



FOREST SECTOR
CHARTER COUNCIL

ANNUAL REPORT 2017/2018

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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Table of Contents

Acronyms	2
Message from the Chairperson.....	3
The Forest Sector Charter Council and Council's Main Activities	5
The Forest Sector Charter Council (FSCC)	5
Council Meeting Attendance.....	5
Council's Achievements for the Year under Review	5
Amendments to the Forest Sector Code.....	8
Minister of the dti Gazetted Amended Forest Sector Code	8
Changes to the Amended Forest Sector Code	8
Report of Progress made in the Implementation of the Forest Sector Charter Undertakings	11
Instruments to Support Ownership Targets.....	11
Instruments to Support Skills Development Targets	11
Instruments to Support Enterprise Development Targets	11
Instruments to Support Industry Specific Initiatives	12
Status of Transformation	14
Medium and Large Enterprises (MLE) Analysis	14
Qualifying Small Enterprises (QSE) Analysis	16
Exempted Micro-Enterprises (EME) Analysis.....	18
Conclusion.....	19
Annual Financial Statements	22



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

“

The Department of Agriculture, Forestry and Fisheries (DAFF) contributed 2.4% to the South African Gross Domestic Product (GDP) in 2017. Forest products contributed R34,5 billion to South Africa's economy.”

Minister of Agriculture, Forestry and Fisheries

The Forest Sector Charter Council (FSCC), like all other institutions in South Africa, experienced fiscal pessimism as a consequence of the economic downgrades by rating agencies. However, after the inception of President Cyril Ramaphosa's term as head of the country, the mood changed – a phenomenon dubbed as 'Ramaphoria' or 'radical economic optimism'.

A presumption was made that the economic negativity associated with the downward spiralling economy would be reversed. However, South Africans experienced an unpleasant reality check when they realised that the past 10 years of their gloomy economy would not immediately rebound simply because of a change in top leadership. The looming dark cloud would take some time to dissipate.

Business people, including forestry related industries, endeavoured to minimise the psychological impact and negativity associated with the waning economy. Acceptance of the situation is the only way to enable the forestry sector, Government and communities to develop strategies to eliminate or alleviate the negative influence of the year of pessimism.

The positives about the current situation in forestry and agriculture were aptly summarised by the Minister of Agriculture, Forestry and Fisheries in his budget speech as follows: The Department of Agriculture, Forestry and Fisheries (DAFF) contributed 2.4% to the South African Gross Domestic Product (GDP) in 2017. Forest products contributed R34,5 billion to South Africa's economy. The above positive indicators were realised despite the fact that:

- The total number of youth in the country stands at 17 million



Dr D.E. Mahango
Chairperson of Council

- Only 36,2% of the 17 million youth are employed
- 34,7% (R5,9 million) youth are said to be unemployed

As a consequence of the above, the government introduced the Youth Employment Service (YES) initiative as a mechanism to alleviate the spiralling rate of youth unemployment. A misconception exists that with the advent of the digital economy and mechanisation, the level of unemployment in the country will increase faster. I believe that this is not true and I refer to this as the digital paradox.

If the machinery expected to usurp employees' jobs is produced inside the country, the negative trajectory of mechanisation will surely be stopped and reversed. We need to avoid the mentality associated with conformity or group thinking. Careful collaboration of Industry, Government and technical universities with reference to design and production of the supposedly required machinery will reverse the situation, as already explained.

My CEO visits as the Chairperson, together with the Secretariat, were eye-opening regarding a plethora of accusations cast upon forestry companies at recent Parliamentary Portfolio Committee meetings. This is despite the apparent good work being done by forestry companies



in rural communities. However, my advice is for forestry companies to communicate more their various efforts aimed at growing transformation in the sector more widely to Government, communities and society at large.

Communities are able to indicate issues pertaining to their relationship with forestry companies and Government through community outreach visits. Council members must be applauded for their dedication to the work of Council. In short, respected Council members are making strides, albeit slowly, because the pace of change is equally mind-boggling.

In conclusion, I want to extend my profound appreciation to the Council, stakeholders and the members of staff for continuously supporting my intentions. The load I carry as a Chairperson of Council is bearable because of you all.

Thank you

Dr D.E. Mahango
Chairperson

The Forest Sector Charter Council and Council's Main Activities

The Forest Sector Charter Council (FSCC)

The FSCC has been vested with the responsibility to encourage, support, monitor and facilitate the implementation of the Amended Forest Sector Code. The Council is represented by members from communities, Industry, Labour and Government.

Council Meeting Attendance

Council held all quarterly meetings during the year under review. The Annual General Meeting was held on the 18 May 2017. Attendance of the Council meetings is reflected below in an attendance table.

Attendance Register

NAME OF MEMBER	Council Meetings				AGM
	19 May 2017	24 Aug 2017	23 Nov 2017	22 Feb 2018	18 May 2017
Dr Diphoko E. Mahango (Chairperson)	✓	✓	✓	✓	✓
Ms Thabitha Shange (Vice-Chairperson)	X	X	X	✓	✓
Mr Daniel Kivetts (ARC Chairperson)	✓	✓	✓	✓	✓
Mr Tyrone Hawkes (Fincom Chairperson)	✓	✓	✓	✓	✓
Ms Rally Moropa (HR Chairperson)	✓	✓	✓	✓	✓
Mr Bruce Breedt	✓	X	✓	✓	✓
Mr Jaap Steenkamp	✓	✓	✓	X	✓
Mr Kirk Walker	✓	✓	✓	✓	✓
Mr Lulamile Xate	X	✓	X	✓	✓
Mr Jacob Maphutha	✓	✓	X	✓	✓
Mr Michael Peter	✓	✓	X	X	✓
Mr Roy Southey	X	X	✓	X	X
Ms Makhosazana Mavimbela (Acting ED)	X	✓	✓	✓	X
Ms Felleng Yende	X/P	X/P	X/P	X/P	X/P

KEY

Present	✓	Absent	X	Proxy	X/P	Other	-
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Council's Achievements for the Year under Review

The successful execution of the Council's revised Strategic Plan is evident in the substantial progress achieved under the deliverables of 2018.

Council Annual General Meeting (AGM 18 May 2017)

The Council was privileged to have interacted with Sakaza Communications Pty (Ltd) and Business Unite during the AGM. The two represented institutions share the same philosophy and sentiments with regard to strengthening the understanding of the role of the Council in transforming the industry. It is believed that such a role is critical in reinforcing the need to tailor make and implement sector specific strategies for encouraging entities to implement B-BBEE.

Human Resource Committee (HRC)

In an effort to ensure that the Council remains consistent and relevant with the current labour laws, the HR Committee undertook a comprehensive review of all the Council's policies. The review was a direct response to feedback received from our external auditors. The reviewed policies have since been adopted by Council and will be applicable for all internal and external Council's operations.

Finance Committee (Fincom)

The Finance Committee has been instrumental in the designing and implementing effective and sound financial controls. Of importance was the functional budget based on Industry and Government's agreement to fund the Council's operations. As such, the Council is proud to have also received a clean Audit for the year under review. This has been attributable to Industry contributions, which have proven to be more reliable and substantive in nature; the preparation of monthly management accounts to record and manage spending patterns and the decision to prefer purchase orders over petty cash.

Audit and Risk Committee (ARC)

The Committee functions within the documented and approved terms of reference. A key component of the ARC was to identify potential risks to the Council's operations. The Committee managed to review all significant risks and presented appropriate interventions to ensure that Council manages its risks in an optimal manner.

It also monitored the effectiveness of the control environment by comparing and reviewing the 2017 and 2018 Annual Financial Statements so as to ensure that the quality of financial reporting is maintained.

EXCO

For the first time, the Council has established the Executive Committee (EXCO). EXCO is constituted by the Chairpersons of all the standing committees in the Council. The mandate of EXCO is to present and seek support on important matters resolved and recommended in the committees to the Chairperson of Council. As such, the recommendations are then tabled to the Council.

Council becomes a Member of the SANAS B-BBEE Specialist Technical Committee (STC)

SANAS established a B-BBEE Specialist Technical Committee (STC). Council plays an important role in this Committee as it does not only give technical guidance on matters relating to B-BBEE implementation, reporting and monitoring, but also converses on the latest developments on B-BBEE.

Council Interacts with Industry CEOs

As a development of the Strategic Plan review session, the Chairperson of Council interacted robustly with captains of industry. In his engagements, the status quo with regard to transformation was discussed in depth. This was one of the many approaches meant to persuade implementors and participants of B-BBEE into imbedding impactful programmes into their daily activities in order to empower the previously disadvantaged.

Council reacts to Portfolio Committee Findings

Subsequent to consultations by the Portfolio Committee, forestry-based communities raised a number of concerns, which referred mainly to non-compliance by Industry to B-BBEE, poor living and working conditions, and failure to promote women and youth participation in the value chain. The Chairperson undertook to visit and interact with all companies implicated. It is anticipated that such interaction will assist in ensuring that there is a coordinated and cohesive means of handling differences. He has interacted with SAPPI and a report detailing his findings has been forwarded to the Portfolio Committee.

Council Implements Phase 2 of the Community Outreach Programme (COP)

The members of the FSCC responsible for the portfolio of community development met with Industry and Government departments as part of the Phase 2 COP initiative. The aim of the initiative was to present and deliberate on strategic matters, expectations, opportunities and challenges of empowerment, as presented directly by the affected and interested communities. Such exchanges will ensure that the referenced matters of concern are not only understood, but are qualified and given a priority by both Industry and Government.

Knowledge Sharing Exercise

Following the gazetting of the Amended Forest Sector Code, Council deemed it appropriate to create awareness of the revisions and their intended goals. In 2018, the Council apprised Government departments in Kimberley and KZN, Forestry forums and verification professionals through the SANAS communication workshops of these changes.

Resignation

Sadly, one of the key members of Council, Mr Themba Siyolo, resigned. His intense B-BBEE knowledge and understanding was instrumental in the review and development of the Amended Forest Sector Code. His culture of being a perfectionist allowed him to serve earnestly in the Finance

and HR Committees, something he did with deep passion. In both committees, he assumed the Chairman position. Mr Siyolo also previously served as the Deputy Chairperson of Council. The Council wishes him well in all his future endeavours.

Council Appoints a Research Assistant

The Council is pleased to announce the appointment of Ms Palesa Motaung as a research assistant. Ms Motaung once served the Council as a research intern under the supervision of the former Executive Director Mr Simangaliso Mkhwanazi. The Council welcomes Ms Motaung and wishes her well as she joins the FSCC.



Ms Palesa Motaung, Research Assistant.



Amendments to the Forest Sector Code

Minister of the dti Gazetted Amended Forest Sector Code

The Minister of Trade and Industry gazetted the Amended Forest Sector Code (FSC) in accordance with section 9(1) of the B-BBEE Act as Amended. The Council is optimistic about this remarkable milestone and is confident that the amendments effected in the amended codes are not only progressive and developmental but will significantly enhance the implementation of B-BBEE in the Forest Sector.

The Amended Forest Sector Code is available on the FSCC website at www.forestsectorcharter.co.za.

Changes to the Amended Forest Sector Code

- **Addition of two sector specific principles**

Rural Development

The Amended Code has taken cognisance of the fact that most of forest operations are located within the rural areas. Forestry has great potential to uplift and promote the rural economy and, therefore, black women-owned enterprises and broad-based cooperatives are prioritised through this principle.

Accountability

Stakeholders understand that accountability in terms of the agreed commitments is key to realising economic empowerment. The scorecard attaches agreed commitments for both Industry and Government in an effort to realise effective economic empowerment.

- **B-BBEE Facilitator**

The South African Forestry Company Limited (SAFCOL), a state-owned enterprise operating mostly in the forest sector, has been identified as a possible B-BBEE facilitator. The accreditation of SAFCOL will be facilitated through the Department of Public Enterprises (DPE) and Department of Trade and Industry (dti).

- **Threshold Limits**

The Amended Code has revised threshold limits for Exempted Micro Enterprises (EMEs), Qualifying Small Enterprises (QSEs) and Medium and Large Enterprises, (MLEs). EMEs have a turnover of less than R10 million while QSEs have a turnover of R10 million but less than R50 million. MLEs are qualified by a turnover above R50 million.

- **Five Scorecard Elements instead of Seven**

The scorecard elements have been reduced from seven to five. Management control has been merged with employment equity to become management control. Enterprise development has been merged with preferential procurement to become enterprise and supplier development – this has been further sub-categorised to preferential procurement, supplier development and enterprise development.

- **Bonus Points**

The ownership, skills development, enterprise and supplier development (preferential procurement and enterprise development) have an allocation of bonus points. The criteria for how these bonus points will be earned is specified.

- **Enhancement Principle**

The amended Code enhances 100% and 51% black-owned QSEs and EMEs. 100% black-owned QSEs or EMEs are automatically awarded a level one black economic empowerment contributor status. Those black-owned QSEs or EMEs that are 51% are awarded a level two black economic empowerment contributor status.

- **Classification of Priority Elements**

Ownership, skills development and enterprise and supplier development are categorised as priority elements. An entity will have to comply with a 40% threshold within these priority elements. QSEs will have to comply with the ownership element and any of the two other priority elements. An MLE will have to comply with the minimum threshold of all the priority elements.

- **Consequences through the Discounting Factor**

Entities failing to achieve the required 40% minimum on the priority elements will be discounted by one level. Note: this is only applicable to MLEs and QSEs.

- **Preferred Qualifying ED and SD Beneficiaries**

In addition, prioritised qualifying beneficiaries of supplier development and enterprise development are 51% black- or black women-owned QSEs and EMEs.

- **Empowering Supplier Concept**

The concept of 'empowering supplier' has been introduced and redefined. The concept requires that entities comply with the regulatory requirements of the Employment Equity Act, Skills Development Act and the Skills Development Levies Act. The Amended Code

lists six criteria that entities are required to comply with in relation to the regulation listed above. An MLE is required to comply with any four of the listed conditions while a QSE will choose any two of these conditions. EMEs and start-ups are automatically regarded as empowering suppliers.

- **Applicability of 5% Black Women Rights of Ownership**

Under the ownership element, the draft further proposes that every measured entity in the Forest sector will receive recognition of 5% black women rights of ownership (deemed to be free of any acquisition debt) until Government adheres to its commitments. An entity can only claim this 5% if a water use license application has been lodged with the Department of Water and Sanitation (DWS). The 5% is applicable towards the targets in specific indicators under the Ownership Scorecard.





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

The Amended Forest Sector Code has been developed to advance the transformation and empowerment agenda in the forest sector. The Code consists of Industry and Government undertakings, which are actionable items related to the scorecard elements meant to assist measured entities to realise their B-BBEE targets. The achievements for the year are summarised below.

Instruments to Support Ownership Targets

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

Leveraging of State Forest Assets

The Amended Forest Sector Code has identified SAFCOL as a possible B-BBEE facilitator. The process of accrediting SAFCOL is underway, which will hopefully be completed in the next financial year.

Instruments to Support Skills Development Targets

Sector Skills Plan for the Forest Sector

Skills development has been prioritised in the Amended Forest Sector Code. Industry and Government have always been instrumental in reviewing the annual Sector Skills Plan (SSP) developed by the Fibre, Processing and Manufacturing (FP&M) Seta. This is to ensure that the skills gap, in as far as the forest industry is concerned, is addressed adequately.

Instruments to Support Enterprise Development Targets

Access to Funds and Financial Services for Emerging Black Entrepreneurs

Enterprise development has not only been prioritised in the amended codes but has also been heavily weighted.

Industry, through FSA, continues to lobby DAFF to secure funding in the form of Forest Enterprise Development Fund as contemplated in the Amended Code. DAFF is in the

process of investigating the possibility of ring-fencing some of the Comprehensive Agricultural Support Programme (CASP) funds for forestry. The outcome is still awaited.

Industry has made strides in offering a broad range of ownership and financial models throughout the value chain. Most importantly such arrangements have been offered at preferential rates.

Fire insurance schemes have been available for Small-scale Growers through SAFIRE.

Capacity Building and Business Support for Emerging Black Entrepreneurs

There has been a number of remarkable initiatives undertaken by industry. Industry through Forestry South Africa (FSA) has launched a Chainsaw Virtual and Augmented reality with the support of two major chainsaw suppliers in the country. This initiative is expected to have a positive influence on the number of growers and contractors who can be trained and will reduce the cost of training and safety risks associated with chainsaw training.

The FSA partnership with the King Cetshwayo District Municipality (KCDM) has secured R400 000 to run a pilot project in Sokhulu with the objective of securing R46.8 million to re-establish the total small-scale growers (SSG) planted area of 3 326ha. The implementing agents for the pilot are Mondi Zimele, NCT and Sappi, with each running a 22-ha pilot area.

In partnership with South African Women in Agriculture and Rural Development (SAWARD), Industry, through FSA, has started a new project to train women in forestry. Currently, 41 women in Ndwedwe are enrolled in a one-year Forestry Learnership and the intention is to support them to establish up to 756ha of plantations. This answers the call to ensure women's participation in forestry.

Industry has also managed to provide conventional chainsaw training to 77 learners, farm management training

is underway for 34 learners out of 58 and 46 learners are being trained to become supervisors.

The collection of learner agreements and all other documents required for the Firefighting Programme has been concluded and the training will start as soon as the weather conditions are conducive.

Instruments to Support Industry Specific Initiatives

Sector's Growth Strategy

The dti has played a significant role in finalising and approving the Forestry Beneficiation Strategy.

Transport Infrastructure

Industry, through FSA, continues to interact extensively with Transnet Freight Rail. Exceptional results have been achieved through the recommissioning of the Thut'iHlathi Project near Pietermaritzburg.

Industry Participation Regional Industry Strategies

Industry continues to invest tens of millions of rands annually into road infrastructure. Inputs from Industry, through FSA, were made through the National Agricultural Marketing Council (NAMC) into the SIP II.

Equitable Representation of Small and Emerging Entities at Local and Provincial Levels

Most industry associations have substantial representation of small entities in decision-making structures. FSA managed to hold nine regional meetings with a good representation of all growers. Over and above that, FSA has held an additional nine small-scale grower meetings to ensure that their specific issues are properly recorded for actioning.

Strengthening Representative Industry Structures

Evidently, there has been an extensive collaboration between

associations on a wide range of activities of importance to the Sector. These include research, legislation, policy, media and Government interactions and sector promotion, to name a few.

FSA and Sawmilling South Africa (SSA) have successfully led a process of engagement with Government for the recapitalisation of the Southern Cape area following the devastating fires of 2017. This has been positive as a submission has been made to DAFF detailing how the impact on jobs and the economy may be mitigated.

Development of the National Framework for Settlement of Land Claims for Sustainable use of Existing Plantations

The Land Claims Commission has developed a national forestry claims settlement model for the sake of continuity. This model gives two options, one that aims to assess the purchase and lease while the other looks at strategic partnerships. The Commission is engaging with stakeholders on the practicality of this model and thus comments and inputs will be important in the development of the strategic framework for the policy.

The Commission has also established a planning and development grant approval committee called the Restitution Development Coordination and Control Committee (RDCCC) responsible for the approval of project funding. It works closely with SAFCOL, DAFF and Department of Rural Development and Land Reform (DRDLR).

Expediting the Settlement of Land Claims on Forest Land

The Commission is developing a forestry claims settlement implementation plan that incorporates forestry targets in the Annual Performance Plan (APP) and the Medium-Term Strategic Framework (MTSF). This process is aimed at ensuring that the outstanding forestry claims are settled in the next five years.



Status of Transformation

Forests play a crucial role in the diversity of South Africa's flora and fauna. The South African Forestry industry plants 360 000 trees every working day – more than 90 million trees every year. Our forests are national assets and a renewable resource providing numerous essential products that form an important part of our everyday lives. Further to that, forestry also plays an important role in empowering black rural communities and providing access to the economy.

In an effort to create a clearer picture of the conditions and environment under which forestry entities operate, the prevailing socio-economic and natural conditions were assessed for the reporting year. Significant events that may have affected forestry operations and B-BBEE implementations included timber shortages; the gazetting of the Amended FSC; implementation of the National Minimum Wage; and the Knysna Fires.

In 2017, the Department of Trade & Industry gazetted the Amended Forest Sector Code, which introduced some interesting new changes. Rural development was made a priority, with higher targets set in some of the elements than the 2013 Amended Generic Codes.

There are concerns that the Amended FSC are driving B-BBEE back to its original narrow and one-sided nature. The Amended Codes place greater emphasis on majority black ownership, mostly in relation to the sub-elements of Procurement as well as Enterprise and Supplier Development. This signifies a shift back in the direction of ownership, which now comprises 57% of the scorecard points.

For the 2017-2018 financial year, a total of 72 certificates were received, down by 5 (6,5%) from the previous year. Fifty-three of these certificates were valid. Eighteen came from Medium to Large Enterprises (MLEs); 14 from Qualifying Small Enterprises (QSEs) and 21 from Exempted Micro Enterprises (EMEs).

Of the 72 certificates received, 29 (40%) were from new entities. This raises some concern as we expect to see more consistent entities and numbers in terms of reporting. MLEs submitted the least number of certificates while QSEs and EMEs submitted the highest number of invalid certificates.

Medium and Large Enterprises (MLE) Analysis

Under the Amended FSC, the threshold for large enterprises has increased to an annual turnover above R50 million. These large entities are measured using the MLE scorecard. The MLE scorecard has a higher number of indicators and weighting points than the QSE scorecard.

Ten (55%) of the reporting MLEs submitted underlying reports with their certificates. This allows for a deeper assessment of MLE performance. It is worrying that the number of MLE submissions as a whole has decreased but it seems that some of the regular submitters faced some challenges this reporting year, with receiving their certificates on time or adjusting to the now more stringent verification standards.

The highest number of reporting MLEs fell under the grower's sub-sector with six (33%) closely followed by the pole producers with five certificates. The least number of certificates were received from the contractors (1) and fibre (2) sub-sectors respectively.

MLEs command the largest share of the forestry value chain. They are often referred to when the vertically integrated nature of the industry is described as many have operations spanning large sections of the sector value chain and may at times monopolise markets. This has led to problems for smaller players in sourcing timber for beneficiation.

The number of certificates received from MLEs for the year under review reduced by 21% from the previous year. Figure 1 below compares the number of certificates received within the last seven years.

Figure 1: MLE B-BBEE Certificates Received per Year

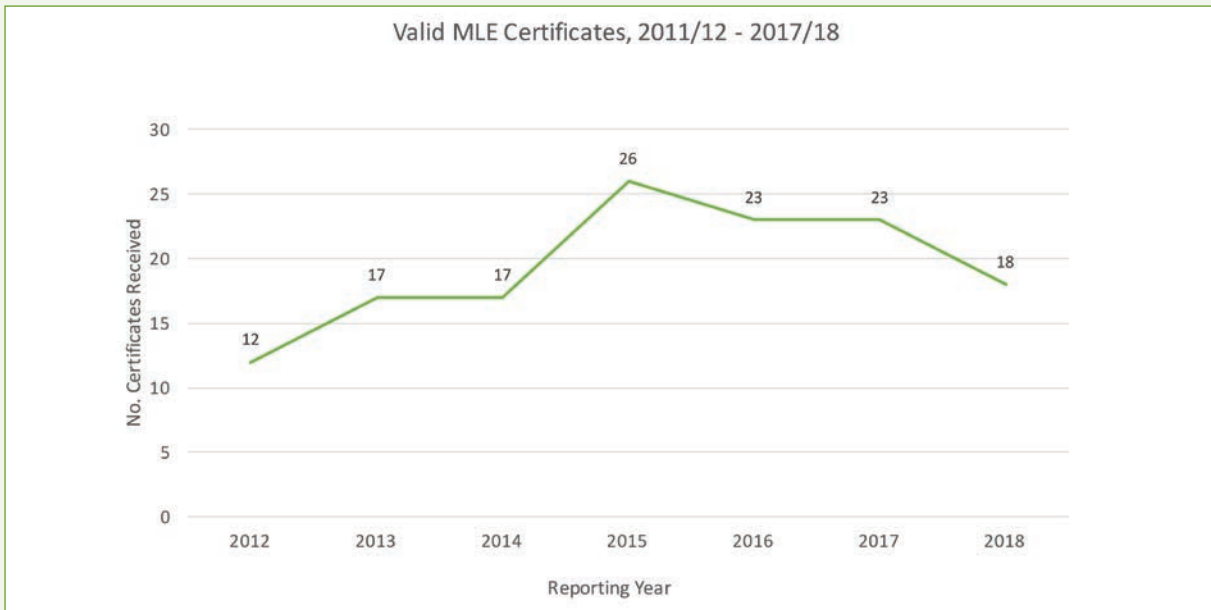


Figure 2 and 3 below are graphic displays of the current MLE performance per element. It is difficult to make a meaningful comparison with previous data as criteria for measurement has changed dramatically and so have the target weighting points. For instance, Management Control and Employment Equity were merged into one element worth 19 points. Previously, each separate element weighed 15 points. The Enterprise & Supplier Development Indicator is also a new one that resulted from a merging of the Preferential Procurement and Enterprise Development elements with the addition of a new indicator called Supplier Development.

Figure 2 reveals that the best performing elements are Socio-economic Development and Enterprise & Supplier Development respectively. Previously, these elements – SED, PP & ED – were also the best performers. Poor performance is pervasive under Management Control with the Industry consistently failing to achieve even 50% of the target. This poor performance is reflected under the previous sector codes and in the current years' scorecard.

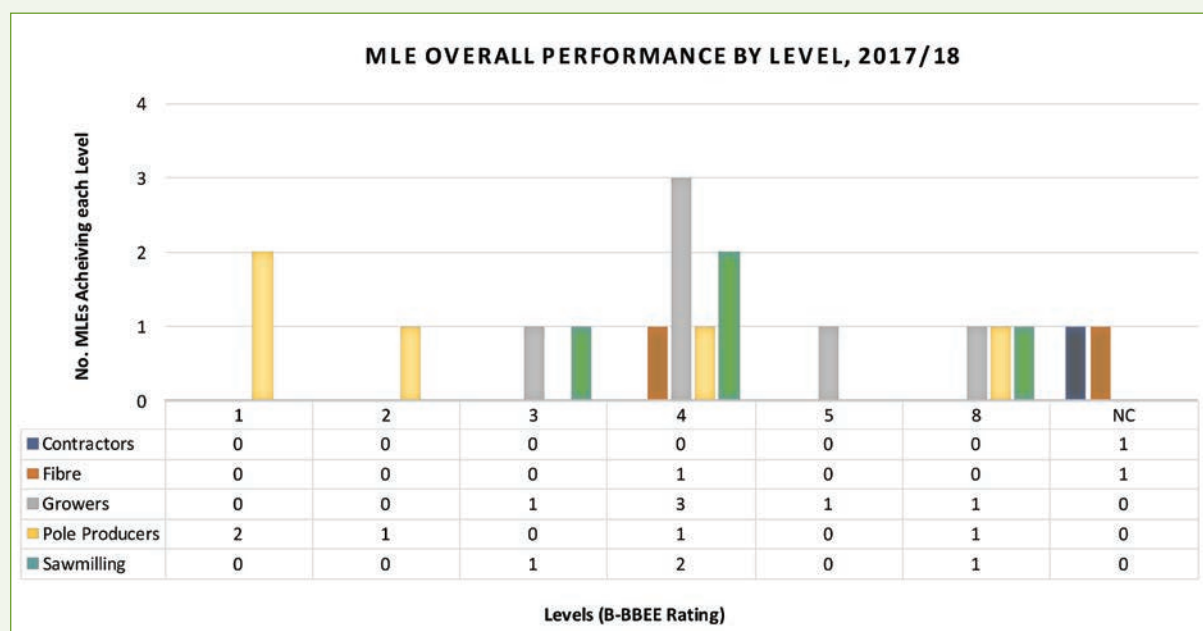
Figure 2: MLE Performance as a Percentage of the Target, 2017/2018



Performance under Skills Development (SD) has improved slightly. This may be due to the allocation of SD as a priority element. The Amended codes have set aside three elements –Ownership, Skills Development and Enterprise & Supplier Development – as priority elements. This means that measured entities who do not achieve at least 40% of the targets under these elements will become subject to discounting by one level from their overall scorecard. It seems that the MLE performance under the new Codes has remained largely consistent with few changes in the scorecard.

Figure 3 below gives an indication of MLE performance by subsector. Performance for the sector is largely concentrated around level 4. Seven (39%) MLEs attained a level 4 score. This group is mostly represented by the growers and sawmilling subsectors. Three (16,7%) MLEs achieved a level 8 score while there were no entities achieving a level 6 or level 7.

Figure 3: MLE Performance by Sub-sector, 2017/2018



Two Pole producers attained a level 1 score and one achieved a level 3. This makes the pole subsector one of the best performing subsectors. This performance is apparent when evaluating the subsector performance by each element.

The fibre and contractors' subsectors recorded the poorest performance. This lacklustre performance may be tied to the low rate of or no submissions among these entities. One fibre entity achieved a level 5 score but was weighed down by the non-compliant fibre entity.

The average level achieved for MLEs was level 4. However, when one looks at the total points achieved by MLEs (74,48), they attain a level 6 score. Considering that 6 (33%) MLEs were discounted, this level 6 could have been lower. However, the high number of entities that scored level 4 could be a contributing factor to the average.

Qualifying Small Enterprises (QSE) Analysis

A Measured Entity with a total revenue between R10 million and R50 million will now be considered a Qualifying Small Enterprise under the Amended FSC. Previously, QSEs were those entities with an annual turnover between R5 million and R35 million.

Under the Amended FSC, QSEs are measured using the QSE scorecard, which is similar to the MLE scorecard. This means that QSEs no longer enjoy the option of choosing four of seven elements to be assessed on as they did with the old FSC.

QSEs now qualify for enhanced B-BBEE recognition if they are 51% or 100% black-owned (BO). These enhanced QSEs are required to obtain a sworn affidavit on an annual basis confirming the Measured Entity's total annual revenue of R50 million or less; level of black ownership; and empowering supplier status. Enhanced QSEs may also choose to become verified using the QSE scorecard if they wish to enhance their B-BBEE rating further.

Figure 4: QSE B-BBEE Certificates Received per Year



In the current financial year, 21 QSE certificates were received. Fourteen (66.7%) of those certificates were valid. Four certificates were invalid due to usage of the Codes of Good Practice (CoGP) and three were invalid due to use of the old FSC.

Figure 35 above is a comparison of valid certificates received over the past seven reporting years. QSEs have consistently submitted the least number of valid certificates for all years except 2014/2015 and 2015/2016.

Figure 5 below compares the average scores per element achieved by QSEs within the last three reporting periods. As with the MLE Scorecard, a number of changes were applied on the QSE Scorecard, making comparison to previous reporting periods difficult. As with MLEs, the percentage of the target achieved for the three reporting periods was assessed.

Figure 5: QSE Performance as a Percentage of the Target, 2017/2018



Previously, QSEs were permitted to choose five of the seven elements to report on. The most popular elements were Preferential Procurement, Employment Equity and Socio-economic Development. Management Control was the least popular and also one of the worst performers. As entities were permitted to choose which elements they preferred, it would be logical to assume that they were choosing their best performing elements. However, this assumption is seriously tested when looking at the Skills Development performance.

The changes in the QSE Scorecard and the requirement to report on all elements may have had a serious impact on QSEs, who may no longer enjoy the ease of reporting and the less stringent Scorecard. The introduction of the enhancement for QSEs has also had a big impact on reporting. Ten of the 14 reporting entities chose to use affidavits. This means that these entities were enhanced due to high BO.

The FSCC is of the opinion that the enhancement of QSEs (which are high turnover enterprises) robs rural black people of the opportunity to benefit from other B-BBEE activities such as Skills Development, Socio-economic Development and others as enhanced entities are not required to undertake these activities.

Enhancement of QSEs may also tempt entities to take up fronting practices, which allow them to become majority

BO and thus circumvent the requirements of the Scorecard. A recent publication from the newly established B-BBEE Commissions reveals that of 343 complaints for investigation sent to them, 83% were related to fronting.

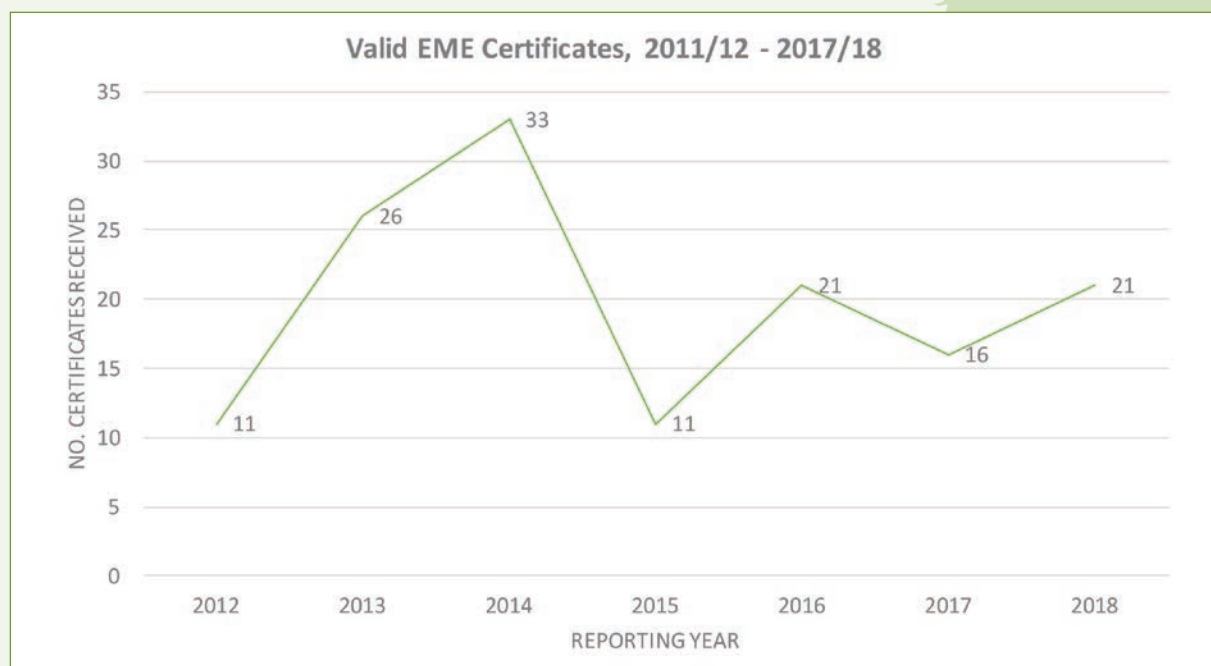
The 2017-2018 performance reveals that QSEs performed well under the Socio-economic Development, Ownership and Skills Development elements. Performance was poor under Management Control. This may reveal the true state of these activities for QSEs as they previously could avoid some of these elements.

Overall QSEs scored between level 2 and 3 on their scorecards and affidavits. As expected, from a high number of affidavits (which indicates majority BO), Direct BO of reporting QSEs has increased dramatically from 25,95% previously to 63%.

Exempted Micro-Enterprises (EME) Analysis

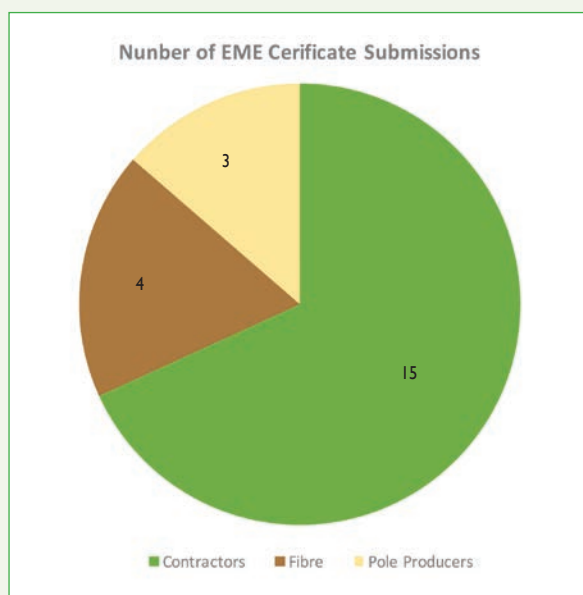
An EME is an entity operating in the forest sector with a turnover between R0 and R10 million. These micro-enterprises are verified using an affidavit. They are also subject to enhancement if they are 51% or 100% BO. EMEs with less than 51% BO are automatically given a level 4 rating. This is to give EMEs a fair chance at doing business in the sector as well as complying with regulation, which at times may be expensive and burdensome for small companies.

Figure 6: EME B-BBEE Certificates Received per Year



The number of valid EME submissions increased in this reporting year. A small portion of the increase may be attributed to a number of QSEs now being classified as EMEs due to the changes in thresholds. The increased number of submissions among EMEs in relation to QSEs and MLEs may also be as a result of the ease with which they can verify. They are not burdened with the costly and resource-intensive action of obtaining verification through a verification agency.

Figure 7: EME Certificate Submission by Sub-sector



The majority of EMEs operate in the Contractors sub-sector. The fibre and pole producers also have good representation. One expects to see higher representation of EMEs in the other primary and secondary processing sub-sectors in coming years, signifying the entrance of new players in the forestry value chain.

The average B-BBEE rating received by EMEs in this reporting year was 2.5. This means that EMEs are generally scoring between level 2 and level 3. This is evident when looking at Table 4, which reveals that 9 (43%) reporting entities are 100% BO. The average BO for this group stands at 51%.

Conclusion

The 2017/2018 reporting year saw a number of major changes to B-BBEE reporting in the forest sector. Notable changes include the adjusting of thresholds, which categories companies based on annual turnover as well as the collapsing or removal of some elements. Non-majority BO QSEs now enjoy enhancement but the rest have to comply to all elements just similar to MLEs.

The minimum threshold for MLEs increased to R50 under the Amended FSC. A total of 22 certificates were received while three were invalid. The majority of submissions came from the poles, sawmilling and fibre sub-sectors. Half of the submissions (11) were accompanied by underlying reports.

The new MLE scorecard places greater emphasis on Ownership, with increased points being allocated to this scorecard. The importance of compliance is also stressed using the discounting principle, which is applied to entities who do not acquire the sub-minimum under elements such as Ownership, Skills Development and Enterprise and Supplier Development.

MLEs achieved an average score of 74,48 points. This is an improvement by almost 10 points from the previous reporting year. However, this places MLEs at a level 6 from the previous reporting periods' level 4. This is due to the more stringent regulations under the Amended FSC.

Under the Ownership element, MLEs saw a slight drop in performance but performance was still good overall. Forty-five percent of submitting entities reached their targets for Voting Rights in the hands of black people and this performance was mirrored for Economic Interested in the hands of black people. Three entities were discounted under this element.

The average BO increased from 20.84% previously to 33,09% in the current year. This is good as it is above the 30% target set out in the FSC. Black women-owned (BWO) also increased from 8,04% to over 10%. Ownership for the sector is still negatively skewed, with majority of entities scoring below the industry average.

In terms of Management Control, MLE performance improved slightly but remains poor. The slight improvement may be attributed to the merging of this element with Employment Equity. MLEs scored points mainly from reaching targets set out for black people in junior management positions. However, performance remains poor under black people in executive, board, senior and middle management positions. The performance for this element largely mirrors findings from the Employment Equity report released by the Department of Labour, where white people and males still dominate the higher positions.

MLE performance under Skills Development was average. Some entities scored good points for spending on learnerships, apprenticeships and internships. Entities also showed a good absorption rate of unemployed learners with two entities absorbing 100% of their unemployed

learners and 70% of submitting MLEs absorbing at least some of their learners. Two entities were discounted under Skills Development.

Performance under the Enterprise and Supplier Development element was good. All submitting entities scored at least 50% of the target under Preferential Procurement but only two out of 11 scored the full points. This is down from nine out of 11 in the previous year. Only five out of 11 entities achieved the target for procurement from QSEs while only three out of 11 achieved the target for procurement from EMEs.

MLEs performed well under the Supplier Development element, with four achieving the target and three not scoring any points. Performance under Enterprise Development was also good, with six out of 11 entities scoring bonus points for graduating an ED beneficiary to SD level.

QSEs are now entities with an annual turnover between R10 million and R50 million. QSEs may now be enhanced if they are majority BO. This has had an impact on the quality of insight that can be generated from submitting entities

as only three out of 21 submissions were certificates with scores for each element.

Thirteen submission (out of 21) were new submissions this year. Eight QSEs who previously reported did not submit. Seven (33,33%) submissions were invalid largely due to use of the old FSC.

The fact that the majority of QSE submissions were affidavits tells us that most reporting QSEs are enhanced and are thus majority BO. The average BO for QSEs was 63%, which increased from 25,95% previously. Most QSEs scored between level 2 and 3. It was difficult to conduct detailed analysis of each element as only three certificates were submitted.

EMEs are entities with an annual turnover of less than R1 million per annum. These entities are automatically enhanced to level 2 and level 1 when they are majority BO. Twenty-one valid certificates were received, of which eight were old and 13 were new. The average BO among these entities was 51%, while nine entities were 100% BO.





Annual Financial Statements for the Year Ended 31 March 2018

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
Business address	SAFCA 6 Hulley Road Isando 1690
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.

Index

The reports and statements set out below comprise the Annual Financial Statements presented to the shareholders:

Index	Page
Councillors' Responsibilities and Approval	24
Councillors' Report	25
Independent Auditor's Report	26-27
Statement of Financial Position	28
Statement of Comprehensive Income	29
Statement of Changes in Equity	30
Statement of Cash Flows	31
Accounting Policies	32-33
Notes to the Annual Financial Statements	34-36
The following supplementary information does not form part of the Annual Financial Statements and is unaudited:	
Detailed Income Statement	37-38



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 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 Council 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 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 31 March 2019 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 auditors 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 auditors and their report is presented on pages 26-27.

The Annual Financial Statements set out on pages 28-36, which have been prepared on the going concern basis, were approved by the Council on 24 May 2018 and were signed on its behalf by:

Approval of Annual Financial Statements



Dr Diphoko Mahlongo (Chairperson)

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 31 March 2018.

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

Rally Moropa

Michael Peter

Rally Moropa

Michael Peter

Thabitha Shange

Themba Siyolo

Roy Southey

Dr Jaap Steenkamp

Kirk Walker

Lulamile Xate

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 their opinion might materially 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. Date of authorisation for issue of Annual Financial Statements

The Annual Financial Statements have been authorised for issue by the councillors on Thursday, 24 May 2018. No authority was given to anyone to amend the Annual Financial Statements after the date of issue.



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e-mail: office@dziwainc.com
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 28 to 36, which comprise the statement of financial position as at 31 March 2018, 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 31 March 2018, 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 company 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.

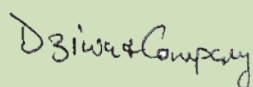
As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- ▶ 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.

Independent Auditor's Report

- ▶ 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

Dziwa & Company
SK Dziwa

24 May 2018
Bramley, Johannesburg

Statement of Financial Position as at 31 March 2018

Figures in Rand	Note(s)	2018	2017
Assets			
Non-current assets			
Property, plant and equipment	2	51 179	107 241
Current assets			
Trade and other receivables	3	646 493	337 796
Cash and cash equivalents	4	4 846 052	3 030 341
		5 492 545	3 368 137
Total assets		5 543 724	3 475 378
Equity and liabilities			
Equity			
Retained income		5 475 285	3 182 728
Liabilities			
Current liabilities			
Trade and other payables	5	68 439	292 650
Total equity and liabilities		5 543 724	3 475 378

Statement of Comprehensive Income

Figures in Rand	Note(s)	2018	2017
Revenue	6	7 053 104	5 410 314
Other income	7	1 004 517	1 002 639
Operating expenses		(5 765 064)	(6 816 338)
Operating surplus/(deficit)	8	2 292 557	(403 385)
Surplus/(deficit) for the year		2 292 557	(403 385)
Other comprehensive income		-	-
Total comprehensive income (deficit) for the year		2 292 557	(403 385)



Statement of Changes in Equity

Figures in Rand	Retained Income	Total Equity
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 1 April 2017	3 182 728	3 182 728
Surplus for the year	2 292 557	2 292 557
Other comprehensive income	-	-
Total comprehensive loss for the year	2 292 557	2 292 557
Balance at 31 March 2018	5 475 285	5 475 285
Note(s)		



Statement of Cash Flows

Figures in Rand	Note(s)	2018	2017
Cash flows from operating activities			
Cash generated from (used in) operations	10	1 815 711	(235 350)
Cash flows from investing activities			
Purchase of property, plant and equipment	2	-	(42 888)
Total cash movement for the year		1 815 711	(278 238)
Cash at the beginning of the year		3 030 341	3 308 579
Total cash at end of the year	4	4 846 052	3 030 341



Accounting Policies

I. Basis of preparation and summary of significant accounting policies

The Annual Financial Statements have been prepared on a going concern basis 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 are tangible assets which the company holds for its own use or for rental to others and which are expected to be used for more than one period.

Property, plant and equipment is initially measured at cost.

Cost includes 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.

Expenditure incurred subsequently for major services, additions to or replacements of parts of property, plant and equipment are capitalised if it is probable that future economic benefits associated with the expenditure will flow to the company and the cost can be measured reliably. Day to day servicing costs are included in profit or loss in the period in which they are incurred.

Property, plant and equipment is subsequently stated at cost less accumulated depreciation and any accumulated impairment losses, except for land which is stated at cost less any accumulated impairment losses.

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the company.

The useful lives of items of property, plant and equipment have been assessed as follows:

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

When indicators are present that the useful lives and residual values of items of property, plant and equipment have changed since the most recent annual reporting date, they are reassessed. Any changes are accounted for prospectively as a change in accounting estimate.

Impairment tests are performed on property, plant and equipment when there is an indicator that they may be impaired. When the carrying amount of an item of property, plant and equipment is assessed to be higher than the estimated recoverable amount, an impairment loss is recognised immediately in profit or loss to bring the carrying amount in line with the recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property, plant and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.

1.2 Impairment of assets

The company assesses at each reporting date whether there is any indication that property, plant and equipment or intangible assets or goodwill 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.

1.3 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as leave pay and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

1.4 Revenue

Revenue is recognised to the extent that the company has transferred the significant risks and rewards of ownership of goods to the buyer, or has rendered services under an agreement provided the amount of revenue can be measured reliably and it is probable that economic benefits associated with the transaction will flow to the company. Revenue is measured at the fair value of the consideration received or receivable, excluding sales taxes and discounts.

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



Notes to the Annual Financial Statements

Figures in Rands	2018	2017
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2. Property, plant and equipment

	2018			2017		
	Cost or revaluation	Accumulated Depreciation	Carrying Value	Cost or revaluation	Accumulated Depreciation	Carrying Value
Furniture and fixtures	119 714	(89 751)	29 963	119 714	(63 913)	55 801
Office equipment	23 662	(18 385)	5 277	23 662	(16 677)	6 985
Computer equipment	108 626	(92 687)	15 939	108 626	(64 171)	44 455
Total	252 002	(200 823)	51 179	252 002	(144 761)	107 241

Reconciliation of property, plant and equipment – 2018

	Opening Balance	Depreciation	Total
Furniture and fixtures	55 801	(25 838)	29 963
Office equipment	6 985	(1 708)	5 277
Computer equipment	44 455	(28 516)	15 939
	107 241	(56 062)	51 179

Reconciliation of property, plant and equipment – 2017

	Opening Balance	Additions	Depreciation	Closing Balance
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

3. Trade and other receivables

Trade receivables	623 971	334 946
Other receivables	22 522	2 850
	646 493	337 796

4. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	(24)	228
Bank balances	4 846 076	3 030 113
	4 846 052	3 030 341

5. Trade and other payables

Trade payables	23 560	119 085
Payroll related accruals	44 879	173 565
	68 439	292 650

6. Revenue

Industry contributions - Members of the Forestry Sector	2 637 104	1 244 314
Government contribution - Department of Agriculture, Forestry and Fisheries	4 416 000	4 166 000
	7 053 104	5 410 314

Notes to the Annual Financial Statements (continued)

Figures in Rands	2018	2017
7. Other income		
FP&M Seta grants	1 002 244	1 002 639
Internal recoveries	2 273	-
	1 004 517	1 002 639
8. Operating surplus/(deficit)		
Operating surplus/(deficit) for the year is stated after accounting for the following:		
Operating lease charges		
Premises		
• Contractual amounts	81 119	91 622
Equipment		
• Contractual amounts	47 050	-
	128 169	91 622
Depreciation on property, plant and equipment:	56 062	52 240
Employee costs	1 545 871	2 223 866
9. Employee cost		
Employee costs		
Basic	1 098 735	1 523 564
PAYE, UIF and SDL	447 136	700 302
	1 545 871	2 223 866
10. Cash used in operations		
Surplus/(deficit) before adjustments	2 292 557	(403 385)
Adjustments for:		
Depreciation and amortisation	56 062	52 240
Changes in working capital:		
Trade and other receivables	(308 697)	60 607
Trade and other payables	(224 211)	55 188
	1 815 711	(235 350)

Notes to the Annual Financial Statements (continued)

Figures in Rands	2018	2017
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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)
Ultimate responsible authority	Department of Agriculture, Forestry and Fisheries (DAFF)

Related party balances and transactions with entities with control, joint control or significant influence over the company

Related party balances

Amounts included in Trade receivable

FSA	243 042	341 010
PAMSA	256 818	46 914
SAFCA	55 406	-
SAUPA	29 989	-
SAW	34 000	-

Related party transactions

Amounts included in bad debts written off

SAUPA	-	22 594
SSA	233 272	94 211

Revenue received from related parties

PAMSA	1 517 379	608 304
Forestry SA	608 105	594 576
SAWPA	33 063	-
Sawmilling SA	371 674	13 200
SAUPA	29 989	8 000
SAFCA	76 894	20 234
DAFF	4 416 000	4 166 000

12. Councillors' remuneration

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

2018

Dr. Diphoko Mahango (Chairperson)	533 492	55 907	589 399
Daniel Kivetts	63 039	29 567	92 606
Rally Moropa	104 119	18 786	122 905
Thabitha Shange	32 834	3 813	36 647
	33 484	108 073	841 557

2017

Dr. Diphoko Mahango (Chairperson)	562 158	139 187	701 345
Daniel Kivetts	51 157	30 740	81 897
Rally Moropa	48 551	42 735	91 286
Thabitha Shange	20 161	-	20 161
	682 027	212 662	894 689

Detailed Income Statement

Figures in Rand	Note(s)	2018	2017
Revenue			
Government contribution – Department of Agriculture, Forestry and Fisheries		4 416 000	4 166 000
Industry contributions – Members of the Forestry Sector		2 637 104	1 244 314
	6	7 053 104	5 410 314
Other income			
FP&M Seta grants		1 002 244	1 002 639
Recoveries		2 273	-
		1 004 517	1 002 639
Expenses (Refer to page 18)		(5 765 064)	(6 816 338)
Surplus/(deficit) for the year		2 292 557	(403 385)



Detailed Income Statement (continued)

Figures in Rand	Note(s)	2018	2017
Operating expenses			
Accounting fees		(290 921)	(191 860)
Advertising and branding		(54 567)	(40 526)
Auditors remuneration		(65 550)	(62 700)
Bad debts		(233 272)	(116 805)
Bank charges		(6 298)	(7 605)
Cleaning		(35 882)	(32 760)
Computer expenses		(83 225)	(124 579)
Office consumables		(525)	(4 442)
Meeting attendance costs		(733 050)	(682 027)
Depreciation, amortisation and impairments		(56 062)	(52 240)
Employee costs		(1 545 871)	(2 223 866)
Annual report		(17 043)	(8 000)
Consulting: B-BBEE status reports		(287 976)	(192 024)
Meeting and workshop venues		(33 151)	(240 689)
Consulting: grant registration and forestry skills development		(1 000 000)	(880 217)
Strategic planning facilitation		-	(83 824)
Consulting: forensic investigation		-	(292 005)
Fines and penalties		-	(186 413)
Travel and subsistence claims - council members		(108 505)	(212 661)
Insurance		(17 605)	(14 990)
Lease rentals on operating lease		(128 169)	(91 622)
Legal expenses		-	(27 200)
Forest Sector Codes		(60 530)	-
Travel and subsistence claims - staff		(21 437)	(42 514)
Postage		(457)	(865)
Printing and stationery		(43 085)	(74 484)
Catering		(39 409)	(26 411)
Repairs and maintenance		-	(475)
Secretarial fees		(22 971)	(35 607)
Telephone and fax		(121 825)	(237 189)
Travel and accommodation		(757 678)	(629 738)
		(5 765 064)	(6 816 338)





**FOREST SECTOR
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