



FOREST SECTOR
CHARTER COUNCIL

ANNUAL REPORT 2016/2017

The Forest Sector Charter and the Forest Sector Charter Council

Vision

“A transformed and sustainable Forest Sector fully compliant with the Forest Sector Code.”

Mission

“To support, promote, guide and monitor transformation of the Forest Sector by securing stakeholders compliance with the requirements of the Forest Sector Code.”

Values

The Council operates with the following values:

Good governance

Transparency

Commitment to service (responsiveness is implied)

People-centred

Dynamism

Respect for integrity

Respect for confidentiality

Trust among and between stakeholders



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Acronyms

ARC	Audit and Risk Committee
AgriBEE	Agricultural Broad-Based Black Economic Empowerment
B-BBEE	Broad-Based Black Economic Empowerment
BEE	Black Economic Empowerment
CPA	Community Property Association
DAFF	Department of Agriculture, Forestry and Fisheries
DBSA	Development Bank of Southern Africa
DEDT	Department of Economic Development and Tourism
DPE	Department of Public Enterprise
DRDLR	Department of Rural Development and Land Reform
DTI	Department of Trade and Industry
DWS	Department of Water and Sanitation
ECFDF	Eastern Cape Forestry Development Forum
EIA	Environmental Impact Assessment
EME	Exempted Micro Enterprise
FINCOM	Finance Committee
FP&M	Fibre Processing and Manufacturing
FSA	Forestry South Africa

FSC	Forest Sector Code
FSCC	Forest Sector Charter Council
GDP	Gross Domestic Product
GE	Genus Exchange
Ha	Hectares
HRC	Human Resources Committee
KZN	KwaZulu-Natal
NDA	National Development Agency
NEF	National Empowerment Fund
NFAC	National Forest Advisory Council
MLE	Medium and Large Enterprise
MMM	Mbazwana Manzengwenya and Mabaso
NSDS	National Skills Development Strategy
QSE	Qualifying Small Enterprise
SAFCOL	South African Forestry Company Limited
SFRA	Stream Flow Reduction Activity
SSGs	Small-scale Growers
SSP	Sector Skills Plan
SMMEs	Small, Medium & Micro Enterprises
TMM	Tembe, Mbila and Mabaso
WULA	Water Use License Application



Message from

The Chairperson

At the Forest Sector Charter Council (FSCC), we are justly proud of our mutual status and core mission of facilitating and enhancing sustainable B-BBEE in forestry communities. We, however, need to be effective and goal oriented to successfully meet our core mandate.

Given the uncertainty of our economic environment, it would serve us well to avoid the 'hammer mentality' as indicated by Mark Twain: If your only tool is a hammer, all your problems are nails.

In November 2016, we continued to strike the right balance on our trajectory to promote and facilitate transformation in the sector despite our challenge with the 'Codes'. To this end, the task team that was mandated with the ultimate gazetting of the Codes succeeded, despite a plethora of varying opinions.

This is a demonstration of the foundation of being a successful Council, namely the 'Creation of Council First Culture', which should underpin all our actions.

The Council is requested to actively nurture the 'People First' culture or mentality. This will be achieved by creating a relevant inclusive environment. Excellence to me is not an exception but a prevailing attitude.

Transformation or transmogrification is not an event but a process. Times are changing rapidly in this industry, thus, we cannot rest on our laurels and expect success to be steeped in past glory.

We are in the middle of a digital transformation, which fundamentally changes the way businesses operate. The 2017 Status Report depicts progression in some elements though the same B-BBEE level of 4 is maintained. Notable is the acceptable performance observed under the Ownership and Skills Development elements – a change that is worth acknowledging. We must find a way of improving this outlook. We cannot yet blame the impact of the 'Junk status' downgrade.

As we are heading for another year in office, we continue seeing limited but representative numbers of reporting entities. My honest appeal to those companies belonging to the FSCC is to please affiliate to your relevant association and embrace B-BBEE in your strategic operations and agendas. The carrot philosophy seems not to be enticing enough; we will have to embark on a 'Name and Glorify Campaign'.



Dr D.E. Mahango
Chairperson of Council

“
Transformation or transmogrification is not an event but a process. Times are changing rapidly in this industry, thus, we cannot rest on our laurels and expect success to be steeped in past glory.
”

Furthermore, we are supposed to create opportunities for youth and women, in particular in terms of skills acquisition and enterprise development. Members should be entertaining an idea of youth representative participation in Council deliberations. By so doing, we will be creating a richer and more receptive Council.

Around the world, almost three million 15 to 24-year-olds are not working. They are either seeking employment or waiting for government handouts every month. In Athlone in the Western Cape, the unemployment rate among South Africans

stands at 55%. Official figures assembled by the International Labour Organisation indicates that 76 million young people are unemployed and 26 million of these are not in employment, education or training (NEETs). That is why it is imperative for the FSCC to endeavour to make an impact with reference to its commitments (refer to the Code). We are all aware of the fact that South African unemployment is stoked by our slow growing economy. Added to this is our rigid labour market and possibly the overburdened legal framework.

For these reasons, the FSCC will keep on as we believe we can and will add value to people.

In closing, I would like to acknowledge the outstanding contribution made by all Council members, government representatives, staff members and all other stakeholders. You have truly helped to make the FSCC an iconic Council and I anticipate another successful year ahead.

Thank you again



Dr Diphoko Emmanuel Mahango
FSCC Chairperson



The Forest Sector Charter Council and Council's Main Activities

Forest Sector Charter Council

The Forest Sector Charter Council (FSCC), consisting of members representing communities, industry and government, remains committed to its mandate. All scheduled meetings for the year had good representation, as indicated in the meeting attendance register below. Council continued to strategically focus on the mandate, i.e. to succeed in ensuring inclusive and active participation of blacks in the forest economy.

The three standing committees, namely the Human Resources Committee (HRC), Finance Committee (Fincom) as well as the Audit and Risk Committee (ARC), managed to hold their planned meetings.

Council Meetings

Only three meetings were held in the year under review. Attendance is mirrored on Table I.

Table I: Council Meeting Attendance

NAME OF MEMBER	Council Meetings		
	30 June 2016	10 Nov 2016	28 Feb 2017
Dr Diphoko E. Mahango (Chairperson)	✓	✓	✓
Ms Thabitha Shange (Vice-Chairperson)	✓	✓	✓
Mr Simangaliso Mkhwanazi (Executive Director)	✓	–	–
Mr Tyrone Hawkes (Fincom Chairperson)	✓	✓	✓
Ms Rally Moropa (HR Chairperson)	✓	✓	✓
Mr Daniel Kivetts (ARC Chairperson)	✓	✓	✓
Mr Themba Siyolo	✓	✓	X
Dr Mmaphaka Tau	✓	X	–
Mr Jaap Steenkamp	X	X	–
Mr Jakob Maphutha	X	✓	✓
Mr Roy Southey	✓	✓	X
Mr Bruce Breedt	✓	✓	X
Mr Lulamile Xate	✓	X	✓
Mr Kirk Walker	✓	✓	✓
Mr Michael Peter	✓	✓	✓

KEY

Present	✓	Absent	X	Other	–
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The Forest Sector Charter Council's Key Milestones

Council Approved the Amended Forest Sector Code for Final Gazette

Forestry is a bedrock for rural economies. Despite the diverse views from stakeholders, it is encouraging that the Council has agreed to gazette the draft Amended Forest Sector Code under 9 (1) of the B-BBEE Act as Amended. The open-minded attitude of key negotiators proved beyond doubt that there is a preparedness to accept changes and a willingness to push for an impactful B-BBEE implementation process. The Amended Codes have more stringent targets and can thus strengthen the drive towards job creation, equitable sharing of resources, and perhaps present equal opportunities to the previously disadvantaged.

Council Summoned to the Deputy Minister's Bosberaad

Often than not, collaboration between role players is key in driving a certain agenda, in this particular case, transformation. The Deputy Minister for the Department of Agriculture, Forestry and Fisheries (DAFF) summoned Industry role players to a Bosberaad. In this meeting, matters impacting on transformation and growth of the sector were robustly debated. Members of the Industry outlined their frustration on issues delaying empowerment, with reference to the issuing of water use licenses, the land reform process and the cumbersome legislation governing the forest industry. In response, the industry was mandated to ensure that the economic benefits and opportunities are extended to designated groups, with a particular emphasis on women and youth.

Community Outreach Programme

Members representing communities in the Charter Council continued with their interactions with industry role players. The interaction this time around was to formally acquaint the industry, government and relevant role players with matters relayed by communities or beneficiaries and qualify progress made towards these matters. This initiative indirectly ensured that expectations of communities are understood, referenced and prioritised by both industry and government and advanced as a strategic imperative. The engagements also provided the stakeholders with an opportunity to reiterate challenging matters in as far as B-BBEE implementation is concerned.

Strategic Review Session

Council held its Strategic Plan review session in early 2017. This session was meant to conceptualise the understanding and expectations by different stakeholders in so far as transformation in the forest sector was concerned. New strategic and concrete goals were synthesised and defined, drawing from the vision and mission of the Council as governed by its values. As such, these goals are key in outlining the direction for the Council with reference to the proposed amendments to the Forest Sector Code.

Council Interacts with National Forestry Advisory Council

The National Forestry Advisory Council (NFAC) is constituted under the National Forest Act. Its mandate is to advise the Minister on matters impacting on Forestry development. The Council was privileged to have been invited by the NFAC to

present on the Annual Status of Transformation for 2015-2016. The Council also presented on challenges experienced in B-BBEE implementation. This interaction serves as an example of the continued spirit of cooperation among stakeholders to advocate for the promotion and further development of the forest industry.

Council Participates in the Eastern Cape Forest Sector Forum

The Council participated in the Eastern Cape Forest Sector Forum, which was established by DAFF Eastern Cape and Industry. It is aimed at promoting and providing developmental support in the Eastern Cape on forest matters. These include funding, afforestation licensing, environmental impact assessment (EIA) studies, lease rentals and community-based developmental projects. Mr Daniel Kivetts represents Council in this forum.





News in General

The 2016-2017 financial year was characterised by a number of social, political and environmental changes in the sector, which may have had some influence on forestry operations and thus implementation of transformation initiatives. Some major events are highlighted in the Annual Status Report. Their possible impact is detailed in this section.

Skills Development and the #FeesMustFall Movement

Skills development is one of the most important elements that can contribute positively to the Sector's goals towards achieving economic growth and sustainability. This element is meant to address South Africa's skills gaps and needs.

#FeesMustFall was a major event in the financial year, which saw a number of South African youth stand against increasingly rising costs of tertiary education. The event highlighted the need and the imperative role that corporates, the public sector and civil society at large play in providing bursaries to deserving black learners as legitimised under the training matrix. In what

may have been a response to the rising cost of education, the FP&M SETA committed over R3 million to fund forestry related bursaries.

Contribution to Job Creation by the SMME Industry

The SMME industry has the potential to contribute significantly to job creation, especially within rural areas where forest companies mostly operate. Negotiations aimed at increasing forestry and farmworker wages to meaningful and dignified amounts were triggered by the ever-increasing cost of living. It may be worth noting that the proposed wage increases may have unintended consequences on the growth and expansion of the SMME sector.

The economic downgrades experienced in 2016-2017 had a great effect on the economy, Forestry included, resulting in significant jobs losses due to a reduced capital fiscal and inflows from foreign investment. The impact of technology and mechanisation should also not be ignored in this regard.

100 000ha Afforestation Target

The Forest Sector Code has set a target of 100 000ha of afforestation over a 10-year period in order to sustain and radically transform the sector. However, a number of challenges hindering if not slackening the achievement of this target have been observed, including the authorisation requirements. Further interrogation of this matter is urgently required.

The Department of Water and Sanitation (DWS) accepted the Industry's plea to remove the highly controversial regulations aimed at forcing timber growers to apply for authorisation when switching genera. The removal of these regulations provided great relief to the sector and minimised the already cumbersome regulatory environment within which forest enterprises operate. The over regulation of the sector poses a great risk of losing more land, which could potentially be afforested to preferred crops such as macadamia and avocados.

The consideration of parking all land claims in order to properly consult the public is a step towards the right direction. However, the pace of consultation of this process has the potential to further delay enablement of black ownership through land rights and restitution and the creation of emerging forest entities.

The recommissioning of some of the Exit Areas, especially in the Western Cape region, is acknowledged. In 2016, 1 107ha of plantation were afforested. The slow rate of afforestation, coupled with the impact of the exit policy of 2001, has had a huge impact towards realising the set target of 10 000ha of trees afforested per year.

Forestry is classified as a stream flow reduction activity (SFRA). The 2016 drought had the effect of heightening the Sector's awareness of the effects of climate change and its water uptake and usage.

Despite the fact that trees are on average more resilient to drought than other agricultural crops, pests and diseases will continue to thrive under conditions of climate change, as was observed with the proliferation of the Leptocyte problem, especially in KZN.

Pines have been found to be more resilient to climate change and drought than eucalyptus and wattle. This may be one of the reasons for the observed increase (46.6% to 47.5%) in afforestation of pine and the large decrease (43.7% to 10.1%) in eucalyptus afforestation from the periods of 1980-2016 to the 2016 financial year. Switching of genera may have been used as a possible climate change and drought mitigation strategy.



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

The Forest Sector Code identifies undertakings for both industry and government. These undertakings are linked to the scorecard elements to assist measured entities achieve their B-BBEE targets as detailed in the scorecard. The achievements for the year are summarised.

Instruments to Support Ownership Targets

Restructuring of State Forest Assets in Support of B-BBEE Targets

Mbazwana, Manzengwenya and Mabaso (MMM) Transfer

The Community Forestry Agreement was signed by the Minister and Tembe, Mbila and Mabaso (TMM) Development Trust in April 2016.

Roszbach Transfer

As indicated previously, the transfer process was concluded. DAFF is providing post-transfer support to the Roszbach Community Property Association (CPA).

Instruments to Support Skills Development Targets

Sector Skills Plan for the Forest Sector

Skills development is key to underpinning skills transfer. The Industry and Government continue to review the annual Sector Skills Plan (SSP) developed by the Fibre, Processing and Manufacturing (FP&M) Seta.

Instruments to Support Enterprise Development Targets

Access to Funds and Financial Services for Emerging Black Entrepreneurs

DAFF is in the process of establishing a one-stop shop facility for funding. In response to this, DAFF has approached the National Empowerment Fund (NEF), Development Bank of Southern Africa (DBSA) and the National Development Agency (NDA) for financial and non-financial support. DAFF has also developed the Forestry Development Fund Framework, which will safeguard the interests of applicants.

The Department of Rural Development and Land Reform (DRDLR) is also finalising the development of an Enterprise Development Policy, which shall inform and guide further engagements between DRDLR and other stakeholders.

Industry continues to offer the most competitive financing and technical support to new participants and small-scale growers in particular. Further to that, Forestry South Africa (FSA) presented a proposal for crop loss support to DAFF in September 2016, which would reduce the State's burden and leverage private sector funding.

Capacity Building and Business Support for Emerging Black Entrepreneurs

The Department has provided training on the Sub-sector guidelines. Positive feedback was received from participating small-, medium- and micro-enterprises (SMMEs) and emerging forest entrepreneurs.

Most companies within the Sector still provide such support through their enterprise development initiative. Industry and FSA have funded the development of a portable mechanical harvesting winch for small-scale growers (SSGs).

A second prototype has been developed, resulting in seven out of eleven teams of SSGs undertaking training in fire protection. One out of five groups were trained in silviculture.

The Business Practice Programme commenced in May 2016, with fifty learners undergoing registration and re-assessment. An application to the FP&M Seta has been made for an amount of R3.7 million for training in 2017.

Instruments to Support Industry Specific Initiatives

Collaboration between Sub-sector Organisations Industry, through FSA, has participated in the Eastern Cape Forestry Development Forum (ECFDF) and in the Department of Economic Development and Tourism (DEDT) in KZN, despite the lack of concurrent competence for forestry.

Sawlog Strategy

Even though the Sawlog Strategy has been finalised, industry sees it as appropriate to promote wood within the built environment. Industry roleplayers who are in support of this initiative have since shared this proposal.

In addition, the Industry, through FSA, presented on beneficiation opportunities to the dti Beneficiation Workshop held in October 2016.

Forestry Protection Services

Considering that DAFF has approved the Forest Protection Strategy, Industry through FSA, has concluded the Industry's Research and Development Review. The review confirmed that pests and diseases are still the biggest threat facing the Industry.



Status of Transformation in the Sector

Forestry is a key driver for development of South Africa's rural economies. B-BBEE aims to capitalise on the Sector's ability to accelerate economic growth and poverty alleviation. As such, the FSCC is mandated to monitor, facilitate and report on the annual status of transformation in the Sector. The current performance of the Sector in terms of B-BBEE implementation is detailed in this report.

A total of 77 certificates were received for the year under review, of which 54 were valid. Twenty-three of these were Medium and Large Enterprises (MLEs), 15 were received from Qualifying Small Enterprises (QSEs) and the remainder were received from Exempted Micro Enterprises (EMEs).

Eleven (47,8%) reporting MLEs submitted underlying information with their certificates. This allowed for in depth analysis of the MLE performance. Analysis by sub-sector was not entirely possible as some sub-sectors were not well represented in the certificate submission.

Medium and Large Enterprises (MLE) Analysis

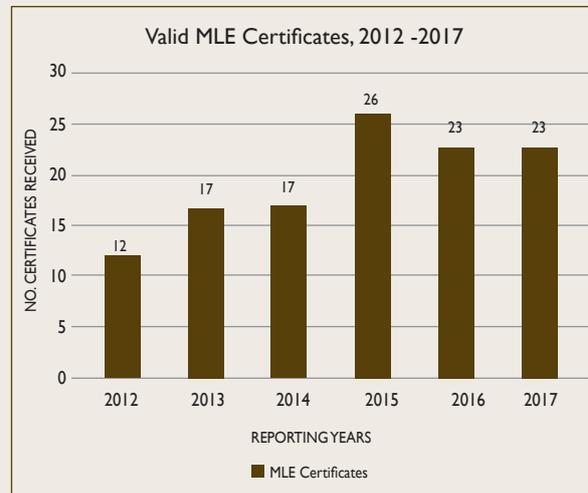
MLEs are often described as major role players within the sector and also influence or contribute considerably to transformation of the sector. Their initiatives have a larger impact on local communities as they often are involved in a greater number of activities across the value chain.

MLEs are enterprises that receive an annual turnover of above R35 million. The highest number of reporting MLEs were received from the grower's sub-sector, which constitutes mostly the primary suppliers of the raw material of timber. Eleven of the 23 certificates were obtained from the growers' sub-sector. The least number of certificates were received (2) from the

fibre sub-sector. There were no certificates and/or B-BBEE reports that were received from the charcoal sub-sector.

Figure 1 compares the number of certificates received within the last six years. The number of certificates received from MLEs for the year under review remained constant from the previous year. The 2015 reporting year showed the highest number of submissions since 2011/2012 but reduced slightly to 23 certificates in 2016 and 2017.

Figure 1: MLE B-BBEE Certificates Received per Year



Nineteen of the 23 companies (83%) that submitted have been consistent as they also submitted their certificates during the previous reporting period. However, new company submissions had no influence on the performance. This probably indicates that most of the MLEs are employing similar B-BBEE implementation strategies.

Figure 2: Annual Average MLE Performance Expressed as a % of Target

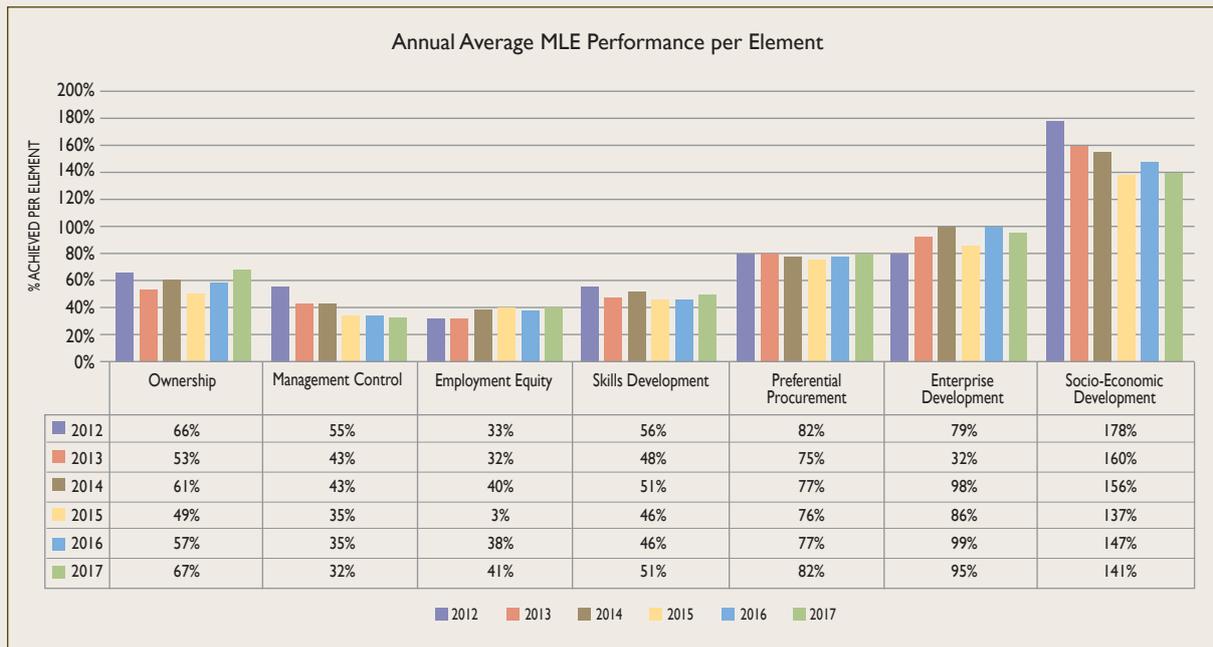


Figure 2 shows the extent to which MLEs are reaching or exceeding their targets for each element and compares the current MLE scores per element with the previous reporting periods. It is apparent that 100% of the Socio-economic Development and, at times, the Enterprise Development targets are constantly met. Exceptional performance is also observed within the Preferential Procurement element.

Improvements have been observed in Ownership and Skills Development. Actually, the Sector has achieved more than 50% towards the target points under the Skills Development element. This improvement is probably intensified by the introduction of priority elements in the draft Amended FSC to which Ownership and Skills Development have been categorised.

Performance for Management Control and Employment control still shows that the Industry is finding it a challenge to implement these two elements. Management Control further shows a persistent and downward decline among these enterprises over six reporting periods.

Qualifying Small Enterprises (QSE) Analysis

QSEs are defined as entities that have a turnover of between R5 million and R35 million annually. The threshold defining QSEs and the eligibility of selecting four of the seven elements will fall off when the Amended FSC (still to be gazetted) become effected as they will be assessed on five elements.

Figure 3: QSE B-BBEE Certificates Received per Year

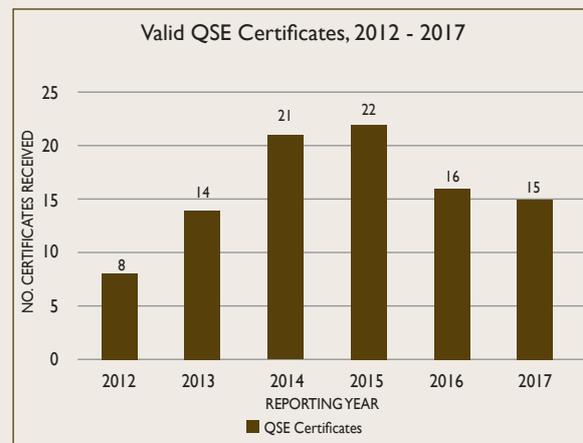


Figure 3 above compares the certificates received from QSEs over the last reporting periods. Under this reporting year, 15 valid QSE certificates were received. This shows a slight decline from the previous year. The number of reporting entities is expected to increase under this category in the next reporting year as a result of the increased thresholds in the draft Amended FSC for QSEs which is now R50 million.

Most entities chose to be assessed on Preferential Procurement, Employment Equity and Socio-Economic Development as shown in Figure 5 below. Management Control, Skills Development and Ownership were the least popular elements. This may result from these elements requiring an entity to spend some of their profit on activities they may deem unnecessary or too costly for their enterprises.

Figure 4: Number of QSEs Choosing to report on each Element

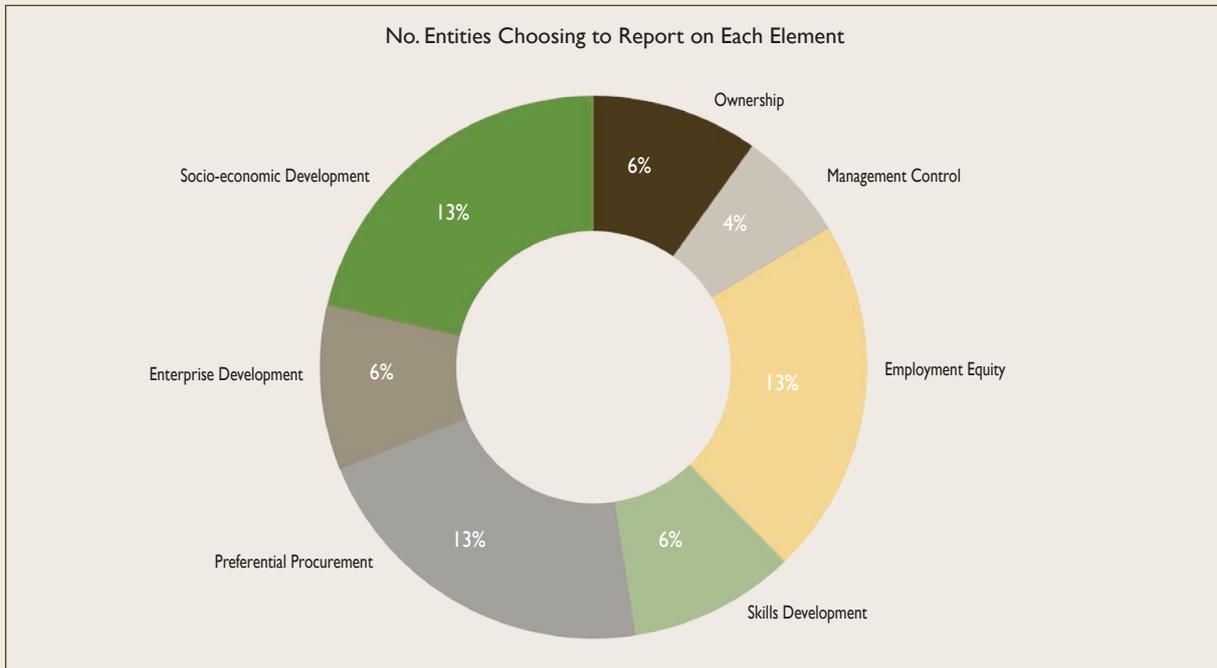
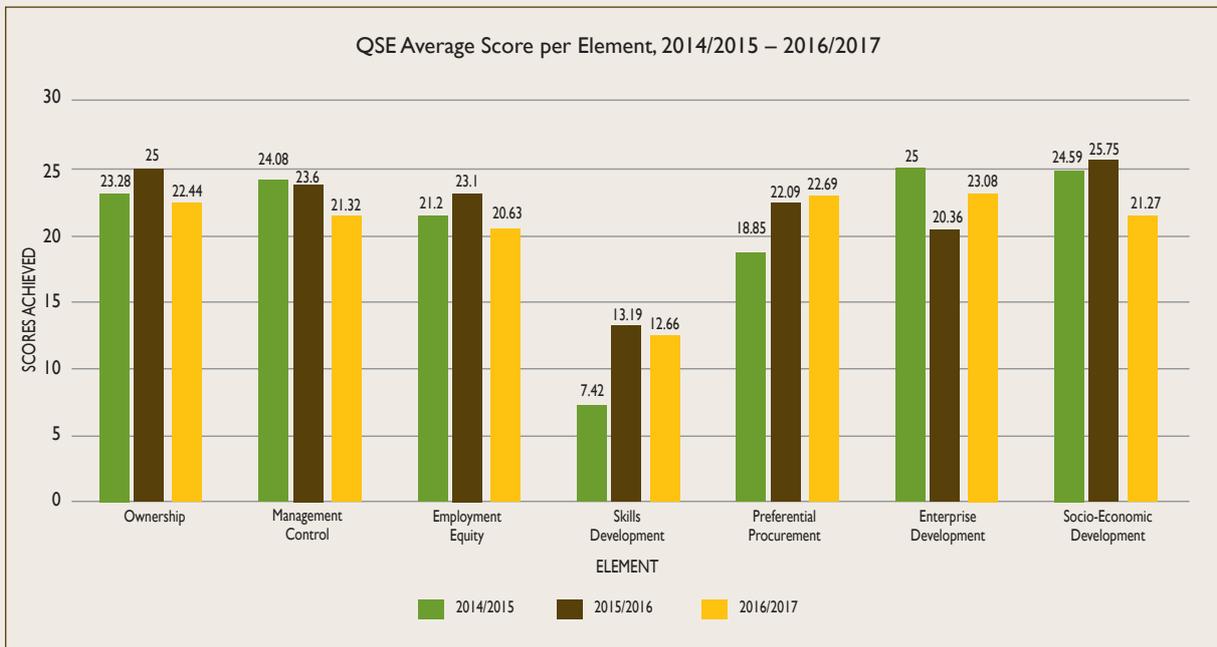


Figure 5 below compares the average scores per element achieved by QSEs within the last three reporting periods. The figure shows a slight decline in most elements except in Enterprise Development and Preferential Procurement.

Figure 5: QSE Average Score per Element, 2014/2015 – 2016/2017



QSEs continue to perform well across all indicators, except for Skills Development. The decline in Skills Development may indicate that QSEs may not have the appetite to allocate funds to skilling their employees or that they may not have the financial resources to do so.

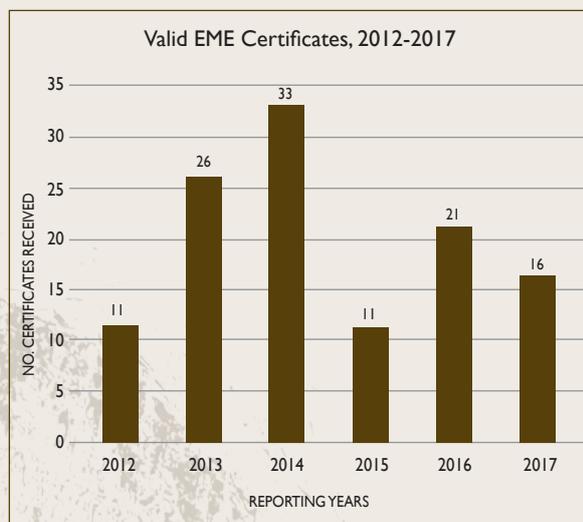
The performance observed under Skills Development for both MLEs and QSE may also indicate that this is more of a structural challenge for the entire sector.

QSEs have maintained their average B-BBEE contributor Level 2 rating.

Exempted Micro-Enterprises (EME) Analysis

EMEs are entities with an annual turnover of less than R5 million. These enterprises are exempted from being scored using the scorecard elements. Instead, they are automatically given a level 4 B-BBEE contributor status though they may be a level three if they comply with the Codes of Good Conduct and are more than 50% black-owned. In the draft Amended FSC, EMEs' black profile is key in determining the B-BBEE contributor level. A 100% or 51% black-owned EME automatically qualifies for a level 1 and 2.

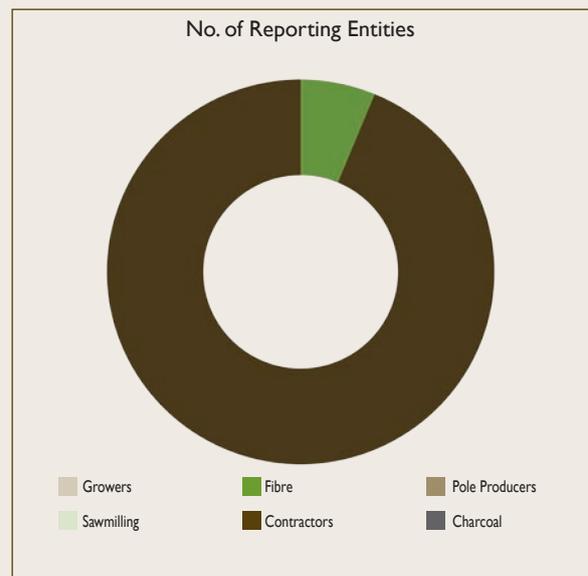
Figure 6: EME B-BBEE Certificates Received per Year



There has been a decline in the number of entities reporting under the EME category, as shown in Figure 6 above. The decline may be attributable to a number of factors, one notable factor being the economic behaviour that led to the downgrades.

The submissions from the EMEs were further categorised according to the sub-sectors. The contractors' sub-sector, as indicated in Figure 7, submitted the largest number of certificates. These accounted for 93.8%, accounting for 15 of the total submissions. The only other certificate received was from the fibre sub-sector.

Figure 7: EME Certificate Submission by Sub-sector



EMEs achieved a level 3 B-BBEE contributor status, an improvement by one level from the previous reporting period. This is an indication that EMEs are taking B-BBEE seriously and understand the consequences of being non-compliant as most larger companies prefer to do business with small businesses with a good B-BBEE rating. The enhancement criteria introduced in the draft Amended FSC for 1005 and 51% small enterprises may also have an effect on the improved black ownership profile of most of the EMEs. It is anticipated that this level could improve with the enhancement principle introduced in the draft Amended FSC.

Conclusion

MLEs achieved an average score of 66.95 points this reporting period, maintaining a level 4 rating. Significant improvements were observed within the Ownership and Skills Development elements. MLEs finally managed to achieve an average score above the 50% target in the Skills Development element. The poorest performances among MLEs were observed under the Management Control and Employment Equity elements, a trend that has been observed in all previous reporting years. The sector continues to perform well in Preferential Procurement, Enterprise Development and Socio-economic Development.

One entity belonging to the growers' sub-sector managed to achieve a level 2 B-BBEE rating. Seven of these entities scored a B-BBEE score of level 3 while 10 entities scored a level 4 B-BBEE score. This was mainly among the contractors and growers' sub-sectors.

QSEs achieved an average score of 82.87 out of 100, giving QSEs an average level 2. This can be expected as QSEs are given the opportunity to select their best and preferred elements under the current FSC. All the elements declined in the QSE, with the exception of Enterprise Development and Preferential Procurement.

EME improved to level 3 status. The high number of entities scoring level 4 may be attributed to the prevalence of EMEs in the sector who are automatically given a score of 4 or 3, depending on their black ownership profile.

The report highlighted some interesting trends within the forest sector among the different sized companies. It would not have been successful if not for the Mpowered portal. Results for this report show that certificate submission is low but at least there is some consistency in the same entities reporting from the previous year and submitting their underlying information.

It is important to raise awareness on the importance of reporting. This can be achieved through the continuous use of CEO visits and Community Outreach Programmes. The Council also needs to find a means of compiling a reliable database for the entities that are operating in the Forest sector.

It would be useful to immediately design a strategy to address the rate of certificate submission (accompanied by underlying information), which will allow the Council to compile a complete database of all entities operating in the Industry.

B-BBEE Compliant Forest Companies

MLEs	QSEs	EMEs
SAFCOL	Illusive Dream trading as 512/Lens Forestry Contractors	AHJ Plant Hire
Amathole	Indlovu Forestry CC	Dikwata Harvesting
Reatile Timrite	Maqhilika Timber	Farmusa Agric & Forestry Contractors
Mondi Limited	Sibsa Weed Services CC	GR Forestry
Mpact Limited	BM Enterprises (BN Mitchell)	Hugo Le Roux (Contactor Hugo)
Sappi Southern Africa	Evergreen Timbers	Kwamahlathini Training Services CC
Tzaneng Treated Timbers	Latlog CC	Laubdolf Vervaardiging Bk
Hans Merensky Holdings	Corpco 781 CC (TFT Harvesting & Transport Services)	Mandlezile Trading CC
MTO Forestry	Imphisi Plant Hire CC	Masonga Contractors CC
Khulani Timber Industries	Melody D Timber brokers CC	PJV Forestry Services
Normandien Farms	Siyakhula Forest Management (SpareInvest 64 CC)	Poles and Timber Suppliers CC
Ntaba Forestry	Zultech CC	San Cotona Investments
PG Bison Holdings	Enviro-Mulch	Sizananani Village Maintenance CC
R & B Timbers CC	Micloo Forestry Services	Timberstone Construction Projects
Singisi Forest products	S Wasserman	Umjindi Forestry CC
Treated Timber Products		Winnie Logging Services
York		
Bedrock Mining Support		
Silvix Forestry		
Forestry Plant & Equipment Sales CC		
NCT Forestry Co-operative Limited		
Johannesburg Timber and Box CC		
Bostek (Bosbou Tegnologiesie Dienste)		

Annual Financial Statements for the Year Ended 31 March 2017

General Information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Oversight over and facilitation of the implementation of the Forest Sector Charter, which, as its main objective, seeks to promote Broad-Based Black Economic Empowerment in and through the Forest Sector.
Directors	Dr Diphoko Mahango (Chairperson) Bruce Breedt Tyrone Hawkes Daniel Kivetts Jacob Maphutha Rally Moropa Michael Peter Thabitha Shange Themba Siyolo Roy Southey Dr Jaap Steenkamp Kirk Walker Lulamile Xate
Auditor's	Dziwa & Company Registered Auditor
Level of assurance	These Annual Financial Statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008.

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The following supplementary information does not form part of the Annual Financial Statements and is unaudited:

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Level of assurance

These Annual Financial Statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008.

Published

July 6, 2017

Councillors' Responsibilities and Approval

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 Council 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 auditor's is 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 Council and place considerable importance on maintaining a strong control environment. To enable the councillors to meet these responsibilities, the 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 Council and all employees are required to maintain the highest ethical standards in ensuring the Council's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Council is on identifying, assessing, managing and monitoring all known forms of risk across the Council. While operating risk cannot be fully eliminated, the Council 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 Council's cash flow forecast for the year to March 31, 2018 and, in the light of this review and the current financial position, they are satisfied that the Council has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditor's are responsible for independently auditing and reporting on the Council's annual financial statements. The annual financial statements have been examined by the Council's external auditor's and their report is presented on page 21.

The annual financial statements set out on pages 22 to 30, which have been prepared on the going concern basis, were approved by the on July 6, 2017 and were signed on its behalf by:

Approval of financial statements



Dr Diphoko Mahlongo (Chairperson)



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2090, Johannesburg

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Benmore, 2010
South Africa

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website: www.dziwa-inc.com

Independent Auditor's Report

To the members of Forest Sector Charter Council NPC Opinion

We have audited the annual financial statements of Forest Sector Charter Council NPC set out on pages 22 to 30, which comprise the statement of financial position as at March 31, 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the annual financial statements, including a summary of significant accounting policies.

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of Forest Sector Charter Council NPC as at March 31, 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act 71 of 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the annual financial statements section of our report. We are independent of the Council in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of annual financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the councillors for the Annual Financial Statements

The councillors are responsible for the preparation and fair presentation of the annual financial statements in accordance with International Financial Reporting Standard for Small and Medium-sized Entities and the 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 misstatement, whether due to fraud or error.

In preparing the annual financial statements, the councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the councillors either intend to liquidate the Council or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

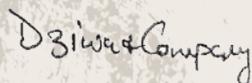
As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Council's internal control. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the councillors.

Conclude on the appropriateness of the councillors use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Council to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the councillors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Dziwa & Company
SK Dziwa CA(SA), RA(SA) Partner
Practice number: 902365

6 July 2017
Bramley, Johannesburg

Councillors' Report

The councillors have pleasure in submitting their report on the annual financial statements of Forest Sector Charter Council NPC for the year ended March 31, 2017.

1. 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 Council are set out in these annual financial statements.

2. Councillors

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

Councillors

Dr Diphoko Mahango (Chairperson)
Bruce Breedt
Tyrone Hawkes
Daniel Kivetts
Jacob Maphutha
Simangaliso Mkhwanazi
Dr Tau Mmaphaka
Rally Moropa
Michael Peter
Thabitha Shange
Themba Siyolo
Roy Southey
Dr Jaap Steenkamp
Kirk Walker
Lulamile Xate

Changes

Resigned Wednesday, November 30, 2016
Resigned Friday, December 23, 2016

3. 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 that in the opinion of the councillors might influence the appreciation of the financial statements as presented..

4. Going concern

The councillors believe that the Council has adequate financial resources to continue in operation for the foreseeable future and accordingly the annual financial statements have been prepared on a going concern basis. The councillors have satisfied themselves that the Council is in a sound financial position and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements. The councillors are not aware of any new material changes that may adversely impact the Council. The councillors are also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the Council.

5. Auditors

Dziwa & Company continued in office as auditors for the Council for 2017.

6. Date of authorisation for issue of financial statements

The annual financial statements have been authorised for issue by the councillors on Thursday, July 6, 2017. No authority was given to anyone to amend the financial statements after the date of issue.

Statement of Financial Position as at 31 March 2017

Figures in Rand	Note(s)	2017	2016
Assets			
Non-current assets			
Property, plant and equipment	2	107 241	116 593
Current assets			
Trade and other receivables	3	337 796	398 403
Cash and cash equivalents	4	3 030 341	3 308 579
		3 368 137	3 706 982
Total assets		3 475 378	3 823 575
Equity and liabilities			
Equity			
Retained income		3 182 728	3 586 113
Liabilities			
Current liabilities			
Trade and other payables	5	292 650	237 462
Total equity and liabilities		3 475 378	3 823 575

Statement of Comprehensive Income

Figures in Rand	Note(s)	2017	2016
Revenue	6	5 410 314	5 225 296
Other income	7	1 002 639	725
Operating expenses		(6 816 338)	(5 317 416)
Operating deficit	8	(403 385)	(91 395)
Finance costs	9	-	(8 976)
Deficit for the year		(403 385)	(100 371)

Statement of Changes in Equity

Figures in Rand	Retained Income	Total Equity
Balance at 1 April 2015	3 686 484	3 686 484
Deficit for the year	(100 371)	(100 371)
Other comprehensive income	-	-
Total comprehensive loss for the year	(100 371)	(100 371)
Balance at 1 April 2016	3 586 113	3 586 113
Deficit for the year	(403 385)	(403 385)
Other comprehensive income	-	-
Total comprehensive loss for the year	(403 385)	(403 385)
Balance at 31 March 2017	3 182 728	3 182 728
Note(s)		

Statement of Cash Flows

Figures in Rand	Note(s)	2017	2016
Cash flows from operating activities			
Cash used in operations	11	(235 350)	(511 858)
Finance costs		-	(8 976)
Net cash from operating activities		(235 350)	(520 834)
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(42 888)	(66 849)
Total cash movement for the year		3 308 579	(587 683)
Cash at the beginning of the year		3 030 341	3 896 262
Total cash at end of the year	4	3 308 579	3 308 579

Accounting Policies

I. 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, except for biological assets at fair value less point of sale costs, 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.

I.1 Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and accumulated impairment losses. Cost 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 as follows:

Item	Depreciation Method	Average Useful Life
Office equipment	Straight line	6 years
IT equipment	Straight line	3 years
Computer software	Straight line	6 years

The residual value, depreciation method and useful life of each asset are reviewed only where there is an indication that there has been a significant change from the previous estimate.

I.2 Financial instruments

Initial measurement

Financial instruments are initially measured at the transaction price (including transaction costs except in the initial measurement of financial assets and liabilities that are measured at fair value through profit or loss) unless the arrangement constitutes, in effect, a financing transaction in which case it is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial instruments at amortised cost

These include loans, trade receivables and trade payables. Those debt instruments which meet the criteria in section 11.8(b) of 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 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 there is objective evidence, the recoverable amount is estimated and compared with the carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

I.3 Impairment of assets

The Council assesses at each reporting date whether there is any indication that property, plant and equipment may be impaired.

If there is any such indication, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset (or group of assets) in prior years. A reversal of impairment is recognised immediately in profit or loss.

I.4 Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents contributions 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

Figures in Rands	2017	2016
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2. Property, plant and equipment

	2017			2016		
	Cost	Accumulated Depreciation	Carrying Value	Cost	Accumulated Depreciation	Carrying Value
Furniture and fixtures	119 714	(63 913)	55 801	119 714	(43 960)	75 754
Office equipment	23 662	(16 677)	6 985	23 662	(15 010)	8 652
Computer equipment	108 626	(64 171)	44 455	65 738	(33 551)	32 187
Total	252 002	(144 761)	107 241	209 114	(92 521)	116 593

Reconciliation of property, plant and equipment – 2017

	Opening Balance	Additions	Depreciation	Total
Furniture and fixtures	75 754	-	(19 953)	55 801
Office equipment	8 652	-	(1 667)	6 985
Computer equipment	32 187	42 888	(30 620)	44 455
	116 593	42 888	(52 240)	107 241

Reconciliation of property, plant and equipment – 2016

	Opening Balance	Additions	Depreciation	Total
Furniture and fixtures	61 550	29 276	(15 072)	75 754
Office equipment	1 902	10 000	(3 250)	8 652
Computer equipment	25 477	27 573	(20 863)	32 187
	88 929	66 849	(39 185)	116 593

3. Trade and other receivables

Trade receivables	334 946	395 553
Other receivables	2 850	2 850
	337 796	398 403

4. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	228	-
Bank balances	3 030 113	3 308 579
	3 030 341	3 308 579

5. Trade and other payables

Trade payables	119 085	193 980
Payroll related accruals	173 565	43 482
	292 650	237 462

6. Revenue

Industry contributions - Members of the Forestry Sector	1 244 314	1 295 296
Government contribution - Department of Agriculture, Forestry and Fisheries	4 166 000	3 930 000
	5 410 314	5 225 296

Notes to the Annual Financial Statements (continued)

Figures in Rands	2017	2016
7. Other income		
FP&M Seta grants	1 002 639	725
8. Operating deficit		
Operating deficit for the year is stated after accounting for the following:		
Operating lease charges		
Premises		
• Contractual amounts	91 622	108 705
Equipment	-	47 233
• Contractual amounts	91 622	155 938
Depreciation on property, plant and equipment:	52 240	39 185
Employee costs	2 223 866	2 157 705
9. Finance costs		
Interest paid	-	8 976
10. Auditor's remuneration		
Fees	62 700	45 600
11. Cash used in operations		
Deficit before taxation	(403 385)	(100 371)
Adjustments for:		
Depreciation and amortisation	52 240	39 185
Finance costs	-	8 976
Changes in working capital:		
Trade and other receivables	60 607	(170 498)
Trade and other payables	55 188	(289 150)
	(235 350)	(511 858)

Notes to the Annual Financial Statements (continued)

Figures in Rands	2017	2016
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12. 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)
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

FSA	341 010	291 463
SSA	-	267 470
PAMSA	46 914	48 264
SAUPA	-	30 594

Amounts included in bad debts written off

SAUPA	22 594	-
SSA	94 211	-

Related party transactions

Revenue received from related parties

PAMSA	608 304	608 304
FSA	594 576	594 576
SSA	-	50 982
SAWPA	13 200	13 200
SAUPA	8 000	8 000
SAFCA	20 234	20 234
DAFF	4 166 000	3 930 000

13. Councillors' remuneration

Attendance fees paid for committee, council and ad-hoc meetings.

Dr. Diphoko Mahango (Chairperson)	562,158	247,756
Daniel Kivetts	51,157	38,402
Rally Moropa	48,551	30,173
Thabitha Shange	20,161	8,229
Sakhiwo Zako	-	5,486
Khwezi Mabasa	-	10,972
Stephen Bila	-	5,486
Mary-Anne Mngomezulu	-	8,229
	682 027	354 733

Detailed Income Statement

Figures in Rand	Note(s)	2017	2016
Revenue			
Government contribution – Department of Agriculture, Forestry and Fisheries		4 166 000	3 930 000
Industry contributions – Members of the Forestry Sector		1 244 314	1 295 296
	6	5 410 314	5 225 296
Other income			
FP&M Seta grants		1 002 639	725
Expenses (Refer to page 17)			
Operating deficit	8	(403 385)	(91 395)
Finance costs	9	-	(8 976)
Deficit for the year		(403 385)	(100 371)

Detailed Income Statement (continued)

Figures in Rand	Note(s)	2017	2016
Operating expenses			
Accounting fees		(191 860)	(81 337)
Advertising and branding		(40 526)	(173 875)
Annual report		(8 000)	(108 480)
Auditors remuneration	10	(62 700)	(45 600)
Bad debts		(116 805)	-
Bank charges		(7 605)	(14 114)
Catering		(26 411)	(69 711)
Cleaning		(32 760)	(28 850)
Computer expenses		(124 579)	-
Consulting: B-BBEE status reports		(192 024)	-
Consulting: policy development and BEE scorecard		-	(450 000)
Consulting: amendment of FSCC codes		-	(184 426)
Consulting: forensic investigation		(292 005)	-
Consulting: grant registration and forestry skills development		(880 217)	(17 054)
Depreciation, amortisation and impairments		(52 240)	(39 185)
Employee costs		(2 223 866)	(2 157 705)
Fines and penalties		(186 413)	(49 088)
Insurance		(14 990)	(12 763)
Lease rentals on operating lease		(91 622)	(155 938)
Legal expenses		(27 200)	-
Meeting and workshop venues		(240 689)	(171 865)
Meeting attendance costs		(682 027)	(354 733)
Office consumables		(4 442)	(3 636)
Other expenses		-	(17 410)
Postage		(865)	(402)
Printing and stationery		(74 484)	(76 988)
Repairs and maintenance		(475)	(7 980)
Secretarial fees		(35 607)	(28 771)
Strategic planning facilitation		(83 824)	-
Subscriptions		-	(79 116)
Telephone and fax		(237 189)	(200 665)
Travel and accommodation		(629 738)	(652 539)
Travel and subsistence claims - council members		(212 661)	(89 962)
Travel and subsistence claims - staff		(42 514)	(45 223)
		(6 816 338)	(5 317 416)

The supplementary information presented does not form part of the annual financial statements and is unaudited



NOT DRINKING

BEWARE NIP POINTS

BEWARE NIP POINTS →

NO CLIMBING

NO CLIMBING



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