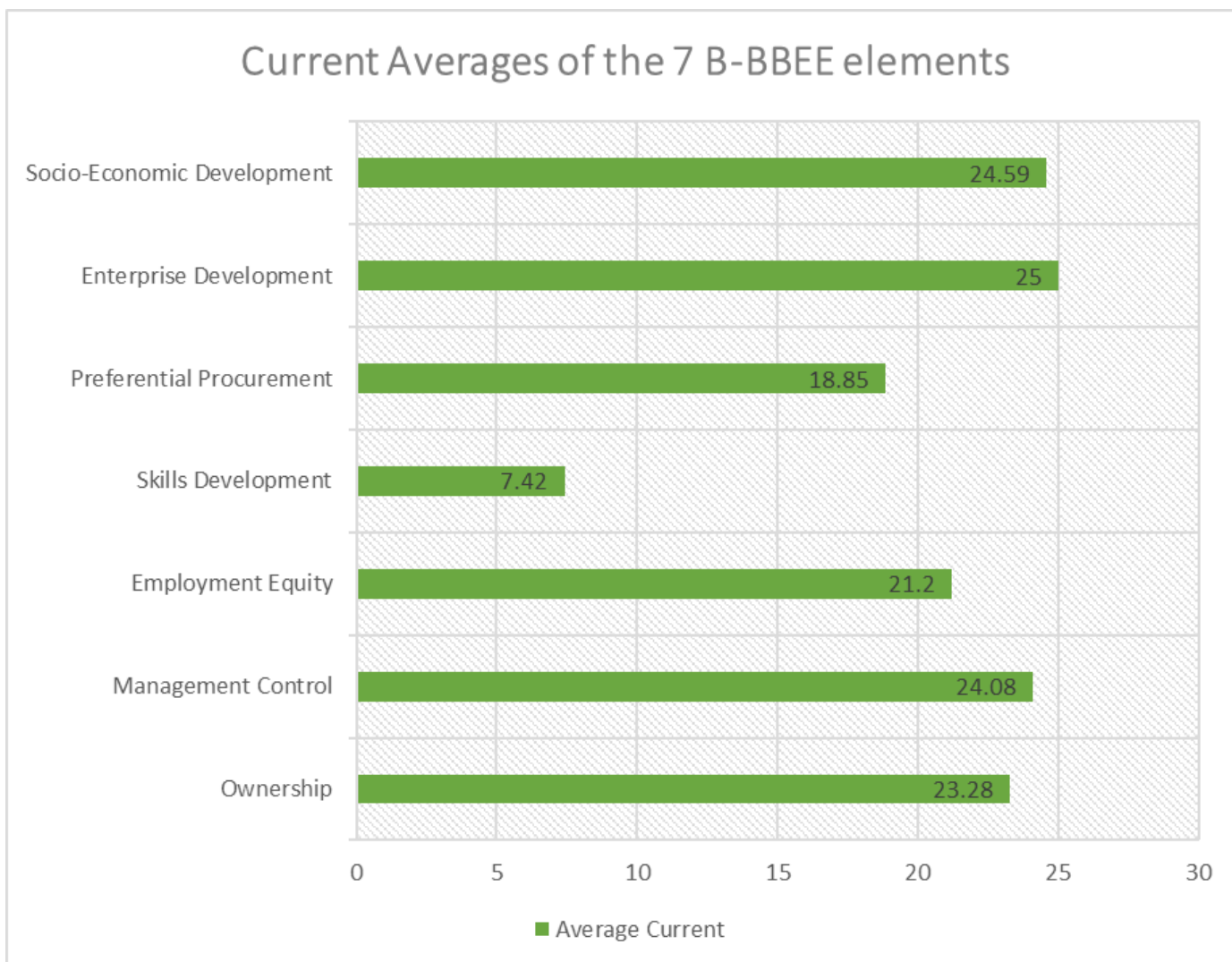
Figure 2: QSE Certificates Received



The number of QSEs that participated in the B-BBEE status report has steadily increased over the past five years as illustrated in figure 2. There has been a slight increase though

in the number of certificates received for this reporting period compared to the last reporting period.

Graph 8: QSEs Scorecard performance



The graph above shows the average score achieved per element for the QSEs. QSEs continue to achieve acceptable points in almost all the elements except for skills development as demonstrated in graph 8 above. This may lead to a conclusion that the aspect of skills development has however not been addressed fully as similar performance is observed within the MLEs. Often than not, it may be due to that QSEs are production focused and do not necessary have a large workforce. This further proves that even the skills development factor is not only a challenge to a certain category of enterprises but an entire sector' challenge.

QSEs have performed exceptionally well in enterprise

development, and socio-economic development, a trend that is similar to the one observed under the MLEs. They have also scored better points in management control and employment equity which is in contrary to the performance achieved within the MLEs.

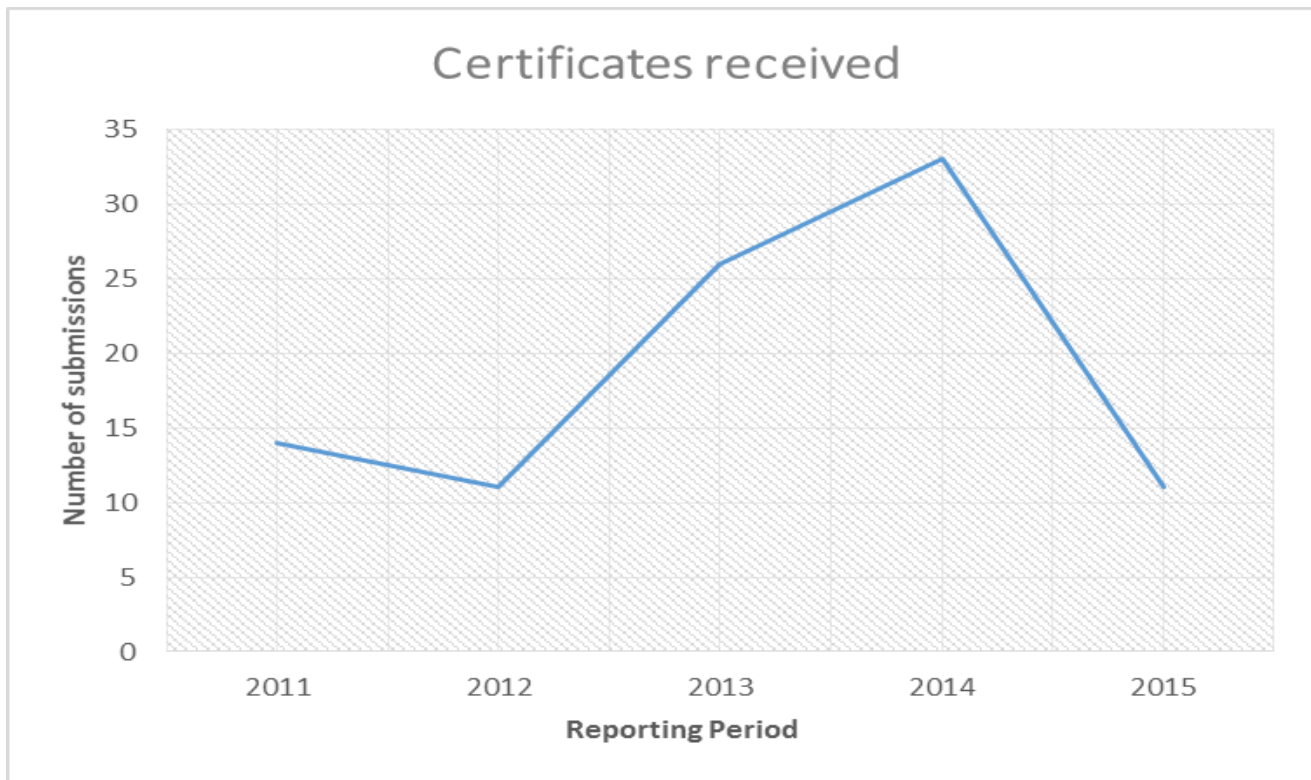
QSEs have maintained their Level 3 BEE contributor status even for the year being reviewed. The average score over all 7 elements amounted to 20.63, which translates into a weighted value of 82.52. This indicates a decline of about 5.17 points from the previous reporting period, where by a score of 87.69 was attained.

Exempt Micro Enterprises (EMEs)

Exempted Micro Enterprises are exempted from being verified using the scorecard elements. These are exempted because they currently have a turnover of less than R5 million. EMEs automatically assume a level four status but may achieve a level 3 if they comply with the Codes of Good Conduct and are 50% or more black owned. EMEs may also choose to be verified using the QSE scorecard.

However, in the draft Amended Codes, black ownership is emphasized. An EME that is 100% black owned will be automatically awarded a level one status and one that is 51% black owned will assume a level 2 status. Such types of EME will need to submit an affidavit or a Companies and Intellectual Property Commission (CIPC) certificate proving their ownership status as well as their turnover.

Figure 3: EME Certificates Received



The above figure illustrates a sharp decline in the submission of certificates for the EMEs. EMEs continue to achieve a level 4 status confirming that there are few non-black exempted enterprises. This could be partly due to the lack of commitment or the cost of B-BBEE verification in case they want a better level

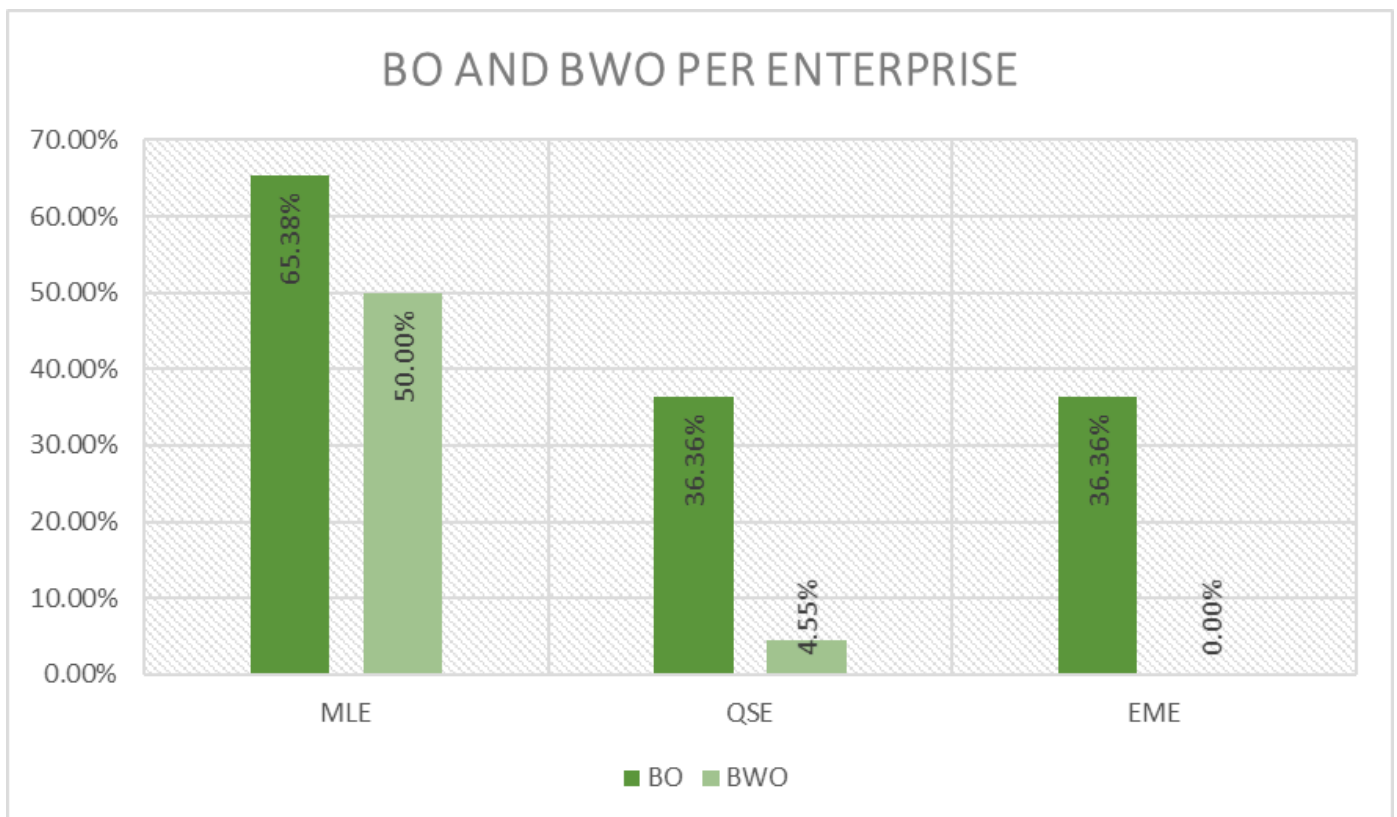
and the possibly closures of enterprises due to the economic instability. It must also be considered that EMEs are exempted and not required to undertake B-BBEE verification, not unless they want to be elevated to a higher level.

Black Owned (BO) and Black Women Owned (BWO) Statistics

It is also necessary to demonstrate the BO and BWO statistics for the all enterprises as this provides with an overview of how

B-BBEE has impacted on black and women owned enterprises. The following image holds reference.

Graph 9: BO and BWO per Enterprise



The percentage shown above is the number of enterprises with a percentage allocated to BO or BWO divided by the number of enterprises (for the specific classification, i.e. EME, QSE, MLE) times a 100. E.g. if there were 22 certificates submitted for QSEs and 8 of those QSE have BO then it would be $8/22 \times 100$

= 36.36%

From the above figure we can clearly see that the MLEs lead with regards to BO and BWO. EMEs fall far behind when it comes to the ownership of enterprises by black women.

Conclusion

The sector achieved an overall level 4 status. The MLE group showed a decline in performance in most elements. The Ownership, Management Control, Employment Equity and Skills Development failed to reach the 50% target mark. However, it must be noted that the number of submissions from the MLE group increased.

The QSE group saw a 5% increase in submissions and maintained a level 3 contributor status. Ownership, Management Control and Enterprise Development all saw significant increases in performance and the Employment Equity element decreased in performance.

EMEs gain an automatic level 4. None achieved a level 3. A study of BO and BWO enterprises showed an indirectly proportional relationship between enterprise size and percentage ownership. The current report sees the introduction of a new attempt at qualitative information gathering by using an online questionnaire with a comments section. This approach will allow the report to more accurately gain access into the forestry

sector's insight and view of B-BBEE. The questionnaire yielded some interesting points of view. The general consensus was that Socio-Economic Development, Skills Development and Enterprise Development were the most preferred elements. However, the performance of the MLEs especially on the skills development does not prove so. Ownership and Preferential Procurement were the least favoured.

The report also observed that the industry senses the FSCC could benefit from increasing its visibility and engaging more with the industry, especially the informal sector as it is informal and marginalised. Technical skills training is deemed to be the most sought after B-BBEE compliance aspect seeing that forestry is such a technical industry. Enterprises prefer to receive accredited training through a provider. This allows enterprises to receive grant claim backs through the Workplace Skills Plan and the Annual Training Report submissions. The forestry sector is a production and delivery orientated industry and this often makes the "softer" implementation tasks more difficult.





Councillors' Responsibilities and Approval

FOREST SECTOR CHARTER COUNCIL NPC

(Registration number 2009/006567/08)

Annual Financial Statements for the year ended 31 March 2015

The councillors are required by the Companies Act 71 of 2008, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with the International Financial Reporting Standard for Small and Medium-sized Entities. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The councillors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the councillors to meet these responsibilities, the council sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The councillors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The councillors have reviewed the company's cash flow forecast for the year to 31 March 2016 and, in the light of this review and the current financial position, they are satisfied that the company has or has access to adequate resources to continue in operational existence for the foreseeable future.

Director

Director



Independent Auditors' Report

FOREST SECTOR CHARTER COUNCIL NPC

(Registration number 2009/006567/08)

Annual Financial Statements for the year ended 31 March 2015

To the shareholders of FOREST SECTOR CHARTER COUNCIL NPC

We have audited the annual financial statements of FOREST SECTOR CHARTER COUNCIL NPC, as set out on pages 8 to 15, which comprise the statement of financial position as at 31 March 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Councillors' Responsibility for the Annual Financial Statements

The company's councillors are responsible for the preparation and fair presentation of these annual financial statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities, and requirements of the Companies Act 71 of 2008, and for such internal control as the councillors determine is necessary to enable the preparation of annual financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these annual financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual financial statements 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 accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of FOREST SECTOR CHARTER COUNCIL NPC as at 31 March 2015, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities, and the requirements of the Companies Act 71 of 2008.

SK Dziwa, RA(SA)
Partner
Registered Auditors
Practice Number: 902365

25 June 2015
Bramley, Johannesburg



Councillors' Report

FOREST SECTOR CHARTER COUNCIL NPC
(Registration number 2009/006567/08)
Annual Financial Statements for the year ended 31 March 2015

The councillors have pleasure in submitting their report on the annual financial statements of FOREST SECTOR CHARTER COUNCIL NPC for the year ended 31 March 2015

1. Nature of business

The main objective of the Forest Sector Charter Council is to promote Broad-Based Black Economic Empowerment (B-BBEE) in the forestry industry. It seeks to achieve this by undertaking the following:

- (a) Promoting investment programmes that lead to sustainable B-BBEE driven growth and development of the Forest Sector and meaningful participation of black people in the entire forestry value chain.
- (b) Achieving sustainable change in the racial and gender composition of ownership, management and control structures and in skilled positions of existing and new forest enterprises.
- (c) Increasing the extent to which black women and men, workers, cooperatives and other collective enterprises own and manage existing and new forest enterprises and increasing access to economic activities, infrastructure and skills training.
- (d) Nurturing new black-owned and/or black-managed enterprises to undertake new forms of economic and value adding activities in the Forest Sector.
- (e) Using the forest industry as a catalyst for empowering rural and local black communities to access economic activities, land, infrastructure, ownership and skills.
- (f) Promoting sustainable employment and contracting practices in the Forest Sector.
- (g) Promoting access to finance for Broad-based Black Economic Empowerment in the Forest Sector.
- (h) Promoting equitable representation in industry structures and equitable access to forestry support systems.
- (i) Providing an enabling environment for transparency, fairness and consistency when measuring and adjudicating on matters relating to B-BBEE in the Forest Sector.

2. Review of financial results and activities

The annual financial statements have been prepared in accordance with International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act 71 of 2008. The accounting policies have been applied consistently compared to the prior year.

Full details of the financial position, results of operations and cash flows of the company are set out in these annual financial statements.





Councillors' Report

FOREST SECTOR CHARTER COUNCIL NPC
(Registration number 2009/006567/08)
Annual Financial Statements for the year ended 31 March 2015

3. Councillors

The councillors in office at the date of this report are as follows:

Councillors

Stephen Bila
Bruce Breedt
Sebueng Chipeta
Khwezilomso Mabasa
Lizeka Matshekga
Dr Diphoko Mahango
Viv McMenamin
Simangaliso Mkhwanazi (Executive Director)
Dinga Mncube
Mary-Anne Mngomezulu
Pasco Dyani (Chairperson - Forest Sector Charter Council)
Jane Molony
Ben Nkambule
Watson Nxumalo
Dr. Nthabiseng Motete
Themba Siyolo (Chairperson - Finance Committee)
Roy Southey
Dr Jaap Steenkamp
Lulamile Xate
Sakhiwo Zako (Chairperson - Human Resources Committee)
Jacob Maputha

Changes

Resigned 30 November 2014

4. Events after the reporting period

The councillors are not aware of any material event which occurred after the reporting date and up to the date of this report which in the opinion of the councillors might materially influence the appreciation of the financial statements.





Statement of Financial Position as at 31 March 2015

FOREST SECTOR CHARTER COUNCIL NPC
(Registration number 2009/006567/08)
Annual Financial Statements for the year ended 31 March 2015

Figures in Rand	Note(s)	2015	2014
Assets			
Non-Current Assets			
Property, plant and equipment	2	88 929	98 856
Current Assets			
Trade and other receivables	3	227 905	176 964
Cash and cash equivalents	4	3 896 262	4 139 192
		4 124 167	4 316 156
Total Assets		4 213 096	4 415 012
Equity and Liabilities			
Equity			
Retained income		3 686 483	4 345 662
Liabilities			
Current Liabilities			
Trade and other payables	5	526 613	69 350
Total Equity and Liabilities		4 213 096	4 415 012





Statement of Comprehensive Income

FOREST SECTOR CHARTER COUNCIL NPC
(Registration number 2009/006567/08)
Annual Financial Statements for the year ended 31 March 2015

Figures in Rand	Note(s)	2015	2014
Revenue	6	4 761 861	4 852 284
Other income		-	672
Operating expenses		(5 421 040)	(4 645 567)
Operating (loss) profit		(659 179)	207 389
Finance costs	7	-	(7 032)
(Loss) profit for the year		(659 179)	200 357
Other comprehensive income		-	-
Total comprehensive (loss) income for the year		(659 179)	200 357





Statement of Changes in Equity

FOREST SECTOR CHARTER COUNCIL NPC

(Registration number 2009/006567/08)

Annual Financial Statements for the year ended 31 March 2015

Figures in Rand	Retained income	Total equity
Balance at 01 April 2013	4 145 305	4 145 305
Profit for the year	200 357	200 357
Other comprehensive income	-	-
Total comprehensive income for the year	200 357	200 357
Balance at 01 April 2014	4 345 662	4 345 662
Loss for the year	(659 179)	(659 179)
Other comprehensive income	-	-
Total comprehensive loss for the year	(659 179)	(659 179)
Balance at 31 March 2015	3 686 483	3 686 483





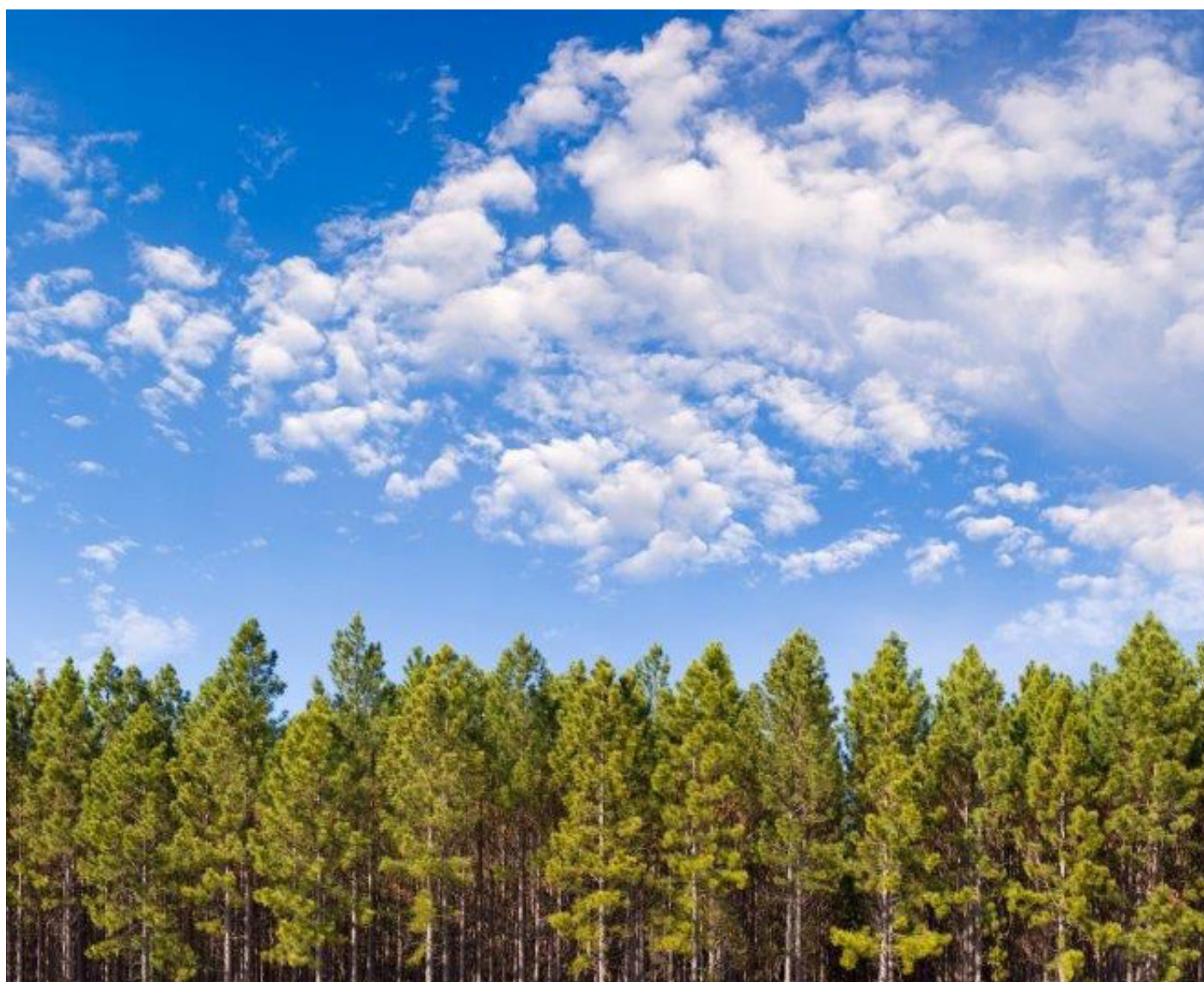
Statement of Cash Flows

FOREST SECTOR CHARTER COUNCIL NPC

(Registration number 2009/006567/08)

Annual Financial Statements for the year ended 31 March 2015

Figures in Rand	Note(s)	2015	2014
Cash flows from operating activities			
Cash used in operations	10	(228 931)	(148 945)
Finance costs		-	(7 032)
Net cash from operating activities		(228 931)	(155 977)
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(13 999)	(9 562)
Sale of property, plant and equipment	2	-	7 720
Net cash from investing activities		(13 999)	(1 842)
Total cash movement for the year		(242 930)	(157 819)
Cash at the beginning of the year		4 139 192	4 297 011
Total cash at end of the year	4	3 896 262	4 139 192





Accounting Policies

FOREST SECTOR CHARTER COUNCIL NPC
(Registration number 2009/006567/08)
Annual Financial Statements for the year ended 31 March 2015

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities, and the Companies Act 71 of 2008. The annual financial statements have been prepared on the historical cost basis, and incorporate the principal accounting policies set out below. They are presented in South African Rands.

These accounting policies are consistent with the previous period.

1.1 Property, plant and equipment

Property, plant and equipment are tangible items that:

- are held for use in the production or supply of goods or services, for rental to others or for administrative purposes; and
- are expected to be used during more than one period.

Property, plant and equipment is carried at cost less accumulated depreciation and accumulated impairment losses.

Cost includes all costs incurred to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Depreciation is provided using the straight-line method to write down the cost, less estimated residual value over the useful life of the property, plant and equipment, which is as follows:

Item	Average useful life
Office equipment	6 years
IT equipment	3 years
Computer software	6 years

The residual value, depreciation method and useful life of each asset are reviewed at each annual reporting period if there are indicators present that there has been a significant change from the previous estimate.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss in the period.

1.2 Financial instruments

Initial measurement

Financial instruments are initially measured at the transaction price. This includes transaction costs, except for financial instruments which are measured at fair value through profit or loss.

Financial instruments at amortised cost

Debt instruments, as defined in the standard, are subsequently measured at amortised cost using the effective interest method. Debt instruments which are classified as current assets or current liabilities are measured at the undiscounted amount of the cash expected to be received or paid, unless the arrangement effectively constitutes a financing transaction.

At the end of each reporting date, the carrying amounts of assets held in this category are reviewed to determine whether there is any objective evidence of impairment. If so, an impairment loss is recognised

1.3 Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable or received and represents contributions receivable from the Forestry Industry and the Department of Agriculture, Forestry and Fisheries.

Interest is recognised, in profit or loss, using the effective interest rate method.



Notes to the Annual Financial Statements

FOREST SECTOR CHARTER COUNCIL NPC
(Registration number 2009/006567/08)
Annual Financial Statements for the year ended 31 March 2015

Figures in Rand

2015

2014

2. Property, plant and equipment

	2015			2014		
	Cost / Valuation	Accumulated depreciation and impairments	Carrying value	Cost / Valuation	Accumulated depreciation and impairments	Carrying value
Furniture and fixtures	90 438	(28 888)	61 550	90 438	(13 816)	76 622
Office equipment	13 662	(11 760)	1 902	13 662	(9 217)	4 445
IT equipment	38 165	(12 688)	25 477	24 166	(6 377)	17 789
Computer software	1 999	(1 999)	-	1 999	(1 999)	-
Total	144 264	(55 335)	88 929	130 265	(31 409)	98 856

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Depreciation	Total
Furniture and fixtures	76 622	-	(15 072)	61 550
Office equipment	4 445	-	(2 543)	1 902
IT equipment	17 789	13 999	(6 311)	25 477
	98 856	13 999	(23 926)	88 929

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Depreciation	Total
Furniture and fixtures	80 876	9 562	-	(13 816)	76 622
Office equipment	6 315	-	-	(1 870)	4 445
IT equipment	33 731	-	(7 048)	(8 894)	17 789
	120 922	9 562	(7 048)	(24 580)	98 856

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011 is available for inspection at the registered office of the company.

3. Trade and other receivables

Trade receivables	227 905	176 963
Staff loans	-	1
	<u>227 905</u>	<u>176 964</u>

4. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	<u>3 896 262</u>	<u>4 139 192</u>
---------------	------------------	------------------

5. Trade and other payables

Trade payables	163 159	22 846
Payroll related accruals	363 454	46 504
	<u>526 613</u>	<u>69 350</u>



Notes to the Annual Financial Statements

FOREST SECTOR CHARTER COUNCIL NPC
(Registration number 2009/006567/08)
Annual Financial Statements for the year ended 31 March 2015

Figures in Rand

	2015	2014
6. Revenue		
Government contribution - Department of Agriculture, Forestry and Fisheries	3 708 000	3 531 000
Industry contribution - Members of the Forestry Sector	1 053 861	1 321 284
	4 761 861	4 852 284
7. Finance costs		
Settlement interest	-	7 032
8. Taxation		
No provision has been made for 2015 tax as the company has no taxable income. The company is in the process of applying for exemption from income tax with the South African Revenue Service.		
9. Auditors' remuneration		
Fees	50 942	50 000
10. Cash used in operations		
(Loss) profit before taxation	(659 179)	200 357
Adjustments for:		
Depreciation and amortisation	23 926	24 580
Profit on sale of assets	-	(672)
Finance costs	-	7 032
Changes in working capital:		
Trade and other receivables	(50 941)	59 996
Trade and other payables	457 263	(440 238)
	(228 931)	(148 945)



Notes to the Annual Financial Statements

FOREST SECTOR CHARTER COUNCIL NPC
(Registration number 2009/006567/08)
Annual Financial Statements for the year ended 31 March 2015

Figures in Rand

2015
2014

11. Related parties

Relationships

Members of the Forest Industry

Paper Manufacturers Association of South Africa (PAMSA)
Forestry South Africa (FSA)
Sawmilling South Africa (SSA)
South African Wood Preservers Association (SAWPA)
South African Utility Pole Association (SAUPA)
South African Forestry Contractors Association (SAFCA)
Department of Agriculture, Forestry and Fisheries (DAFF)

Ultimate responsible authority

Department of Agriculture, Forestry and Fisheries (DAFF)

Related party balances and transactions with other related parties

Related party balances

Amounts included in Trade receivable regarding related parties

Forestry South Africa (FSA)	192 367	49 548
Sawmilling South Africa (SSA)	165 796	25 491
Paper Manufacturers Association of South Africa (PAMSA)	89 386	101 924
South African Utility Pole Association (SAUPA)	22 594	-

Related party transactions

Revenue received from related parties

Paper Manufacturers Association of South Africa (PAMSA)	536 302	611 544
Forestry South Africa (FSA)	439 591	594 576
Sawmilling South Africa (SSA)	45 000	101 964
South African Wood Preservers Association (SAWPA)	9 890	13 200
South African Utility Pole Association (SAUPA)	6 594	-
South African Forestry Contractors Association (SAFCA)	16 484	-
Department of Agriculture, Forestry and Fisheries (DAFF)	3 708 000	3 531 000

12. Events after the reporting period

There is no material fact or circumstance that has arisen since the accounting date of the financial statements to the date of issue of the financial statements that would warrant a material adjustment to the financial statements as presented.



FOREST SECTOR
CHARTER COUNCIL



agriculture,
forestry & fisheries

Department:
Agriculture, Forestry and Fisheries
REPUBLIC OF SOUTH AFRICA



Designed by

George Gladwin Matsheke
Creative Director - 0833272823
Email - george@studio83.co.za

