



Annual Report 2015/2016

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
DPE	Department of Public Enterprise
DRDLR	Department of Rural Development and Land Reform
DTI	Department of Trade and Industry
DWAS	Department of Water Affairs and Sanitation
EME	Exempted Micro Enterprises
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
Ha	Hectares
HRC	Human Resources Committee
ITC	Institute of Timber Construction
KZN	KwaZulu-Natal
NTFP	Non-Timber Forest Products
MLE	Medium and Large Enterprises
MMM	Mbazwana Manzengwenya and Mabaso
NSDS	National Skills Development Strategy
PAMSA	Paper Manufacturers Association of South Africa
QSE	Qualifying Small Enterprises
SAFCA	South African Forestry Contractors Association
SAFCOL	South African Forestry Company
SFM	Sustainable Forest Management
SSA	Sawmilling South Africa
SSP	Sector Skills Plan
SAUPA	South African Utility Pole Association
SAWPA	South African Wood Preservers' Association
WULAS	Water Use License Applications

Message from The Chairperson

As I compose this synoptic view of the year gone passed, I realise the rapidity with which my first year as Chairperson of the Forest Sector Council has passed.

The legacy of the Forest Sector Council leadership is a tribute to the success and stability created by all Council members, and the belief that our shareholders (industry and Government) held in common with the Forest Sector Council for many years.

It has been a year with many rewarding moments and challenges. Though this was a year of initiation and transition for most Council members, we, however, made solid progress on many fronts, one being the gazetting of the Amended Forest Sector Codes in terms of section 9 (5) of the B-BBEE Act as amended and reviewing it as per the contributions made during the commentary period. The responses, without any doubt, show that the amended FSC will detect the predictable strategic direction to drive economic transformation.

The World Forestry Congress, first to be held in the African continent, let alone in our land South Africa, has rejuvenated our focus of ensuring that Forestry as an industry delivers without compromise to the socio-economic demands of our local people.

The biggest challenges still facing the totality of the forestry sector, to name a few, are:

- Adoption of a functional paradigm shift with reference to B-BBEE;
- Lopsided or lack of government funding to the Forestry Sector
- Drought and drought relief programmes;
- Shrinking requirements for manual labour due to proliferation of digital technology;
- Dynamic demographics of an aging forestry population;
- Fast-tracking of the introduction of agro-forestry; and
- Accelerated provision of quality forestry products and the inception of innovative creations in a sustainable manner.

The simple set of beliefs defined in our credo can guide the Forest Sector Charter Council and Forestry through all the challenges and complexities of our current or future times. I acknowledge the fact that my overarching responsibility as Council Chairperson is to ensure that we are united by our credo and single purpose as espoused in the Forest Sector Code and its undertakings.

It is equally undeniable that daily, the forestry sector is working to help people everywhere to live better by providing a source



Dr D.E. Mahango
Chairperson of Council

“

Performance of the sector as a whole is akin to the up and down movements of a yo-yo around Level Four status.

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of income and shelter, thus addressing the socio-economic demands of most rural communities. I recognise the fact that with our national leadership and the ordinances of both the National Developmental Plan and B-BEE comes a responsibility, one that I consider a privilege to have. Though pleased with how we are meeting this responsibility, I'm still far from being satisfied but enthusiastic that together with the Council I lead, we can still accomplish much.

Our solid business results in 2016 were achieved while continuing to grapple with the translation of the B-BBEE Amendment Act into Specific Forest Sector Codes, directing how economic empowerment is to be realised. Performance of the sector as a whole is akin to the up and down movements of a yo-yo around Level Four status. A glimpse at the Status Report provides one with compelling or tangible reasons for this behaviour or performance. However, within the context of our credo and strategic framework, there were specific areas of robust growth (see Forestry South Africa Report).

The sector can, however, be strengthened by both industry, Government and labour focusing on the following issues:

- Commitment to innovation to create value, not just innovation in products and services, but in everything that forestry is doing and everywhere that forestry operates. The plethora of challenges facing industry, Government and labour require a constant flow of new ideas. After all, according to Albert Einstein, insanity is defined as: “Doing the same thing over and over again but yet expecting different results”;
- The forestry global reach must be brought to life with a local focus;
- Decentralisation and desegregation of management to foster a competitive advantage; and
- Prioritisation of quality and unwavering compliance at enterprise level. It is thus a responsibility of industry to redefine standards and processes in its value chain.

Our leadership in forestry has been made possible by the belief in the mission we share with industry, Government, communities and labour. We should, as a Council, continue our proud tradition as a purpose-led Council, enlisting the wide range and diversity of our multi-ethnic capabilities, talents and even our experiences. We should, however, dedicate ourselves to the responsibilities defined in our credo, namely the justifiable achievement of broad-based black economic empowerment in

the forestry sector. We remain realistic and optimistic despite our challenges.

In conclusion, I leave you with the words of John Wesley:

*“Do all the good you can
By all the means you can
In all the ways you can
In all the places you can
At all the times you can
To all the people you can
As long as ever you can”*

I wish to end by thanking the Council members and the entire staff for their incredible support.



Dr D.E. Mahango
Chairperson of Council



The Forest Sector Charter Council (FSCC)

The Charter Council, comprising representatives from communities, Government, industry and labour, is established to ensure that the Forest Sector Code (FSC) is implemented effectively.

Minister Appoints New Council

The Council's term of office came to an end in April 2015 and a new Council was appointed in September. The members are constituted from eight industry members, three members from community, and two members from the government departments of Agriculture, Forestry and Fisheries as well as Trade and Industry. Members not appointed as Council members from different constituencies are often co-opted to the Council to provide Council with expertise on certain issues or agenda issues in support of the prescripts of B-BBEE. The Council is privileged to be chaired by Dr D.E. Mahango, who previously served in the same Council representing communities. It is no doubt that with his vast knowledge in the sector transformation, he will lead with ease.

Council Meetings

In order to review progress made towards their strategic objectives on transformation matters, the new Council held two Council meetings and an induction in the 2015-2016 financial year. This was because the new Council was only appointed in September 2015. During Council meetings, members unfailingly familiarised themselves with the concept of B-BBEE in forestry and deliberated on matters impacting on black economic development and empowerment.

Council Meeting Attendance

NAME OF MEMBER	22 SEPT 2015	24 NOV 2015
Dr D.E. Mahango	✓	✓
Ms Thabitha Shange	✓	–
Mr Jaap Steenkamp	✓	✓
Dr Mmaphaka Tau	✓	–
Mr Themba Siyolo	–	✓
Mr Lulamile Xate	✓	–
Ms Rally Moropa	✓	✓
Mr Daniel Kivetts	✓	✓
Mr Bruce Breedt	✓	✓
Mr Roy Southey	✓	✓
Mr Kirk Walker	✓	✓
Mr Michael Peter	✓	✓
Mr Jacob Maphutha	✓	✓
Mr Tyrone Hawkes	✓	✓

Council Committees

The Council has three committees, namely the Finance Committee (Fincom), Internal Audit Risk and the Human Resource (HR) Committee. Each committee has representation from all the constituencies represented on the Council.

Finance Committee (FINCOM)

The Finance Committee oversees the finances of the Council and ensures that principles of accounting are adhered to. The committee also provides operational financial guidance and makes recommendations to the Council. In addition, the committee presents the annual budget.

The Human Resource Committee (HR)

The HR Committee is accountable for the management of all Council's operations relating to employment, compensation and benefits of the employees. The committee is also responsible for evaluating the performance of the employees in relation to the objectives of the Council.

The Audit and Risk Committee (ARC)

The Audit and Risk Committee is mandated to set up standards with respect to internal controls, accounting policies and the nature, scope, objectives and functions of external and internal audit. This committee may, from time to time, also review the quality of the Annual Financial Statements.

Council Main Activities

The report below describes the activities of the Charter Council for the year under review.

Council participates in the World Forestry Congress

The Council participated in the first World Forestry Congress held in South Africa in September 2015. During this event, the Council was honoured to join the industry from all spheres in deliberating on matters of sustainable Forestry. The theme for the Congress, 'Forests and the People', fit like a glove on the transformation agenda of the Council, which envisages a forest sector where blacks gain economic freedom through a successful and growing forestry industry.

Council outreach programme

The Council adopted its Communication Strategy. This strategy will enable the Council to be more visible by defining means of communicating to the stakeholders.

An extensive Community Outreach Programme with the objective of understanding the extent of transformation, through the experiences of forest communities and entrepreneurs, was undertaken. Members of the entities operating in the industry, government departments and communities working and living within the forest community were the main participants in these programmes.

The Council has also featured in various radio programmes and in a number of forest events, including the Forest Indaba, aimed at promoting and enhancing the oversight role of the Council.

Publication of the Draft Amended Forest Sector Code in terms of section 9 (5) of the B-BBEE Act as Amended

The Council also published the draft Amended Forest Sector Code (FSC) for public comment in November 2015. The comments received were scrutinised by the appointed dti

Technical Committee members constituted by the dti and Council members from industry and Government. The views and concerns received confirmed acceptance from the public and sought to clarify some matters of intent. Comments were considered carefully and robustly without any bias and in some cases where required, expert advice was sort from relevant institutions. The comments constituted elements that will no doubt bring about a profound impact on economic empowerment and development in the sector.

Skills development

The Council was privileged to access the discretionary grants from the Fibre Processing and Manufacturing (FP&M) Seta. These grants have benefitted the communities within the Mkhondvo area in Piet Retief and Mtubatuba in KwaZulu-Natal (KZN). These grants were beneficial in diminishing the skills gap among the unemployed and underprivileged. The training was mostly on horticulture, silviculture, etc.



Front row (left to right): Dr Diphoko Mahango – Chairperson and Simangaliso Mkhwanazi – Executive Director.
 Second row (left to right): Mr Daniel Kivetts, Ms Rally Moropa, Ms Thabitha Shange and Mr Roy Southey.
 Back Row (left to right): Mr Michael Peter, Mr Kirk Walker, Mr Bruce Breedt, Mr Tyrone Hawkes, Mr Jacob Maphutha, Mr Lulamile Xate and Mr Khwezi Mabasa.
 Absent: Mr Themba Siyolo, Dr Jaap Steenkamp and Dr Tau Mmaphaka.

The Forest Sector Profile

The forest sector is defined as the sector involved in the production and primary processing of roundwood and other products harvested from South African plantation forests, natural forests and woodlands. These forest resources yield the raw materials (roundwood for commercial purposes, fuelwood and non-timber forest products (NTFP)) that support a large value chain of economic activities. The forest sector (forestry and forest products) contributes about 1,3% to the gross domestic product (GDP).

Forestry is one of the strategic economic sectors usually located within the rural outskirts where a large number of the rural poor reside. The sector contributes meaningfully to job creation as it provides both direct and indirect jobs. It further supports the livelihoods of about 850 000 people, mostly the South African rural population. This makes it a unique sector with the potential to contribute significantly to poverty alleviation, job creation and to rural economic development and stimulation through small-scale trade from products like firewood, medicinal plants and edible fruit, to name a few.

The forest sector also supports Government's responsibility to provide social infrastructure and generate an increased tax base. The income generated in the sector boosts local economic growth and development. The continued economic growth and success of the forestry industry relies on a number of external factors linked heavily to the current socio-political dispensation of the country.

In terms of land use, the area under forestry is about 1,26 million hectares (ha), approximately 1% of the total South African land area of 122,3 million ha. The sector uses about 3% of water and contributes about 22% of the agricultural GDP.

Plantations, in particular, are concentrated in a relatively small area of the country, specifically in Mpumalanga, KwaZulu-Natal, Eastern Cape, Western Cape and Limpopo. Excluding exports, plantation forestry, as the main raw material supplier to processing industries, is one of the main drivers of growth of these industries.

Forestry Processors Analysis

Forestry as a sector comprises primary, secondary and tertiary processors. The six different sub-sectors belong to different processing levels. The sub-sectors are described in detail on this page.

Growers

The primary processors are usually referred to as the growers' sub-sector or plantation forestry. It includes plantations, nurseries and indigenous forests. This subsector is the primary source of timber or raw material of the whole forestry value. The products at this stage have not yet been beneficiated and are still in their natural, raw form for processing into various products. This group is dominated by Sappi and Mondi, with a combined 40% of the total planted area, and Government at 26%.

Fibre sub-sector

This sub-sector manufactures pulp, paper, timber board and wood chips. Wattle bark manufacturers also belong to this sub-sector. This sub-sector is represented by the Paper Manufacturers' Association of South Africa (PAMSA).

Sawmilling sub-sector

Sawmillers basically beneficiate raw timber into industrial, structural, packaging, mining lumber and match sticks. Other products obtained through sawmilling include sawdust and woodchips. Pine sawmilling is the most dominant activity within the South African context. Sawmillers are represented by Sawmilling South Africa (SSA).

Pole sub-sector

Another secondary processor is the pole sub-sector. This sector represents the pole producers and all preservative treated timber manufacturers. Correct chemicals are applied to timber so as to ensure its durability. This sub-sector is represented by the South African Wood Preservers Association (SAWPA) and the South African Utility Pole Association (SAUPA).

Charcoal sub-sector

This sub-sector is responsible for the conversion of timber and timber products into charcoal. This sub-sector comprises mostly medium-sized or emerging enterprises that are privately owned. However, it is not currently represented by any governing body.

Contracting

This sector covers all forestry contracting practices involved in silviculture, harvesting, firefighting services and other forestry contracting services. It is currently represented by the South African Forestry Contracting Association (SAFCA).

Professional Associations

Forestry South Africa (FSA)

Forestry South Africa (FSA) is South Africa's organisation representing growers of timber in South Africa. The Association's membership includes all 11 corporate growers active in the industry, approximately 1 300 commercial timber farmers and about 24 000 emergent small-scale growers. The latest total contribution to the national gross domestic product (GDP) was estimated at R44.67 billion. The growers subsector also supports job creation and accounts for about 25.3% of employment within the agricultural sector.

Paper Manufacturers' Association of South Africa (PAMSA)

The Paper Manufacturers' Association of South Africa was formed in 1992. Its main focus is to promote the interests and efforts of the South African pulp and paper industry. Mondi and Sappi are among the roleplayers in the forestry industry that are members of PAMSA. PAMSA also offers a common platform for development and presentation on pre-competitive industry issues such as energy, environment, recycling, education and research to its members.

Sawmilling South Africa (SSA)

This is also one of the well-established associations representing about 200 enterprises. It contributes about R5.6 billion to the national GDP. It also supports both rural and urban job creation, accounting for 17 000 direct jobs and 10 000 indirect jobs. Sawmillers mostly produce lumber and woodchips. The sawmilling subsector is the second largest contributor to employment.

South African Wood Preservers Association (SAWPA)

This forestry association was formed primarily to promote timber preservation and the use of preservative treated wooden products. The total volume of treated timber in 2013 was estimated at 107 000m³, making a contribution of about R3 billion to the GDP. Treated poles are commonly used for transmission and telephone lines, agriculture, building and fencing. Treated sawn timber, however, is mainly used for building and construction activities.

South African Utility Pole Association (SAUPA)

SAUPA is a grouping of South African Eucalyptus utility pole treating plants and users. They are focused on the marketing and promotion of Eucalyptus utility poles for local and export markets.

South African Forestry Contractors Association (SAFCA)

The recent membership of forestry contractors remained at about 312, including micro emerging to corporate contractors in all fields of forestry contracting. The labour force in 2014 was estimated at 29 000. SAFCA offers assistance to all contractors regarding public liability and insurance, forestry technical assistance (harvesting, silviculture and transport), business and training related assistance.



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

The Forest Sector Code contains undertakings for both industry and government. These commitments or instruments are aimed at assisting the forestry industry and enterprises in the sector to achieve their B-BBEE targets. The summary below outlines the accomplishments for the year.

Instruments to Support Ownership Targets

Funding facility for B-BBEE transactions

The Department of Agriculture, Forestry and Fisheries' (DAFF) commitment to support funding for equity projects using the AgriBEE fund is still underway and being finalised.

Restructuring of State forest assets in support of B-BBEE targets

SAFCOL has submitted a corporate business strategy with a possible and renewed future role as presented by the Department of Public Enterprise (DPE). The strategy has been approved and submitted to DAFF for further review and interrogation.

Mbazwana, Manzengwenya and Mabaso (MMM) Transfer

Since the Minister approved the transfer of MMM, DAFF is finalising the transfer of MMM employees to the KZN Provincial Department of Education. The Jobs Fund project is in its third year of implementation. Currently, 2 617 hectares have been planted and 603 jobs have been created.

Rossbach Transfer

Rossbach's land has been transferred to Rossbach Community Property Association (CPA). DAFF has donated both movable (office equipment and furniture) and immovable assets (trees, etc.) to the CPA.

Instruments to Support Skills Development Targets

Sector Skills Plan for the Forest Sector

The industry and government continues to participate in the development of the annual Sector Skills Plan (SSP) developed by the Fibre, Processing and Manufacturing (FP&M Seta). Industry,

through Forestry South Africa (FSA), has submitted a proposal for the establishment of a Forestry Training Academy in Zululand. It is envisaged that this academy will provide technical, forestry based, entrepreneurial as well as contracting skills for enterprises operating in the sector with a focus on small-scale growers.

The National Skills Development Strategy (NSDS) has been updated and realigned with the edicts of the FSC.

Instruments to Support Enterprise Development Targets

Access to funds and financial services for emerging black entrepreneurs

The industry continues to offer the most competitive financing and technical support to new entrants and small-scale growers. The land reform models approved by the Department of Rural Development and Land Reform (DRDLR) have resulted in a variety of ownership and financing models.

Capacity building and business support for emerging black entrepreneurs

Most companies within the sector provide extensive enterprise development programmes. These industry-led initiatives include the Business Development Forum and the Grower Development Programme.

In addition, the industry, through FSA, has funded the development of the Small-scale Growers Timber Transport Costing Model as these issues have an influence on the cost of trade.

Small-grower certification

The industry has continued to develop and implement appropriate forestry certification methodologies for emerging growers. DAFF and industry have jointly funded the review of the Principles Criteria and Indicators and Standards for Sustainable Forest Management (SFM).

FSA has continued to lobby the FSC domestically and abroad on the barriers to achieving and maintaining certification for smaller timber growers.

Expedite the authorisation process for afforestation and paper and sawmilling facilities

The Department of Water and Sanitation (DWAS) has established several guidelines for streamlined and expedited afforestation licensing procedures to facilitate the establishment of a minimum of 10 000ha per annum.

For the year under review, one water use license application (WULA) covering a total area of 270ha has been issued.

The Genus Exchange (GE) Regulations have been published for public comments. It is believed that the new set of principles included in the regulations will expedite the processing of GE applications.

Instruments to Support Industry-specific Initiatives

Collaboration between sub-sector organisations

There has been an extensive collaboration between associations on a wide range of activities in an effort to promote the sector. This has included research, legislation, policy development and reviews, media and government interactions. Furthermore, the industry, led by FSA, SSA and the Institute of Timber Construction (ITC), have developed a proposal for the promotion of wood in the built environment. This initiative will be funded by industry.

Forestry protection services

One of the aims of the forestry protection services is to implement integrated strategies to manage, control and reduce the risks posed to forests through the incidence of fires, pests and diseases. Industry, through FSA, has established an industry Fire Management Committee to address the issues of co-ordination and support in accordance with the DAFF approved Forest Protection Strategy.



Status of Transformation

The FSCC is mandated to monitor and report on the annual status of transformation in the forest sector. The current performance of the sector in terms of B-BBEE implementation is detailed in this report.

A total of 60 valid certificates were received for the year under review. Twenty-three of these were Medium and Large Enterprises (MLEs), 16 were received from the Qualifying Small Enterprises (QSEs) and the remainder was from the Exempted Micro Enterprises (EMEs). Unfortunately, the in-depth analysis and the sub-sector analysis could not be done as only a limited number of entities submitted the scorecard with the underlying information from the different sub-sectors.

Medium and Large Enterprises (MLE) Analysis

Enterprises that receive a turnover of more than R35 million are classified as medium and large enterprises. They are often described as the major roleplayers within the sector and also influence or contribute considerably to its transformation. Their initiatives have a larger impact on the local communities as they are often involved in most businesses within the value chain.

A slight decline in the number of certificates received from MLEs was observed for this reporting period. Figure 1 below compares the number of certificates received within the last five years.

Figure 1: MLE B-BBEE Certificates Received per Year

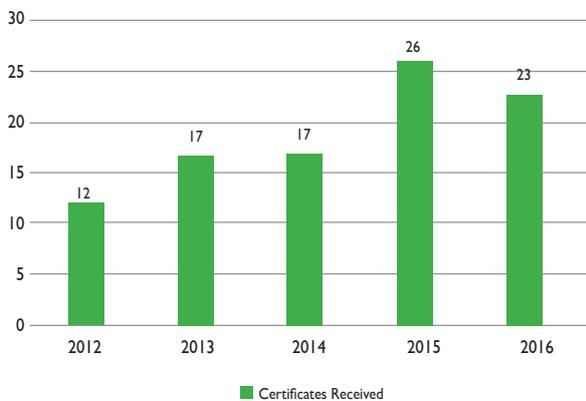


Figure 2: MLE Average Score per Element Comparison

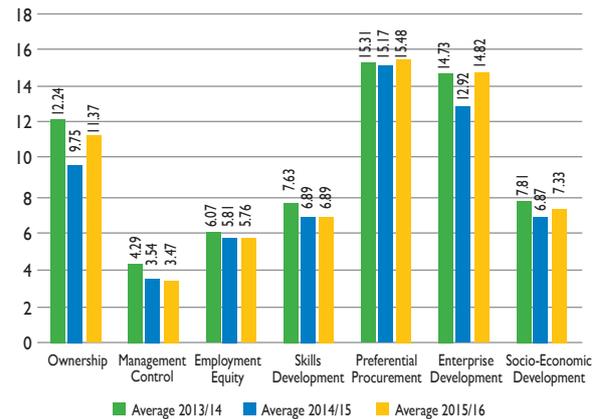


Figure 2 above outlines the comparison of the current scores per element for MLEs with the previous three reporting periods. The performance trend is similar to the previous reporting year where management control, employment equity and skills development still fail to achieve at least a 50% target on the weighting points. There were slight declines observed in management control elements and employment equity recorded the lowest score when compared to the previous year. The consistent decline in performance regarding employment equity remains a challenge for the industry and indicates that black representation and employment is still not achievable.

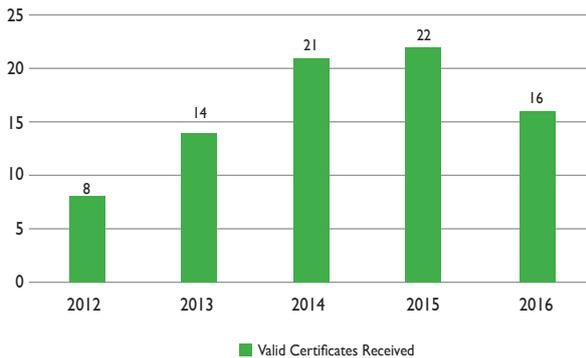
The skills development element remained unchanged in comparison to the previous reporting period. The remaining four elements showed an improvement, with ownership and enterprise development showing significant increases. The excellence performance under preferential procurement and enterprise development proves the sector's determination in creating and developing suppliers and enterprises.

Only 12 of the companies (52%) that submitted certificates have been consistent as they also submitted them during the previous reporting period. However, the increase in 'new' company submissions has not influenced the performance. This probably indicates that most of the MLEs are employing similar B-BBEE implementation strategies.

Qualifying Small Enterprises (QSE) analysis

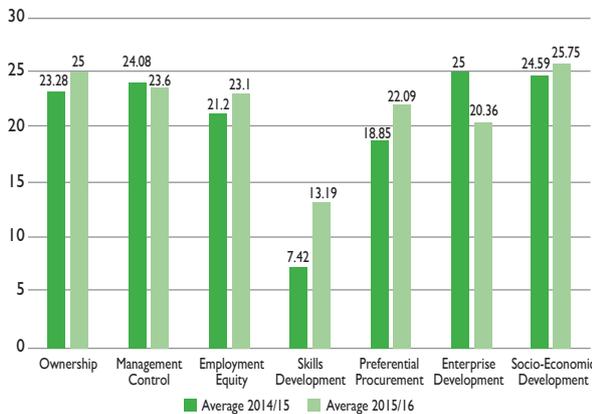
QSEs are defined as entities that have a turnover between R5 million and R35 million annually. The threshold defining QSEs will, however, change in the Amended FSC (still to be gazetted). The eligibility also of selecting four of the seven elements will fall off when the Amended FSC is effected as they will be notched using five elements.

Figure 3: QSE B-BBEE Certificates Received per Year



During this reporting period there has been a decline on the valid certificates submitted by the QSEs as indicated in Figure 3 above. A total of 16 valid for the year under review were received. Figure 4 below compares the average scores per element achieved by QSEs within the last two reporting periods.

Figure 4: QSE Average Score per Element Comparison to Previous Period



The QSEs have always performed well except with the skills development element, even though there has been a considerable improvement for this element from the previous reporting period, as shown in Figure 4.

The increase in skills development has shown the industry interest in developing competencies. Other elements that have improved include ownership, employment equity, preferential procurement as well as socio-economic development. Even though there was a decrease in management control, it was not as significant as in the enterprise development element.

The highest performing element, for this reporting period, has been socio-economic development, probably because of the bonus point allocated. QSEs have improved their average B-BBEE contributor level rating by one level, achieving an exceptional 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 a Level 4 B-BBEE contributor, though they may be a Level 3 if they comply with the Codes of Good Conduct and are more than 50% black-owned. In the 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.

There has been a significant increase in the number of entities reporting under the EME category. EMEs also achieved a Level 4 B-BBEE contributor status.

Conclusion

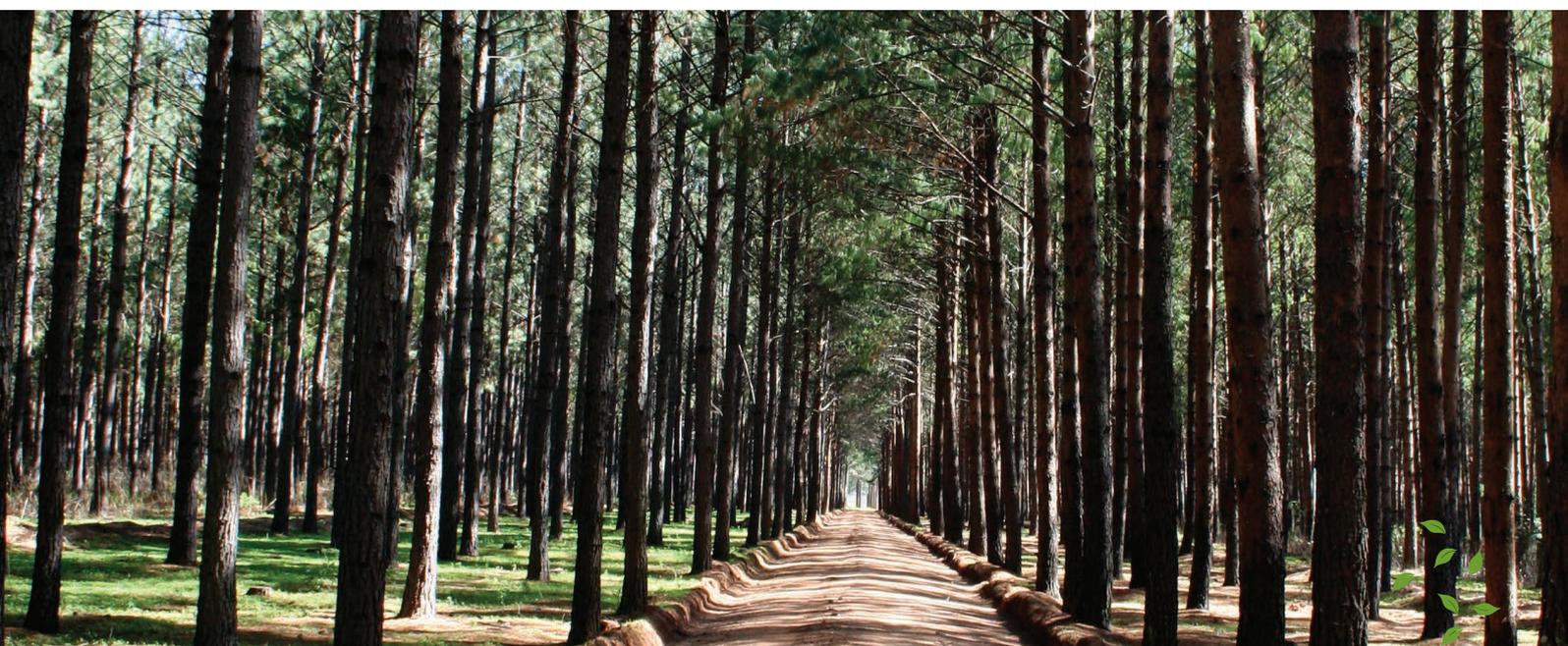
The sector has maintained a Level 4 with the QSEs attaining a Level 2 status. Even though there has been an increase in the number of certificates, it is concerning that some entities are still being verified using the generic codes. The B-BBEE Amendment requires that entities operating in a sector that have a sector code be verified through it. In the case of forest entities, the Forest Sector Code is applicable.

There is also a need for stakeholders to interact robustly and discuss matters to align strategies in order to improve scores on target weightings. This interaction will further create awareness and deepen the understanding and implications of the Forest Sector Codes as well as the B-BBEE Amendment Act.

Sub-sector participation needs to be encouraged. This will enable the sector to have a thorough view of each sub-sector 'performance' in terms of B-BBEE and be acquainted with the expectations from the different stakeholders. It will also be beneficial for identifying the roleplayers in each sub-sector and in determining priorities and actions for consideration for economic development.

Compliant Measured Entities

	MEDIUM AND LARGE ENTERPRISES	QUALIFYING SMALL ENTERPRISES	EXEMPTED SMALL ENTERPRISES
1	Mpact Operations (Pty) Ltd	John Wright Veneers (SA) (Pty) Ltd	AHJ Plant Hire CC
2	Mondi Limited	Maqhilika Timbers (Pty) Ltd	Awethu Forestry Investments (Pty) Ltd
3	SAPPI Southern Africa Limited	Philasiphile Contractors (Pty) Ltd	Broad Market Trading 124 (Pty) Ltd T/A Pro Loggers
4	Timrite (Pty) Ltd	Sibsa Weed Services CC	Conway General Suppliers CC
5	Amathole Forestry Company Proprietary Limited	Shosholozza Forestry CC	D Hodson TA Myddelton Estates
6	Airton Timbers (Proprietary) Limited	Bosbok Ontginning CC	East of Eden Trading 368 CC
7	Hans Merensky Holdings (Pty) Ltd	Corpco 781 CCT/A TFT Harvesting & Transport Service	Econocom 497 CC
8	Ihlati Logging CC	FTH Trust	Elukwatini Security CC
9	Iningi Investments 143 (Pty) Ltd	Spareinvest 64 CC (Siyakhula Forest Management)	Hazeldene Boards (Pty) Ltd
10	Khulani Timber Industries (Pty) Ltd	Sun Pallets CC	Imvusa Trading 1214 CC
11	MTO Forestry (Proprietary) Limited	Five Star Timber Contracting CC	John Irvin T/A Bulk Timber Sales
12	Natal Forest Products (Pty) Ltd	Mintroad Sawmills (Pty) Ltd	Kwamahlati Training Services CC
13	PG Bison Holdings (Pty) Ltd	Rayload CCT/A Siyeza Forestry	Meadowbrook Plants
14	R&B Timbers CCT/A Harding Treated Timbers	Riblore 23 CC	Mhlambanyathi Fire Fighting Rooihogte (Pty) Ltd
15	Singisi Forest Products (Pty) Ltd	Bitline SA 272 CC	PJV Forestry Services
16	Treated Timber Products (Pty) Ltd	Long Tom Lumber (Pty) Ltd	Roma Security CCT/A Buffalo Protection Services
17	York Timber Holdings Limited		Sizanani Village Maintenance CC
18	Bedrock Mining Support (Pty) Ltd		Umjindi Forestry
19	White River Saw Mills (Pty) Ltd		Walter Velaphi Gabuza T/A Siyaya Contracting
20	Normandien Farms (Pty) Ltd		WSB Transport
21	NCT Forestry Co-operative Limited		Meadowbrook Plants
22	Suiderland Charka Limited		



Annual Financial Statements for the Year Ended 31 March 2016

General Information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	To oversee and facilitate 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	Bruce Breedt Dr Diphoko Mahango Simangaliso Mkhwanazi Daniel Kivetts Tau Mmaphaka Themba Siyolo Roy Southey Dr Jaap Steenkamp Lulamile Xate Jacob Maputha Michael Peter Rally Moropa Thabitha Shange Tyrone Hawkes Walker Kirk
Business address	SAFCA 6 Hulley Road Isando 1690
Auditor's	Dziwa & Company Chartered Accountants (S.A.) Registered Auditor Practice number: 902365
Level of assurance	These annual financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008.
Issued	18 August 2016



Index

The reports and statements set out below comprise the annual financial statements presented to the shareholder:

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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

18 August 2016



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

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

The councillors have reviewed the Company's cash flow forecast for the year to 31 March 2017 and, in the light of this review and the current financial position, they are satisfied that the company has or has access to adequate resources to continue in operational existence for the foreseeable future.

Independent Auditor's Report

To the shareholder of FOREST SECTOR CHARTER COUNCIL NPC

We have audited the Annual Financial Statements of FOREST SECTOR CHARTER COUNCIL NPC, as set out on pages 20 to 28, which comprise the Statement of Financial Position as at 31 March 2016, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and the Notes, comprising a summary of significant Accounting Policies and other explanatory information.

Councillors' Responsibility for the Annual Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the Annual Financial Statements present fairly, in all material respects, the financial position of FOREST SECTOR CHARTER COUNCIL NPC as at 31 March 2016, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities, and the requirements of the Companies Act 71 of 2008.



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

18 August 2016
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 31 March 2016.

1. Nature of business

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

- (a) Promoting investment programmes that lead to sustainable B-BBEE-driven growth and development of the Forest Sector and meaningful participation of black people in the entire forestry value chain.
- (b) Achieving sustainable change in the racial and gender composition of ownership, management and control structures and in skilled positions of existing and new forest enterprises.
- (c) Increasing the extent to which black women and men, workers, cooperatives and other collective enterprises own and manage existing and new forest enterprises and increasing access to economic activities, infrastructure and skills training.
- (d) Nurturing new black-owned and/or black-managed enterprises to undertake new forms of economic value-adding activities in the Forest Sector.
- (e) Using the forest industry as a catalyst for empowering rural and local black communities to access economic activities, land, infrastructure, ownership and skills.
- (f) Promoting sustainable employment and contracting practices in the Forest Sector.

2. Review of financial results and activities

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

Full details of the financial position, results of operations and cash flows of the Company are set out in these Annual Financial Statements.

Councillors' Report (continued)

3. Councillors

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

Councillors	Office	Previous Council Appointment Date	Current Council Appointment Date
Stephen Bila		7 February 2008	Not reappointed
Bruce Breedt		18 June 2010	3 August 2015
Dr Diphoko Mahango	Current Chairperson (Effective 3 August 2015)	5 May 2011	3 August 2015
Vic McMenamin		7 February 2008	Not reappointed
Simangaliso Mkhwanazi	Executive Director (Effective 1 February 2015)	7 February 2008	3 August 2015
Dinga Mncube		7 February 2008	Not reappointed
Mary-Anne Mngomezulu		7 February 2008	Not reappointed
Pasco Diyani	Former Chairperson	19 August 2010	Not reappointed
Jane Molony		7 February 2008	Not reappointed
Ben Nkambule		7 February 2008	Not reappointed
Watson Nxumalo		7 February 2008	Not reappointed
Themba Siyolo		7 February 2008	3 August 2015
Roy Southey		1 November 2011	3 August 2015
Dr Jaap Steenkamp		7 February 2008	3 August 2015
Lulamile Xate		1 November 2011	3 August 2015
Sakhiwo Zako		7 February 2008	Not reappointed
Jacob Maputha		15 November 2011	3 August 2015
Rally Moropa			3 August 2015
Thabitha Shange			3 August 2015
Tyrone Hawkes			3 August 2015
Tau Mmaphaka			3 August 2015
Daniel Kivetts			3 August 2015
Walker Kirk			

The previous Council's term of office expired on 5 March 2015. A new Council was approved and appointed by the responsible government ministry on 3 August 2015. The process to update the Companies and Intellectual Property Commission records with the new appointments is currently underway.

4. Events after the reporting period

The councillors are not aware of any matter or circumstance arising since the accounting date of the financial statements to the date of their issue that in the opinion of the councillors would warrant a material adjustment of the financial statements as presented.

5. Auditors

Dziwa & Company continued in office as auditors for the company for 2016.

The Annual Financial Statements set out on pages 20 to 28, which have been prepared on the going concern basis, were approved by the council on 18 August 2016, and were signed on its behalf by:

Approval of financial statement



Director
18 August 2016

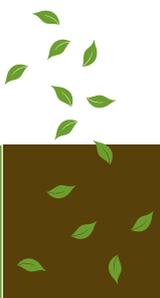
Statement of Financial Position as at 31 March 2016

Figures in Rand	Note(s)	2016	2015
Assets			
Non-current assets			
Property, plant and equipment	2	116 593	88 929
Current assets			
Trade and other receivables	3	398 403	227 905
Cash and cash equivalents	4	3 308 579	3 896 262
		3 706 982	4 124 167
Total assets		3 823 575	4 213 096
Equity and liabilities			
Equity			
Retained income		3 586 113	3 686 484
Liabilities			
Current liabilities			
Trade and other payables	5	237 462	526 612
Total equity and liabilities		3 823 575	4 213 096



Statement of Comprehensive Income

Figures in Rand	Note(s)	2016	2015
Revenue	6	5 225 296	4 761 861
Other income	7	725	-
Operating expenses		(5 317 416)	(5 421 040)
Operating loss		(91 395)	(659 179)
Finance costs	10	(8 976)	-
Loss for the year		(100 371)	(659 179)
Other comprehensive income		-	-
Total comprehensive loss for the year		(100 371)	(659 179)



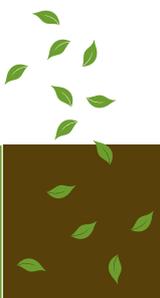
Statement of Changes in Equity

Figures in Rand	Retained income	Total equity
Balance at 1 April 2014	4 345 663	4 345 663
Loss for the year	(659 179)	(659 179)
Other comprehensive income	-	-
Total comprehensive loss for the year	(659 179)	(659 179)
Balance at 1 April 2015	3 686 484	3 686 484
Loss for the year	(100 371)	(100 371)
Other comprehensive income	-	-
Total comprehensive loss for the year	(100 371)	(100 371)
Balance at 31 March 2016	3 586 113	3 586 113
Note(s)		



Statement of Cash Flows

Figures in Rand	Note(s)	2016	2015
Cash flows from operating activities			
Cash used in operations	13	(511 858)	(228 931)
Finance costs		(8 976)	-
Net cash from operating activities		(520 834)	(228 931)
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(66 849)	(13 999)
Total cash movement for the year		(587 683)	(242 930)
Cash at the beginning of the year		3 896 262	4 139 192
Total cash at end of the year	4	3 308 579	3 896 262



Accounting Policies

1. Presentation of annual financial statements

The Annual Financial Statements have been prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities, and the Companies Act 71 of 2008. The Annual Financial Statements have been prepared on the historical cost basis, 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.

1.1 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	6 years	
IT equipment	3 years	
Computer software	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.

Gains and losses on disposals are recognised in profit or loss.

1.2 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.

Accounting Policies (continued)

1.3 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.

1.4 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	2016	2015
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2. Property, plant and equipment

	2015			2016		
	Cost	Accumulated Depreciation	Carrying Value	Cost	Accumulated Depreciation	Carrying Value
Furniture and fixtures	119 714	(43 960)	75 754	90 438	(28 888)	61 550
Office equipment	23 662	(15 010)	8 652	13 662	(11 760)	1 902
IT equipment	65 738	(33 551)	32 187	38 165	(12 688)	25 477
Total	209 114	(92 521)	116 593	142 265	(53 336)	88 929

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
IT equipment	25 477	27 573	(20 863)	32 187
	88 929	66 849	(39 185)	116 593

Reconciliation of property, plant and equipment – 2015

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

3. Trade and other receivables

Trade receivables	395 553	227 905
Deposit	2 850	-
	398 403	227 905

4. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	3 308 579	3 896 262
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5. Trade and other payables

Trade payables	193 980	163 158
Payroll related accruals	43 482	363 454
	237 462	526 612

6. Revenue

Government contribution – Department of Agriculture, Forestry and Fisheries	3 930 000	3 708 000
Industry contribution – Members of the Forestry Sector	1 295 296	1 053 861
	5 225 296	4 761 861

Notes to the Annual Financial Statements (continued)

Figures in Rands	2016	2015
7. Other income		
Sundry income	725	-
8. Employee cost		
Employee costs		
Basic	2 113 283	1 375 951
UIF	30 742	3 867
SDL	13 680	-
	2 157 705	1 379 818
Average number of persons employed during the year was:		
Administration	4	4
9. Depreciation, amortisation and impairments		
The following items are included within depreciation, amortisation and impairments:		
Depreciation		
Property, plant and equipment	39 185	23 926
10. Finance costs		
Settlement interest	8 976	-
11. Taxation		
No provision has been made for 2016 tax as the company has no taxable income. The company is in the process of applying for exemption from income tax with the South African Revenue Service.		
12. Auditor's remuneration		
Fees	45 600	50 942
13. Cash used in operations		
Loss before taxation	(100 371)	(659 179)
Adjustments for:		
Depreciation and amortisation	39 185	23 926
Finance costs	8 976	-
Changes in working capital:		
Trade and other receivables	(170 498)	(50 938)
Trade and other payables	(289 150)	457 260
	(511 858)	(228 931)

Notes to the Annual Financial Statements (continued)

Figures in Rands	2016	2015
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14. 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 regarding related parties

Forestry South Africa (FSA)	291 463	192 367
Sawmilling South Africa (SSA)	267 470	165 796
Paper Manufacturers Association of South Africa (PAMSA)	48 264	89 386
South African Utility Pole Association (SAUPA)	30 594	22 594

Related party transactions

Revenue received from related parties

Paper Manufacturers Association of South Africa (PAMSA)	608 304	536 302
Forestry South Africa (FSA)	594 576	439 591
Sawmilling South Africa (SSA)	50 982	45 000
South African Wood Preservers Association (SAWPA)	13 200	9 890
South African Utility Pole Association (SAUPA)	8 000	6 594
South African Forestry Contractors Association (SAFCA)	20 234	16 484
Department of Agriculture, Forestry and Fisheries (DAFF)	3 930 000	3 708 000

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

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015
Revenue			
Government contribution – Department of Agriculture, Forestry and Fisheries		3 930 000	3 708 000
Industry contributions – Members of the Forestry Sector		1 295 296	1 053 861
	6	5 225 296	4 761 861
Other income			
Other income		725	-
Operating expenses			
Accounting fees		(81 337)	(97 755)
Advertising		(173 875)	(79 207)
Auditor's remuneration	12	(45 600)	(50 942)
Bank charges		(14 114)	6 410
Cleaning		(28 850)	(25 200)
Computer expenses		(94 991)	(66 418)
Consulting fees – amendment of FSCC codes		(184 426)	-
Office consumables		(4 526)	(7 369)
Depreciation, amortisation and impairments		(39 185)	(23 926)
Employee costs		(2 157 705)	(1 379 818)
Entertainment		(787)	-
Meeting and workshop venues		(171 865)	(179 352)
Catering		(69 711)	(34 206)
Policy development and BEE scorecard		(450 000)	(598 900)
Meeting attendance costs (councillors)		(489 918)	(582 900)
Meeting attendance costs – councillors		(17 054)	-
Travel and accommodation costs (councillors)		(331 466)	(378 005)
Travel and accommodation costs (staff)		(204 534)	(37 178)
Fines, penalties and interest		(49 088)	-
Rental and hire		(53 462)	(16 222)
Insurance		(12 763)	(2 798)
Lease rentals on operating lease		(108 705)	(45 517)
Legal expenses		-	(2 166)
Forensics		-	(9 120)
Charter realignment and review process		-	(1 445 000)
Pest control		-	(20 933)
Postage		(402)	(378)
Printing and stationery		(185 468)	(58 104)
Repairs and maintenance		(7 980)	-
Secretarial fees		(46 181)	-
Subscriptions		(79 116)	-
Telephone and fax		(105 674)	(87 090)
Travel – local		(108 633)	(186 126)
		(5 317 416)	(5 421 040)
Operating (deficit) surplus			
Finance costs	10	(8 976)	-
Deficit for the year		(100 371)	(659 179)



FOREST SECTOR
CHARTER COUNCIL

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