

CONTENTS

	Page No
(1): FOREWORD BY CHAIRMAN	2
(2): FINAL WORDS FROM THE EXECUTIVE DIRECTOR	3
(3): FORESTRY SOUTH AFRICA DURING 2007	4
- FSA Membership	4
- FSA Committees	4
- Non-FSA Industry Committees	4
- Non-Industry Affiliated Committees	5
- Co-operation with other Industry Organisations	5
- Co-operation with Government Departments	5
- International Co-operation	6
- 2007 Annual General Meeting	6
- Staff and Staff Matters	6
- Successor to Executive Director	7
(4): FORESTRY SOUTH AFRICA FINANCES AND BUDGETS	8
(5): FORESTRY INDUSTRY AFFAIRS	10
- Forest Sector BBBEE Charter	10
- Pests and Diseases	11
- Forest Fires	11
- Afforestation Issues	12
- Water Issues	12
- Environmental Issues	14
- Education and Training	14
- Forestry Research	16
- Emerging Timber Grower Programme	16
- Property Rates	17
- Land Reform	18
- The National Industrial Policy Action Plan	19
(6): APPRECIATION	19
(7): 2007 AUDITED FINANCIAL STATEMENTS	20

FOREWORD TO FSA 2007 ANNUAL REPORT

FOREWORD BY CHAIRMAN



2007 was another year filled with events, many positive and many not so positive. On the positive side were the development of the Forest Sector Transformation Charter, the declaration of the Forest Sector as a sector earmarked for development and growth under the Government's newly released Industrial Policy Framework and Action Strategy, and, at least for timber growers, price increases for roundwood that will help to maintain profitability. On the not so positive side

A handwritten signature in black ink, which appears to read 'W. Nxumalo'. The signature is stylized and cursive.

**WATSON NXUMALO
CHAIRMAN
FORESTRY SOUTH AFRICA**

have been the devastating spate of forest fires in mid-year and the continuing escalation in pest and disease outbreaks, placing further strains on our already apparent timber supply shortage.

From FSA's viewpoint and as the previous Chairman stated last year - "a busy and hectic year with never a dull moment". But your Organisation has met these challenges head-on and has not been found lacking. All of these, and many more, have been addressed, as is recorded in this Annual Report, and members can be satisfied that every effort has been made on their behalf to effectively seek acceptable outcomes.

As the first small grower to take on the task of Chairing the Association it has been a challenge but a pleasure interacting with and receiving the utmost support from my colleagues on the Executive Committee and for this I thank you. My sincerest appreciation must also be expressed to the broader FSA membership and in particular to the staff of FSA who have always been willing to lend support and direction. 2007 has been a successful year for FSA and I am certain that this will repeat itself in 2008.

A FINAL WORD FROM THE EXECUTIVE DIRECTOR



Having been involved in Industry affairs for 28 years I have survived one complete rotation of softwood sawlog plantings. It is now time for clearfelling to make way for a new crop.

It has been a fascinating and enjoyable rotation, not knowing who or what I was to begin with, learning something new every day but ending up with a purpose that I clearly understood. Of almost all activities one can think of, Forestry above all others is an act of faith in the future. It demands a different way of thinking, faces a unique set of circumstances and requires special people to manage it. It is challenging yet rewarding, it is difficult yet enjoyable but most importantly, pits a person's ability against natural forces to create a harmony that is the envy of many. Anybody involved in Forestry is privileged and I count my blessings of having had the opportunity to be part of it. I have never regretted one day of my involvement.

If I was asked what stands out in my mind about Forestry and in particular the South African Forestry Industry, I would have to reply the people involved, the huge empathy and understanding that exists about its

interaction with the environment, its innovativeness and its value to society. I don't think you could find another Industry that has such knowledgeable and dedicated people, that is as caring and sensitive about the environment in which it operates, that is as intent in seeking new and innovative ways to improve its performance and that can sustainably and on a renewable basis provide so many people with so many essential products on a daily basis. In short, a remarkable, progressive and important Industry. FSA however has a special place in my life. It was born 5 years ago out of the need to create accord rather than discord amongst timber growers, to forcefully address on a co-ordinated and unified basis the many difficult problems and challenges facing timber growers, the need to support critical Industry activities and institutions and the need to place forestry firmly on the map as an invaluable part of South Africa's economic and social wellbeing. On balance I believe FSA has achieved considerable success in addressing these, some more successfully than others. It still has much to do, but with the people remaining behind after I have left, I have every confidence that FSA will rise to new heights.

As this will be the last Annual Report that I will be writing, I need to say to all those whom I have had the honour of knowing and working with, past and present, over the last 28 years, thanks to you it has been a memorable, enjoyable, stimulating and rewarding experience and I leave with the knowledge that through your support, assistance and friendship I and FSA have made a positive difference.

To you all and in particular my successor, I wish you everything of the very best for what lies ahead.

A handwritten signature in black ink that reads "Mike Edwards". The signature is stylized and includes a horizontal line underneath the name.

**MIKE EDWARDS
EXECUTIVE DIRECTOR
FORESTRY SOUTH AFRICA**

FORESTRY SOUTH AFRICA DURING 2007

FSA MEMBERSHIP

FSA's membership base remained unchanged during 2007 and through the organisation, almost 90% of all timber growing enterprises and individual timber growers have representation. Being a voluntary membership organisation which exists purely on the service it provides to timber growers, it is gratifying to see that the level of membership support has in no way diminished, despite a number of forest ownership transactional changes having taken place. Especially pleasing is the continued progress made during 2007 in reaching more emerging timber growers under the auspices of FSA's emerging timber grower's initiative.

FSA COMMITTEES

Executive Committee

During the year 3 scheduled Executive Committee meetings were held, together with 2 Special Executive Committee meetings, the first of which was held in January to finalise the 2007 Budget and the second of which was held in November to address succession issues relating to the post of Executive Director. The former-mentioned achieved finality whereas the second didn't as a result of which 2 further Special Executive Committee meetings were held in January and February 2008.

In accordance with FSA's Constitution, changes to Office Bearers for the 2007/08 year were made at the Annual General Meeting held in March 2007. These were

- Mr Watson Nxumalo succeeded Mr Chris Pienaar as FSA Chairman;
- Mr Murray Mason succeeded Mr Watson Nxumalo as FSA Vice-Chairman.

In terms of membership of the Executive Committee, the only change was that Mr Hendrik de Jongh replaced Mr Jan Labuschagne as Sappi's representative.

The Executive Committee, as constituted on the last day of the 2007 Financial Year, is listed at the front of this Report.

Group Committees

FSA has three Group Committees, representing large, medium and emerging growers. Each of these met three times during the year providing Group input into the deliberations of the Executive Committee. It is promising to report that with only one exception, complete consensus on issues discussed was achieved, underscoring the workability of the FSA structure. Members of each of these Group Committees devoted considerable time and effort into their deliberations and are thanked for their support and for their endeavours in putting the interests of the Forestry Industry and FSA at the top of their Agendas.

A listing of members of each of these Group Committees is given at the front of this Annual Report.

Working Committees

FSA maintains a number of ad hoc Working Committees, amongst the most important being the Water and Environmental Affairs Committee, and the Human Resources and Land Affairs Committee. In addition, a number of Sub-Working Groups dealing with issues like forest certification, transport, research, forest protection and education and training have been set up which meet as and when required. Due to circumstances, few meetings of these Committees and Working Groups were held during the year although activities related to their sphere of activity were addressed and competently handled through individual members of staff and consultants contracted to FSA.

NON-FSA INDUSTRY COMMITTEES

FSA plays an important support role to a number of critical Industry Institutions, and members and staff are well represented on these Institutions' committees and structures. Amongst the more important of these are the following:

INSTITUTE / CONVENOR	COMMITTEE / STRUCTURES
(i): ICFR	Board of Control Sirex Control Programme Steering Committee
(ii): FABI	TPCP Board of Control TPCP Finance Committee CTHB Board of Control
(iii): NMMU Saasveld	Forestry Advisory Committee

(iv): Stellenbosch	Forestry Advisory Committee
(v): FIETA	Governing Board Forestry & Pulp and Paper Chamber Audit Committee
(vi): NFAC	Minister's Advisory Council
(vii): Forestry Charter	Steering Committee Growers Working Group Finance Committee

NON-INDUSTRY AFFILIATED COMMITTEES

Many of the issues and activities that FSA is involved in are dealt with through Committees and structures established by non-forestry industry organisations. All, however, impact and influence forestry activities and FSA attempts to ensure that it has a presence and is represented on relevant structures. Amongst these are AgriSA's Commodity Chamber, Kwanalu's Property Task Team and Agrarian Reform Committee, Working for Water, Working for Wetlands and Working on Fire Programmes, Water Research Commission, Provincial Afforestation Licence Assessment Advisory Committees (LAAC's), Catchment Management Agencies (CMA's) and Forums, SANBI Grasslands Biodiversity Forum and Industrial Development Corporation. In all these, interaction and co-operation has been commendable and FSA must express appreciation to all involved.

CO-OPERATION WITH OTHER INDUSTRY ORGANISATIONS

The Forest Sector Transformation Charter development process has acted as a catalyst for a renewed level of co-operation between Industry organisations and during 2007 FSA has worked closely with the Paper Manufacturers Association of SA (PAMSA), Sawmilling South Africa (SSA), the SA Wood Preservers' Association (SAWPA), the SA Forestry Contractors Association (SAFCA) and others.

Of particular importance during 2007 was the key role FSA played in the establishment of Sawmilling South Africa, which was constituted in October and the agreement to set up an Industry Umbrella Organisation under the name of the SA Forest Products Association (SAFPA). This latter-mentioned organisation, which will come into being during 2008, will focus its attention on issues that are common to all sub-sector organisations and which impact on the entire wood products value chain, on high level strategic interventions such as Industry growth and development and on repositioning and improving the profile of the Industry.

The formation of SSA and SAFPA are in absolute conformity with agreements reached in terms of Section 15.2.8. of the Forest Sector Charter and will be of great benefit in assisting the Industry to achieve its obligations set down in the Charter.

FSA would like to thank the Directors and Management of all these other Industry organisations for the spirit in which discussion and interaction has taken place.

CO-OPERATION WITH GOVERNMENT DEPARTMENTS

Being able to work together at Industry level is important, but of equal importance is for the Industry to work together with Government. Robust debate, acceptance of different opinions, the ability to speak openly and the desire to achieve compromise are all necessary in this regard. It is one of FSA's priorities to cultivate good working relationships with Government and Government Departments, but at the same time to be forceful in putting Industry's viewpoint forward. 2007 has seen Industry/Government relationships further strengthened and whilst we may not have achieved consensus on all issues there are many where we have.

Some of the Government Departments that FSA has interacted with during the year and the issues that have been discussed are listed hereunder:

Govt. Dept.	Issues
Office of the President	Infrastructural inputs
DWAF (Forestry & Water)	Forestry, water, afforestation & Charter
DEAT (Environment)	Environmental legislation
DPLG (Local Govt.)	Property rates & disaster management
DLA (Land Affairs)	Land reform & restitution
DOL (Labour)	FIETA & minimum wages
DTI (Trade & Industry)	Charter, growth & development
DPE (Public Enterprises)	State forest restructuring
DOT (Transport)	Timber logistics
DOF (Finance)	Taxation
NDA (Agriculture)	Pests and diseases
Provincial Govts.	Econ. Development & afforestation

Of the abovementioned, DWAF has obviously been our main contact point and in many instances have partnered FSA in discussions with other Government Departments. Their support and involvement is especially appreciated. In this regard the co-operation received from the Deputy-Director General: Forestry, Dr M. Rampedi, and the Minister, Ms L. Hendricks, deserves acknowledgement. Throughout the year ongoing interaction with both these persons was possible on a range of issues important to the Industry. Special thanks must also be given to the Minister for being the guest of honour and officially opening FSA's 2007 Annual General Meeting in Pietermaritzburg in March.

INTERNATIONAL CO-OPERATION

Forestry is a global business which is influenced by events and actions occurring outside our borders, for which reason FSA makes a concerted effort to stay in touch with the international forestry arena. In this regard, trade issues, forest certification, pest and disease, forestry promotion, illegal logging, climate change and environmental conventions are particularly important. FSA is able to remain abreast of these issues by sitting on a number of global forestry forums, the two most important being the UN's FAO Advisory Committee on Paper and Wood Products (FAO ACPWP) and the International Council of Forest and Paper Associations (ICFPA). In addition, FSA is also directly involved with the Forest Stewardship Council (FSC) and the International Institute for Environment and Development (IIED). During June 2008 South Africa in fact will be hosting the Annual Meetings of both the FAO – ACPWP and ICFPA as well as the International Paper CEO's Annual Roundtable Meeting.

South Africa's standing in the international Forestry world is not doubted and during 2007 the Industry hosted a number of important international meetings dealing with pests and diseases, sustainable forestry research and forest certification. At all of these FSA staff presented papers.

Overseas forestry delegations from a host of countries continued to visit South Africa during 2007 and FSA is appreciative of the fact that all of these saw fit to come to FSA's offices to receive briefings on the South African Forestry Industry. FSA considers these to be important as it enables us to learn about the Forestry Industries in other countries and to update ourselves on current developments.

FSA 2007 ANNUAL GENERAL MEETING

March 16th saw the holding of FSA's 5th Annual General

Meeting at the Ascot Inn and Conference Centre in Pietermaritzburg. Attendance at this meeting exceeded 130 people and was concluded by an even better attended cocktail function sponsored by the Central Timber Co-operative (CTC). The Minister of Water Affairs and Forestry, Ms L. Hendricks, gave the keynote address and officially opened the proceedings, and presentations were made by Prof Mike Wingfield – "Pests and Diseases - The Need to get Serious", Ms Michelle Warburton – "Climate Change and its Impacts on the SA Forestry Industry" and Mr Simangaliso Mkhwanazi – "The Role of FIETA in Assisting Skills Development in the SA Forestry Industry".

FSA wishes to record it's thanks to all those who gave presentations and to all members for their attendance.

FSA STAFF AND STAFF MATTERS

Once again it is a pleasure to report that during 2007 the staff remained intact and at full strength. Being a small organisation, everybody has to do everything, however exacting or menial and therefore it is essential to maintain continuity through minimising staff turnover. The fact that there was again zero staff turnover and that staff remained loyal, dedicated and willing to do whatever came their way regardless of self-sacrifice is something that all members need to be appreciative of and thankful for, and it has enabled the organisation to again perform beyond expectations.

As at the end of the year FSA had a full time staff complement of 9. In September it was necessary to medically board Mrs Gloria Ndlovu who worked in the Pietermaritzburg office, due to back problems. Fortunately she is still able and willing to perform *ad hoc* duties as and when required. Gloria has worked for SATGA and FSA for 25 years so we need to express our thanks to her for her dedicated and loyal service over the years and wish her well in her retirement.

In addition to full-time employees, FSA also contracts the services of three key-people, Prof Peter Roberts as FSA's Water Consultant, Dr John Scotcher as FSA's Environmental Consultant and Mr Nathi Ndlela as an assistant to Mr Steven Ngubane in the Emerging Grower Programme.

Unfortunately Prof Peter Roberts decided to emigrate during 2007 and we had to say goodbye to him and his wife Ingrid during November. Needless to say this was a huge loss to both FSA and the Forestry Industry and it is going to be exceptionally difficult to replace the skills, knowledge and experience that Peter had in hydrological matters which are of such critical importance

to Forestry. Peter had been FSA's Water Consultant for many years and takes with him a fountain of knowledge. Every member of FSA must thank Peter for the services he rendered to FSA and the Industry during this period. We also wish him and Ingrid all the very best for life in their newly adopted country of England.

Fortunately FSA has been able to secure a continuation of the services of its Environmental Consultant, Dr John Scotcher, for another 3 years through a renewal of his contract at the beginning of 2008. In this regard, and again most fortunately for FSA, John has agreed to take over much of the non-technical water issues from Peter Roberts, many of which overlap with his environmental responsibilities and for being willing to do this we must thank him sincerely. To address technical water related issues FSA has made provision in its 2008 Budget to buy-in relevant expertise as and when required.

The importance of FSA's Emerging Grower Programme is such that the Executive Committee has agreed to appoint Mr Nathi Ndlela to the post of Small Grower Project Officer on a full time permanent basis as from January 2008. FSA would like to congratulate Nathi on his appointment and wish him everything of the best in his new position.

The day-to-day management of FSA is done by the Executive Director, the Assistant Director and the Small Business Development Manager. From my side I need to record special thanks to Mr Roger Godsmark and Mr Steven Ngubane for their untiring support and outstanding achievements during 2007, without which my job and the smooth operation of FSA would not have been possible. Similarly, to each and every other staff member, we could not have done what we have without your support. You all fulfil key roles which deserve the highest recognition, so on behalf of all members and myself, thank you.

SUCCESSOR TO EXECUTIVE DIRECTOR

In last year's Annual Report it was recorded that a process was in place which hopefully would result in the appointment of a suitable replacement candidate to the current Executive Director by mid 2007. Unfortunately this was not to be the case and the task of finding such a candidate has proven more onerous and problematic than anticipated. Whilst a number of options were presented to the Executive Committee, none of these were considered appropriate, so as at the end of 2007 no appointment had been made. As the retirement date of the Executive Director at the end of April 2008 steadily approaches, it is becoming more and more urgent to intensify the search and it is for this reason that two Special Executive Committee meetings have already been held during January and February 2008. Whilst there are differences of opinion between members of the Executive Committee on this issue, it has been agreed to go the route of advertising in the national media for a replacement, from which it is hoped than an appointment can be made prior to the present Executive Director's retirement.

FSA FINANCES AND BUDGETS

FSA FINANCES

The Audited Financial Statements for the year ended 31st December 2007 are included at the end of this Annual Report. Regarding these Statements the following comments are made:

Income and Expenditure

- Total income received during 2007, made up of membership contributions, investment income and other attributable income, amounted to R16,450,455. This was R693,781 or 4.0% less than the budgeted income of R17,144,236.
- The shortfall on budgeted income was due entirely to a less than anticipated membership contribution as a result of lower than budgeted for roundwood sales. Membership contributions amounted to R15,545,553 as opposed to the budget of R16,300,000, R754,447 or 4.6% lower than budget. Investment and other attributable income exceeded budget by R60,666.
- Total income for 2007 was R2,498,332 or 17.9% higher than for 2006.

Expenditure

- Total combined expenditure (operational and industry) for 2007 amounted to R15,582,135. This was R317,412 or 2.0% less than the approved budgeted expenditure for the year.
- FSA operating expenditure amounted to R4,246,130, R248,170 or 6.2% more than budgeted for. This overrun on operational expenditure was due primarily to over-expenditure in travel costs dictated by unanticipated events and a number of unbudgeted for but approved expenses related to consultancy fees.
- Industry expenditure on the other hand, amounting to R11,306,005, came in under budget by an amount of R595,582 or 5%, due primarily to the fact that R445,760 budgeted for the BBBEE Charter Council was not spent because no Council was established.
- Total expenditure for 2007 was R299,652 or only 2.0% higher than for 2006.

Net surplus and balance sheet

- With income amounting to R16,450,455 and expenditure of R15,582,135, after deducting finance costs of R8, the net surplus for the year amounted to R868,312. This compares favourably with the previous year where a net deficit amounting to R1,331,490 was incurred. The net result on the balance sheet was that the organisation's equity, or accumulated funds, increased from R6,141,739 at the end of 2006 to R7,010,051 at the end of 2007.
- As at year end money in the organisation's bank account, both current and investment, amounted to R4,122,852, some R97,923 more than at the end of 2006.
- The overall financial situation of the organisation therefore remains healthy, with sufficient funds to sustain operations.

The day-to-day management of FSA's finances continues to be strictly monitored and controlled, with accountability being of the utmost importance. For this special thanks must be expressed to Mrs Muriel Farquharson, FSA's Financial Controller, who has once again done an outstanding job.

FSA BUDGETS

The 2008 expenditure budget for both FSA's operating and Industry support activities was approved at the Executive Committee meeting held on the 15th November 2007, well in advance of the implementation date of 1st January 2008. A synopsis of this approved budget as compared to that of 2007 is shown overleaf.

To be noted from the table on page 9:

- (1): Includes provision for new Executive Director. If this is excluded to make 2008 comparable with 2007 then increase would be 6.8%.
- (2): Fully funded through UNDP-GEF.
- (3): If (1) and (2) excluded to make comparable, increase would be 10.9%.

Allocation	Approved 2007	Approved 2008	% Change
(1): FSA Operations	3,997,960	4,615,930	15.5%⁽¹⁾
(2): Industry Support			
Forestry Research	7,662,567	8,080,680	5.5%
Forest Protection	2,697,010	3,486,010	29.3%
Environment & Water	861,750	1,070,000	24.2%
Charter Council	445,760	500,000	12.2%
Education	234,500	167,000	28.8%
Sundry	Nil	20,000	100.0%
Grasslands Programme	Nil	1,573,920	100.0% ⁽²⁾
Industry Total	11,901,587	14,897,610	25.2%
Total	15,899,547	19,513,540	22.7%⁽³⁾

Of importance also is the fact that in approving this Budget the Executive Committee has committed itself to providing considerably greater funding for forest protection. They have also dedicated themselves to increasing the Budget by a considerably greater amount once an Integrated Pest and Disease Strategy has been developed.

In order to fund the approved Budget the Executive Committee agreed to increase the FSA membership contribution rate from R1.00/ton to R1.10/ton of roundwood produced ex forest with effect from the 1st January 2008.

FSA relies on partnerships to help fund Industry support activities and in this regard it is important to record and recognise the contributions made by the Timber Marketing Bureau towards the Sirex Control Programme (R300,000 in 2007) and the International Institute for Environment and Development (IIED) for their support of FSA's Emerging Timber Grower Programme (R224,000). Lastly, but by no means least, FSA has to sincerely thank members for their willingness to continue to support FSA financially and in so doing, ensuring that priority interventions can be made by FSA on their behalf.

FORESTRY INDUSTRY AFFAIRS

FOREST SECTOR BBBEE TRANSFORMATION CHARTER

In terms of number of meetings, 2007 was a much less hectic year than 2006. As the majority of sector specific work through individual Working Groups had been completed during 2006, only two Charter Steering Committee meetings were held in March and November, the latter-mentioned of which was the final meeting where the final draft of the Charter was agreed to. Contrary to what was intended, however, the Charter has yet to see the light of day in its final and approved format as by year end the final draft was still undergoing a process of independent and 3rd party evaluation which is required in terms of the BBBEE Codes of Good Practice before it can be submitted to the Minister for final release.

Amongst the most important issues given consideration by the Steering Committee at its meetings in 2007 were the following:

- The threshold to be applied to differentiate between Exempted Micro Enterprises (EME's) and Qualifying Small Enterprises (QSE's). In this regard, although the Codes of Good Practice were specific, the Minister was of the opinion that they should be lowered. The Steering Committee, however, agreed to retain the R5 million annual turnover threshold so as to be consistent with the AgriBEE Charter and the Codes of Good Practice.
- Whether the afforestation target should be based on number of hectares planted or on the net increase in total planted area (i.e. increase after allowing for excisions). The latter-mentioned was adopted.
- Whether to have individual sub-sector specific scorecards or an overall sector scorecard. Due to the similarity between sub-sector scorecards it was decided to have a sector specific scorecard with minor sub-sector variances being allowed.
- Issues dealing with land reform, in particular whether restituted land would form part of and count towards the ownership transfer element of the scorecard. This matter, which is of particular importance to the Forestry Industry given that an estimated 40% plus of SA's entire timber plantation estate is under land claim, remained unresolved with input thereon and clarification still awaited from the Chief Land Claims Commissioner.

- Consideration of a range of proposals emanating from the final round of stakeholder consultation workshops held in August and September.

To all intents and purposes the Charter development process has now been completed and the final document is now awaited. It is anticipated that signing of the Charter, which FSA will do on behalf of timber growers, will take place during the first quarter of 2008.

In addition to the content of the Charter itself, FSA gave consideration to representation by Industry of the 9 seats allocated to Industry on the Charter Council and to the funding by Industry of the Charter Council. These two issues were debated at an Industry meeting held on 22nd June, where the following was agreed to:

(i): Charter Council Representatives per sub-sector:

Forestry	: Mr Nxumalo and Ms McMenamin
Sawmilling	: Messrs Qomoyi and Mothlana
Fibre	: Messrs Hunt, Mncube and Siyolo
Contractors	: Messrs Nkambute and Steenkamp

(ii): Funding of Charter Council:

Industry would contribute 40% to the Council's approved budget of R3,072,800 in the 1st year, in other words R1,229,200. This would be split amongst Industry sub-sectors as follows:

Forestry (FSA)	R491,648	(40.0%)
Fibre (PAMSA)	R600,000	(48.0%)
Sawmillers (SSA)	R100,000	(8.2%)
Poles/Charcoal (SAWPA)	R18,736	(1.5%)
Contractors (SAFCA)	R18,736	(1.5%)
	<u>R1,229,200</u>	<u>(100.0%)</u>

In terms of the above, FSA has included R500,000 in its 2008 budget.

Having come to the end of a long process, FSA would like to record its thanks to the Charter Secretariat under the leadership of Dr Themba Simelane of DWAF and expert guidance and support by Mr Erik Buiten for all the work that has been done and wishes to express its appreciation to all members of the Charter Steering Committee for their constructive input and co-operation. It is FSA's intention to support the implementation of the Charter over the next 10 years in whatever way possible and members are urged to do likewise.

PESTS AND DISEASES

Much has been written about this in previous years' Annual Reports and a lot has been spoken about the issue, notably at FSA's 2007 Annual General Meeting, so most members are well informed about the threats facing the Industry. The issue, however, is so serious that repetition is not out of order.

During 2007 attacks by pests and diseases on members' plantations continued unabated. Not only was this the case from better known insects such as Sirex, Thaumastocoris, Cossid moth and many others, but we are now having to deal with others, such as *Leptocybe invasa* (Eucalyptus Gall Wasp) which was discovered for the first time in South Africa during 2007 and a strong resurgence of *Fusarium* (Pitch Canker) in older age Pine plantations.

In an attempt to quantify the financial impacts of these threats, during 2007 FSA developed a risk assessment model. Using the Sirex problem as a case study, it was calculated that on the areas currently infested with the Sirex Woodwasp, tree mortality has resulted in a loss of R153 million to growers and R630 million to processors in terms of potential loss of product output. Growers in addition were spending in excess of R60 million annually in Sirex control operational expenditure. If one applies the same risk assessment methodologies to other losses incurred as a result of all pest and disease problems, the losses run into hundreds of millions of Rands annually and is further reducing our ability to meet timber supply requirements which already are becoming precarious.

The absolute need for significantly up-scaled pest and disease monitoring and control programmes is therefore an imperative. FSA's role in assisting in this regard has been significant.

- FSA's 2008 Forest Protection budget has been increased by 30% to just under R3.5 million.
- Due to lobbying by FSA, DWAF have agreed to contribute an amount of R3.0 million specifically to address the Sirex issue (this is over and above their annual contribution to FABI).
- Through FSA insistence, a special chapter on Forest Protection has been included in the Forest Sector Charter and through their Charter obligations, DWAF are to contribute R5.0 million annually to help implement an Integrated Pest and Disease Control Strategy.
- Through FSA, the Sawmilling Industry, via the Timber

Marketing Bureau, have agreed to contribute R300,000 per annum to the Sirex Control Programme.

- FSA are sponsoring the secondment of Mr Philip Croft to the ICFR in the capacity of Sirex Control Programme Co-ordinator.

So a lot has been and is being done by FSA to assist. A lot more however needs to be done. In this regard it needs to be mentioned that although it was recommended that FSA's membership contribution levy for 2008 should be raised from R1.00/ton to R1.50/ton (50% increase) to specifically enable additional resources to be made available for pest and disease issues, this was not accepted by the Executive Committee. In principle however the Exco. accepted the need to do this, but considered it prudent to do so only once a specific plan of action had been put on the table. During 2008, FSA in collaboration with DWAF, FABI, ICFR and others will focus on putting together an overall Industry Integrated Pest and Disease Control Programme.

Leading the endeavours to control the pest and disease problem are FABI, ICFR, the PPRI and individual Forestry Companies and the entire Forestry Industry needs to appreciate what these organisations are doing under difficult circumstances. Despite there being no "magic bullet" they are under intense pressure to come up with answers and solutions, failing which the future of the Industry is under threat. Whilst it is difficult to single out persons, as everybody involved is playing a critical role, FSA has to thank in particular Profs Mike Wingfield and Bernard Slippers at FABI and Prof Colin Dyer and Mr Philip Croft of the ICFR who are working wonders in addressing the problems.

FOREST FIRES

Last year's comment in the Annual Report that 2006 was a relatively "fire free" year, whilst correct, has turned out to be a somewhat premature statement related to what happened during 2007. By a long margin, 2007 was the worst fire season ever experienced by the Forestry Industry in over 100 years – in short a disaster which it will take the Industry decades to recover from.

An analysis undertaken by FSA, but only including fire damage up to mid-August revealed the following:

- 64,000 ha's or 50% of the entire forestry estate was burnt (this excludes 20,000 ha burnt in Swaziland).
- Mpumalanga Province was the most severely affected where almost 48,000 ha's or 10% of the

total Provincial forestry estate was burnt, KwaZulu Natal on the other hand had 14,000 ha's burnt or 3.0% of its forestry estate.

- Of the total area burnt, 30,500 ha's or 48% was pine sawlog plantations, which in the case of Mpumalanga represented nearly 13% of its pine sawlog area.
- Overall, 28% of the country's sawlog production was affected.
- Based on a recovery, or salvage, figure of 66% (i.e. total write-off of 34%), these fires resulted in a loss of timber amounting to 1.6 million m³ of sawlogs and 1.7 million tons of pulpwood, valued at R1.2 billion (23% of the Forestry Industry's total annual turnover).
- Translated into the impact on loss of potential output from the Forest Products Sector, this amounted to a staggering R3.7 billion.

When the country is already facing an increasing timber supply deficit, the above makes sombre reading and is cause for extreme concern and everything possible needs to be done to avoid a repetition and continuation of this.

Since these fires the Industry has done considerable introspection and soul searching, both through FSA forums and others, including entering into long discussions with the Working on Fire Programme on a possible stronger partnership agreement. At the end of all of this, one common theme seems to have emerged and that is that the Industry needs to carefully assess its ground based activities and capabilities and take remedial action, only after which should attention be paid to additional aerial fire fighting capacity. In other words, get the basics right before anything else.

In parallel with this, FSA is also interacting with the Government through DWAF, DPLG and the Disaster Management Centre to look at possible interventions that can assist the Industry. In this regard FSA has asked for moratoriums to be placed on the charging of water and property rates on areas taken out of production as a result of the fires and for certain amendments to be made to the National Veld and Forest Fire Act so as to make Fire Protection Associations more functional and effective. At the time of writing this Report none of these had been finalised.

Firewise therefore, 2007 will long remain in everybody's memories. But let us not forget about all those who lost so much and all those who tirelessly put their lives on the line to fight them. To the former-mentioned, FSA would like to express its deepest sympathies and to

the latter-mentioned its sincere gratitude. In particular, FSA must record its absolute appreciation to all involved from the Working on Fire Programme, without whose effort the damage inflicted could have been significantly greater.

AFFORESTATION ISSUES

From the latest Forestry Industry statistical census undertaken by DWAF (June 2006) it is noted that for the 2005/2006 year new afforestation totalled only 2,635 hectares. After deducting areas that were taken out of timber production for various reasons (delineation, privatisation, conversions etc.), the net increase in planted area only amounted to 1,677 hectares, a paltry figure when taken against a figure of 700,000 hectares of additional plantings estimated to be needed over the next 30 years to meet the anticipated long-term demand, or against the Forest Sector Charter target figure of 10,000 hectares per annum of net new plantings over 10 years. The losses experienced due to pest and diseases and fires also need to be factored into the equation.

In short, without a massive drive to significantly upscale the current planting rate, the Industry will face huge problems and will in all probability become a large net importer of timber and timber products.

It is for these reasons that FSA has continued to put emphasis on the afforestation licensing process, although regrettably with not a lot of success. The process remains unacceptably bureaucratic, lengthy and increasingly costly and is in a number of instances becoming more forestry unfriendly than ever before. If we have any hope of addressing our timber supply situation in the longer-term, a radical rethink of current procedures will be necessary. Discussions with DWAF, both at Head Office level and through the Provincial Licence Assessment Advisory Committees (LAAC's) have continued unabated during the year and whilst some progress has been made (e.g. E. Cape Mapping Programme, afforestation area exchange policy, General Authorisations, etc.) a huge amount still needs to be done.

It is hoped therefore that through the advent of the Forest Sector Charter and the Government's recently released Industrial Development Action Plan, the current situation will improve and that Industry growth can once again be part of its activities.

WATER ISSUES

Water is a major consideration in the afforestation licensing procedure mentioned above, and is probably

the major determinant in the Industry's wellbeing. In this regard the Industry still believes that it is being unfairly treated *vis-à-vis* other competing water-users and is being unjustly singled out for regulation and control, with the Industry amongst other things being concerned that in the allocation of water little or no cognisance is taken of the beneficial use or value added that is inherent in the growing of trees and conversion thereof into timber products, which is a requirement of the National Water Act.

Dealing with water issues, there are a number of other concerns that the Industry has with which it has been dealing with over the year, again with limited success. Amongst these are:

Water Tariffs

In April 2007 Forestry's water tariffs were increased by 4.0%, a quantitatively acceptable increase. With effect from April 2008 DWAF are proposing a further increase of 6.4%, which again is not out of order. The problem that FSA has, however, is that in proposing these increases, DWAF are ignoring the requirements of the National Water Pricing Strategy in terms of information that has to be provided to water users prior to implementation. Fundamentally FSA has a problem with this as it does not understand how DWAF can ignore their own regulations when the Industry is expected to conform to regulations at all times. With the onset of the establishment of Catchment Management Agencies (CMA's), it is necessary for water users to be assured that their tariffs are being spent in accordance with budgets, and this is why FSA is insistent that before accepting tariff proposals, the required information is made available. It is also the reason why FSA has not as yet accepted the 2008 tariff proposals.

Catchment Moratoriums

During the last few years DWAF have placed moratoriums on additional water use in a number of catchments considered to be oversubscribed in terms of water use, the latest one being the Umzimkulu Catchment. Whilst FSA understands the need to introduce such moratoriums, it also knows that before this can be done, water users must be provided with relevant information justifying the action. Despite requests for this, such information has never been supplied. Forestry has been told that no afforestation applications will be considered. This FSA believes to be in contravention of the Act. We are also concerned that in this regard Forestry is possibly being treated differently from other water users.

Water Allocation Reform – Compulsory Licensing

DWAF is currently developing its Water Allocation Reform (WAR) Strategy and FSA has been participating in discussions thereon. One of the fundamental mechanisms that will be used in this allocation process is compulsory licensing. Whilst FSA accepts the need for such a process and supports its implementation, it has a concern, based on how Forestry has been treated in the past, as to how Forestry will be treated when water is reallocated. When the Industry is told there is no more water available and we see new water users establishing themselves we have to question what, if any, priority is or will be given to Forestry.

Genus Exchange

In 2002 through FSA, the Forestry Industry brokered a deal with DWAF by which it was agreed that when calculating water use by Forestry, the most conservative approach would be used (i.e. calculation would be based on the genus using most water). The purpose of this was to enable timber growers to change genus without having to go through a complete re-licensing process. Part of this agreement with DWAF was also that when issuing a licence, the genus would not be specified. For whatever reason, DWAF appear to be ignoring this agreement and are insisting that re-licensing take place whenever a genus is to be changed. This is causing major problems and frustrations, particularly in the Eastern Cape, and is doing little to assist the Industry to meet future timber requirements. Discussions are admittedly taking place with DWAF to try and resolve the issue, through for example, the issuing of a "General Authorisation" but slow progress is being made. This matter needs to be finalised urgently.

Water Tribunal Rulings

Some years ago the Water Tribunal, set up in terms of the National Water Act, overruled DWAF's decision on not granting certain licences, and ordered them to issue the licences. To date DWAF have refused to comply and the licences have not been issued. This has resulted in an ongoing debate between the applicants and DWAF, with FSA's assistance, but nothing has been resolved. FSA considered this to be inappropriate administrative action by DWAF which cannot be left unchallenged.

All of the abovementioned give little comfort to the Industry that progress in the Water/Forestry debate is being achieved, or that Forestry is receiving due administrative justice, despite FSA putting an inordinate amount of time and effort in trying to address them.

The expertise that Prof Peter Roberts provided to FSA in dealing with all these issues has been immense and his resignation as FSA's Water Consultant will leave a huge void, which will be exceedingly difficult to fill, even with the budget provision that has been made in FSA's 2008 budget to buy-in technical expertise. FSA therefore has to thank Prof Roberts for the years of dedicated effort that he has spent as FSA's Water Consultant.

ENVIRONMENTAL ISSUES

With the support and assistance of FSA's Environmental Consultant, Dr John Scotcher, FSA has been involved in a number of environmental issues and initiatives during 2007 which support the Industry's intention to maintain and improve on its record for sustainable forest management. The under-mentioned are some of these:

Development of a National Certification Standard

Dr Scotcher, the FSC contact person for South Africa, is overseeing the development of a National Certification Standard which is making good progress and gaining momentum. During 2007 the Project received a major boost through DWAF agreeing to partner Dfid in sponsoring the project, as a result of which in November the Institute for Natural Resources was appointed as the Project service provider to undertake the development of the Standard. The process to be followed involves an extensive public consultation element, the development of draft standards, field testing and final selection, which will take place over the next 18 months. Once developed it will mean that the certification of South African plantations will incorporate and be based on local conditions.

Grassland Biodiversity Conservation Programme

FSA has been involved in this Programme being managed by the SA National Biodiversity Institute (SANBI) for two years now during its inception phase, and has agreed to become a fully fledged partner whilst the Programme runs its course over the next 5 years. FSA has since signed a contract with SANBI under which FSA will be employing a full-time Forestry Grasslands Co-ordinator on a 5 year contract basis to manage its involvement. This person will be appointed in April 2008 and will work out of FSA's Pietermaritzburg office. The Grasslands Programme and the Forestry Co-ordinator will be funded by a grant from the United Nations Development Programme (UNDP)-Global Environmental Fund (GEF). From the Industry's standpoint the purpose of the Programme is to define,

identify and implement a Programme to conserve grassland biomes that form part of the Forestry estate – a further commitment to its environmental ethos. Since mid 2007, Mr Steve Germishuizen was contracted part-time by SANBI to drive the development of the Programme to the next phase.

Other initiatives

FSA, through Dr Scotcher, has been involved in a number of other initiatives during the year, amongst these being a process commissioned by the Cabinet to examine options available to mitigate greenhouse gas emissions, referred to as "Long-Term Mitigation Scenarios", the KwaZulu Natal Wetland and Freshwater Policy development process and DWAF's review of the Wetland and Riparian Zone Delineation Procedure, originally developed by the Forestry Industry. In addition, Dr Scotcher was involved in guiding the KZN Fire Protection Association with regard to the E.I.A. requirements for the erection of fire towers.

Environmental Legislation

Issues dealing with legislation and regulation have also been a focus of FSA's environmental work during 2007, the following matters having been addressed:

- National Environmental Management Biodiversity Act: draft alien and invasive species regulations;
- National Environmental Management Biodiversity Act: guidelines regarding the determination of Bio-regions and the preparation and publication of Bio-Regional Plans;
- National Environmental Management: Waste Management Bill;
- National Environmental Management Act: EIA regulations.

Overall an exceedingly hectic year, and one which FSA could not have handled without the skills, expertise and dedication of Dr Scotcher. Under his guidance timber growers can feel confident that environmental issues are being competently dealt with, and for this FSA needs to express its sincere thanks. It is also of great comfort to know that Dr Scotcher's contract with FSA has been extended for a further 3 years.

EDUCATION AND TRAINING

FSA plays an important role in supporting tertiary education institutions and in the affairs of the Forest Industries Education and Training Authority (FIETA), as it fully recognises the need for the Industry to maintain and improve the competency and adequacy of its skills base. It is also aware that the numbers of students

studying Forestry needs to be increased if the Industry has any chance of meeting anticipated growth targets. The focus on skills development embodied in the Forest Sector Charter is also welcomed and fully supported by FSA.

Educational Institutions

FSA's involvement with forestry education is focused primarily on providing bursaries for undergraduate students at both Stellenbosch and the Nelson Mandela Metropolitan Universities (Saasveld). In this regard, during 2007, 4 bursaries to the value of R80,000 were made available to Stellenbosch and 5 bursaries to the value of R50,000 to NMMU. In addition, bursary funds to the value of R24,300 were also provided to the ICFR for the further education of ICFR staff members.

During 2007 FSA also made funding available to enable staff and students to interact with Industry through a dedicated travel fund, made funds available to support lecturing staff and funded courses in Zulu. As a once off donation, FSA also provided R50,000 to support the holding of the International Forestry Students Symposium which was held for the first time in South Africa at Saasveld in June.

Particularly encouraging is the fact that the first year student enrolment at Stellenbosch increased dramatically in 2007. This was a complete turnaround from previous years and the efforts made by Faculty staff to achieve this deserves special recognition. Saasveld maintained its impressive record of again being fully subscribed in terms of 73 first year students enrolling for Forestry. During 2007 the Saasveld Campus Principal, Prof Ernst van Biljon, left to join the private sector and was succeeded by Prof Christo Fabricius who assumed duties in November. FSA would like to express its appreciation to Prof van Biljon for what he achieved for Saasveld during his term of office and wishes him well for the future. At the same time it would like to welcome Prof Fabricius and assure him of FSA's continued support for his Institution.

It is also of importance for FSA to express its thanks to Mr Pierre Ackermann, Chairman of Stellenbosch Forestry Department and Dr Josh Louw, Head of the School of Natural Resources at Saasveld, together with all staff members, for their dedication and guidance in educating the future personnel of the Forestry Industry.

Forest Industries Education and Training Authority (FIETA)

FSA has continued to play an active role in the work

that FIETA does to improve the skills base of the Forest Sector, being a member of its Forestry Chamber, Board and Audit Committee.

Although SETA's in general continue to receive negative media coverage, it must be said that FIETA is one of the better performing of the 23 SETA's and indeed, was one of only three to be awarded a "Gold Award for Good Performance" during the year by the Department of Labour and the National Skills Authority. On the financial side, FIETA continues to receive unqualified audit reports from the Auditor General indicating that its financial management is in good standing.

In terms of skills development, the following highlights need to be noted:

- The Forest Sector Skills Plan was revised to accommodate an updated schedule of scarce and critical skills;
- FIETA received R22 million of National Skills Fund funding to fund 360 learnerships;
- A highly successful inaugural meeting of the Forestry Sector Skills Development Forum was held;
- An organisation representing forestry training providers, Forestry Industry Training Providers Association (FITPA), was established;
- In line with current Government policy, all work done by Standards Generating Bodies, including that of the Forestry SGB, was taken over by SAQA;
- In addition to mandatory grant disbursements, R9 million of discretionary grants were made available to fund training initiatives in the Forestry Industry. Amongst the more important projects supported were the following:
 - Provision of adult basic education (ABET) courses
 - Funding of the Amahlathi Emerging Contractors Project
 - Training of Land Claim Beneficiaries
 - Offering of bursaries for study at various tertiary institutions, including Saasveld and Stellenbosch
 - The SMME III Contractor training Project
 - The funding of learnerships
 - The funding of training interventions in 34 small and medium sized companies

During the course of the year, in an effort to save costs and achieve synergies, the four FIETA Chambers were merged into two, namely the Forestry and Pulp and Paper Chamber and the Wood Products and Furniture

Chamber. Concerning structural issues, the Government is currently looking at the possibility of re-aligning the current SETA landscape by amalgamating the current 23 SETA's into 5. It is FSA's and FIETA's opinion that any such move would be detrimental and would be opposed.

FSA would like to thank all those involved in the FIETA, particularly the CEO, Mr Simangaliso Mkhwanazi, for a job well done.

FORESTRY RESEARCH

There is no better way of illustrating the importance which FSA attaches to research than by noting that during 2007, 68% of FSA's total Industry support budget of R11.9 million went to research, centred essentially at the Institute for Commercial Forestry Research (ICFR) and the Forestry and Agricultural Biotechnology Institute (FABI). No research equals no innovation, no technology improvement, no productivity improvement and no tomorrow. Facing a situation of an escalating timber shortage and limited scope for the physical expansion of our plantation estate, the Industry has little option but to do everything in its power to produce more from what it has planted and to look after what it already has in the ground more effectively. This is the rationale for FSA's emphasis on research.

Responding to this, both the ICFR and FABI have continued to undertake research programmes aimed at increasing plantation productivity and reducing plantation losses and are doing outstanding work in their respective fields. In both Institutes we are fortunate to have world-class scientists who are doing world-class research with world-class results and the Forestry Industry needs to recognise this.

Recognition of the status of South Africa's research capability in a global context is apparent with both FABI and the ICFR being hugely respected. This is evident from the number of overseas visitors to these Institutions and from the fact that South Africa is continually being asked to host international research symposia. 2007 was no exception. During the year two well attended events were held, an International Sirex Research Symposium in May and a IUFRO Productivity and Sustainability in the Growing of Eucalyptus Symposium in October, organised by FABI and the ICFR respectively. Of equal importance are the requests that are made of staff of these Institutes to present research papers at overseas symposia.

To ensure that our research effort doesn't ignore the needs of the new emergent timber growers and focuses only on high technology forest research issues, through

FSA's Emerging Timber Grower Programme, particular emphasis is being placed on undertaking and making accessible appropriate research, an example of this being the FSA/ICFR initiative to compile small grower silvicultural technical brochures on the growing of Eucalyptus and Wattle, the production of which, in 5 different languages, is being funded through a US\$ 75,000 grant made available by the FAO in Rome under their National Forest Programme Facility. Similarly, attendance by emerging growers at research field-days organised by FABI and the ICFR is being promoted by FSA and is receiving encouraging support.

Recognition of the importance of research is also provided for in the Forest Sector Charter where it is intended that a Forest Sector Research and Development Strategy as well as an Integrated Pest and Disease Control Strategy are put in place. FSA will partner research Institutions and DWAF in driving this process.

The management of the Industry's research effort is competently undertaken by Prof Colin Dyer at the ICFR and Prof Mike Wingfield at FABI, supported wholeheartedly by the staff at these Institutes. For this FSA expresses its sincerest thanks to all.

Other Institutes and Organisations are also involved in Forestry Research, amongst these being the Universities of Stellenbosch and NMMU (Saasveld), the CSIR, the Plant Protection Research Institute (PPRI), the University of KwaZulu Natal (outside of the ICFR) and the Institute for Natural Resources. All of these, in their particular fields of interest, are doing valuable work and are thanked for their efforts.

EMERGING TIMBER GROWER (ETG) PROGRAMME

The structure and purpose of FSA's emerging timber grower programme remains the same as outlined in FSA's 2006 Annual Report, being focused on 6 primary interventions. The following is a short resumé of the activities that were involved in each of these during 2007.

Strengthening Emerging Timber Grower Organisation

A key objective for 2007, in a continuous quest to strengthen ETG structures, was capacity building of the District Committees on planning their activities and participation on District Municipality forums. To this end, all ten District Committee were assisted to design their annual work plans and eight out of ten structures

had representation on respective District Municipalities' IDP, LED and disaster management forums.

Communication and Information Dissemination

Three mechanisms (i.e. newsletters, annual workshops and committee meetings) exist for the purpose of this intervention. The focus in 2007 was on liaison with the Forest Sector on ETG issues and to give feedback to ETG's. Two newsletter editions were published, unfortunately no workshops were held but are planned for mid 2008 and District Committees had at least six meetings during 2007.

Forestry Development and Promotion

The objective of this intervention during 2007 was to facilitate and create an enabling business environment for small forest enterprise development. Remarkable success was achieved including:

- both Provinces of KZN and EC initiating afforestation potential assessments and collaboration on Forest Sector development initiatives;
- a memorandum of co-operation signed between DWAF, FSA and Limpopo Business Support Agency (LIBSA); and
- both Limpopo and Mpumalanga Provinces buy-in to explore forest sector development initiatives.

Capacity Building and Skills Development

Although the technical pamphlets, as referred to elsewhere in this Report, were finalised during 2007 and led to the process of developing an emerging timber grower toolkit led by FIETA, the pamphlets themselves have not been made available as envisaged due to delays regarding the finalisation of the necessary resourcing partnerships. This, however, has now been resolved and, with a grant from the FAO of US\$ 75,000 having been secured, will enable production and distribution to take place during the first half of 2008.

Sustainable Forest Management System

The objective during 2007 was implementation of the three SFM system pilot studies. Through the grasslands programme partnership with the South African National Biodiversity Institute (SANBI), resources have been pledged in support of the system's pilot.

Forest Governance Learning Group

This is an African and Asian focused initiative constituted by eleven countries led and funded through the International Institute for Environment and Development (IIED) with FSA being the implementing agent in SA. In SA, it is aimed at facilitating the development of a small forest enterprise support strategy, and consolidating inputs into various planning processes. The initiative is a stakeholder process with involvement and participation of Government, Industry, entrepreneurs and Civil Society. During 2007 it focused on the BBBEE Forest Sector Charter process, and the resultant Forest Sector development initiatives alluded to under item 3, UNFF 7th Session Side Event on SMFE and Forest Governance Workshop on SMFE.

FSA is indebted to all institutions for their contribution in any form during 2007 to the ETGP, particularly DWAF, DTI, IIED, LIBSA, Industry, District Municipalities, Provincial Economic Departments, SANBI, FIETA and FGLG-SA members.

FSA must also thank Steven Ngubane and Nathi Ndlela for the encouragement and support they are providing emerging growers and for their hard work in sustaining the Programme. It is especially pleasing to report that the Executive Committee sanctioned the appointment of Mr Nathi Ndlela as a full-time, permanent member of the FSA staff with effect from the 1st January 2008.

PROPERTY RATES

FSA has continued to work with Kwanalu on matters concerning the implementation of property rates, not least of which because there are a number of synergies to be gained from this and secondly because Municipalities in KZN appear to be more advanced in terms of implementing the Municipal Property Rates Act (MPRA) than in any other, with 8 having done so on 1st July 2007 and 44 scheduled to follow on 1st July 2008.

What was of extreme concern to note was that these Municipalities not only flouted the implementation guidelines that the KZN Department of Local Government and Traditional Affairs had issued them but had, in most cases, contravened the provisions of the MPRA and more worryingly, implemented rand rateages which resulted in rate liabilities on agricultural and forestry properties which were, in our opinion, unsustainable.

Such was the concern expressed at these developments that, after having obtained favourable legal opinion, a

decision was taken at a meeting convened by Kwanalu in May, to which all Farmers Associations in the Province were invited, to launch a legal challenge and to establish a fund, to which FSA donated R50 000. This action was to be taken against the Minister of Provincial and Local Government and would challenge the unsustainable rates being levied by Municipalities and would put to the Minister that he limit Municipalities from levying property rates on agricultural properties, before any rebates or discounts, of a rand rateage of any more than 0.5% (i.e. half a cent in the Rand). The motivation for this was based on the findings of an extensive and factual Case Study Report produced by FSA's Assistant Director in his capacity as the Chairman of Kwanalu's Property Rates Task Team. This action has only just been initiated and so no conclusion has been reached. However, should it succeed, a precedent will be set which will benefit all rural landowners and not just those in KZN.

Notwithstanding the above, the Minister did publish two draft notices for public comment in December 2007 in which the following were proposed:

- Annual rate increases be capped at CPIX; and
- Ratios between residential and various other categories of property be set (in the case of agriculture this ratio was 1: 0.25).

FSA, in its submission to the Minister, supported these proposals. However, due to fierce opposition received from Municipalities, it is not known if they will be Gazetted.

Although most of FSA's efforts were focused on addressing matters surrounding the implementation of financially unsustainable property rates, including the production of the Case Study Report, FSA played an active role in the production of a set of South African Institute of Valuers' Guidelines on the valuation of agricultural and forestry properties. This is to be welcomed as it will ensure consistency in application across all valuers. FSA is also involved in deliberations specifically pertaining to the valuation of bare forestry land.

Due to the very nature of forestry (and agriculture), the levying of property rates is a highly contentious issue and unless done in a sensible manner can have disastrous financial consequences. Because of this FSA will continue to play an active role in trying to ensure that Municipalities do not act irresponsibly.

LAND REFORM

The Government's land reform initiative is based on three pillars, namely restitution (involuntary land claims), redistribution (voluntary transfer of ownership) and labour tenancy reform. Although virtually all urban land claims have already been settled, very few rural land claims, including those involving forestry land, have been. Indeed, there are thousands of claims still to be Gazetted (1 500 in KZN alone) and although it is estimated that roughly 40% of the country's forestry estate is under claim, the eventual impact that the restitution process will have on the Industry is not known for sure. What we can, however, be sure of is that the area will be significant and that in order to ensure the future sustainability of the Forestry and, more importantly, the Forest Products Industry, it will be essential that the Industry, along with other stakeholders, plays an active role in not only persuading land reform beneficiaries to continue to grow timber but to do so in a manner which will be sustainable in the long-term.

Unfortunately, the success rate of those restitution deals concluded thus far has been low. Notwithstanding the fact that there are a whole host of problems being experienced by members on the ground, not least of which being the red-tape involved, two main reasons have been identified as to the cause of these failures: the lack of technical and business skills and the lack of financial resources, especially regarding the funding of working capital – in short, effective post-settlement support has been lacking. These shortcomings have been recognised by the Department of Land Affairs and has culminated in the recently launched Settlement and Implementation Support Strategy.

By their very nature, land claims have to be dealt with at local level. FSA's involvement in land reform matters has thus been focused at the broader Provincial and National level. During the course of the year FSA, often in co-operation with Kwanalu, has been involved in various forums at the Provincial level at which Industry concerns have been raised with both the Land Claims Commission and the Department of Land Affairs. Although our concerns are numerous, the main ones relate to:

- whether or not restituted land will "count" towards the Industry's 30% transfer target;
- post-settlement support to beneficiaries to ensure the sustainability of tree growing on restituted land;
- the tax treatment of timber when properties are transferred;

- the Government's reluctance to accept various Industry models that have been developed to overcome the sustainability issue and the fact that the LCC does not, as a rule, pay for the standing timber on claimed farms; and
- the enactment of and increased use of new expropriation legislation which will result in the payment of compensation based on factors other than simply the market value of the property.

Of all the challenges facing the Forestry Industry, land reform poses the greatest potential threat to its future sustainability. FSA will thus continue to give this matter its full attention to ensure that, whenever and however, the best interests of its members, the Industry and the country at large are served.

THE NATIONAL INDUSTRIAL POLICY ACTION PLAN (IPAP)

The Industry's attempts to heighten awareness about the Forest Sector amongst Government, through the compilation of the "Genesis Report" of June 2005, has indeed paid dividends, and has resulted in the Department of Trade and Industry prioritising the Forestry, Pulp and Paper and Furniture sector as one of the four lead sectors for fast track development in terms of its National Industrial Policy Action Plan released in August 2007.

The four Sectors prioritised (Capital/Transport Equipment and Metals, Automotives and Components, Chemicals, Plastic Fabrication and Pharmaceuticals, and Forestry, Pulp, Paper and Furniture) were selected for their linkages to the rest of the Economy, their ability to boost exports and potential for job creation and downstream beneficiation. Particularly important in the case of the Forestry Sector is the realisation that Forestry has the potential to increase jobs and income amongst poorer rural communities. According to the Action Plan provision is made for the afforestation of 140,000 hectares (100,000 in Eastern Cape and 40,000 in KwaZulu Natal)

over the next 10 years, representing an investment of in excess of R1.5 billion. It is estimated that this will contribute some R715 million to the Provincial GDP's and boost jobs in the two Provinces by 41,000 people and will help to stimulate the development of new processing activity. In order to realise this development target the Government, in terms of the Action Plan, has committed itself to expediting the afforestation licensing process, the confirmation of land rights for land holding communities, technical and financial support to emerging small growers and improvements to transport infrastructure.

All of the abovementioned must be gladly welcomed and when implemented will give a meaningful boost to the Industry. The intentions of this Action Plan are of course mirrored in the Forest Sector Charter and in many respects complement what FSA is doing under its Emerging Timber Grower Programme. The issue of financing is critically important to the Action Plan's achievement and in this regard FSA has already and will continue to interact with the Industrial Development Corporation who have implemented a number of innovative and attractive financing packages.

Whilst the Government has made commitments, success will not be achieved without the full participation and commitment of the Industry. FSA will do whatever it can to assist and it is hoped that members will do likewise.

APPRECIATION

To attempt to list FSA's appreciation to everyone who has contributed, supported, interacted or been involved in any way with the activities and affairs of the Organisation during 2007 would take many pages, and would most probably end up being incomplete.

Whoever they may be and wherever they are therefore, let it be sufficient to merely say a magnanimous thank you to all. Your support is greatly appreciated and has enabled us to serve you to the best of our ability.



M.B.P. EDWARDS
EXECUTIVE DIRECTOR
FORESTRY SOUTH AFRICA
MARCH 2008

Forestry South Africa
Annual Financial Statements for the year ended 31 December 2007
General Information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	To promote the growth, development and well being of the South African commercial forestry industry both locally and internationally in the interests of all its members
Office bearers	
Chairman	Mr W Nxumalo
Vice-Chairman	Mr M Mason Mr B Aitken Mr K Breed Mr P Day Mr H de Jongh Mr D Khakhu Ms V McMenamain Mr P van Zyl Mr S von Fintel
Business address	Cnr Austin & Morris Streets Woodmead Sandton Gauteng
Postal address	P.O.Box 1553 Rivonia 2128
Bankers	Standard Bank of South Africa Limited
Auditors	AM Smith and Company Inc Chartered Accountants (S.A.) Registered Auditors
Registration number	017-638NPO

Forestry South Africa

Annual Financial Statements for the year ended 31 December 2007

Index

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

Index	Page
Report of the Independent Auditors	22
Executive Committees' Responsibilities and Approval	23
Balance Sheet	24
Income Statement	24
Statement of Changes in Equity	24
Cash Flow Statement	25
Accounting Policies	26-27
Notes to the Annual Financial Statements	28-30

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

Detailed Income statement	31-32
---------------------------	-------

Report of the Independent Auditors

To the Members of Forestry South Africa

We have audited the accompanying annual financial statements of Forestry South Africa, which comprise the balance sheet as at 31 December 2007, the income statement, the statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 24 to 30.

Executive Committees' Responsibility for the Financial Statements

The association's executive committee is responsible for the preparation and fair presentation of these annual financial statements in accordance with South African Statements of Generally Accepted Accounting Practice. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, 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 the company as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice.



AM Smith and Company Inc
Registered Auditors

17 April 2008

774 Waterval Ave
Little falls
1724

Forestry South Africa

Annual Financial Statements for the year ended 31 December 2007

Executive Committees' Responsibilities and Approval

The executive committee is required to maintain adequate accounting records and is 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 association 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 South African Statements of Generally Accepted Accounting Practice. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The executive committee acknowledge that they are ultimately responsible for the system of internal financial control established by the association and place considerable importance on maintaining a strong control environment. To enable the executive committee to meet these responsibilities, the executive committee 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 association and all employees are required to maintain the highest ethical standards in ensuring the association's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the association is on identifying, assessing, managing and monitoring all known forms of risk across the association. While operating risk cannot be fully eliminated, the association endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The executive committee is 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 executive committee has reviewed the association's cash flow forecast for the year to 31 December 2008 and, in the light of this review and the current financial position, they are satisfied that the association has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the executive committee is primarily responsible for the financial affairs of the association, they are supported by the association's external auditors.

The external auditors are responsible for independently reviewing and reporting on the association's annual financial statements. The annual financial statements have been examined by the association's external auditors and their report is presented on page 22.

The annual financial statements set out on pages 24 to 32, which have been prepared on the going concern basis, were approved by the executive on 17 April 2008 and were signed on its behalf by:



Chairman



Executive Director

Forestry South Africa

Annual Financial Statements for the year ended 31 December 2007

Balance Sheet

Figures in Rand	Note(s)	2007	2006
Assets			
Non-Current Assets			
Property, plant and equipment	2	<u>1,162,933</u>	<u>1,194,053</u>
Current Assets			
Trade and other receivables	4	1,895,946	1,389,236
Cash and cash equivalents	5	<u>4,122,852</u>	<u>4,024,929</u>
		6,018,798	5,414,165
Total Assets		<u>7,181,731</u>	<u>6,608,218</u>
Equity and Liabilities			
Equity			
Accumulated funds		<u>7,010,051</u>	<u>6,141,739</u>
Liabilities			
Current Liabilities			
Trade and other payables	6	<u>171,680</u>	<u>466,479</u>
Total Equity and Liabilities		<u>7,181,731</u>	<u>6,608,218</u>

Income Statement

Figures in Rand	Note(s)	2007	2006
Revenue		15,545,553	12,989,856
Other income		619,704	718,365
Operating expenses		<u>(15,582,135)</u>	<u>(15,282,483)</u>
Operating profit (loss)	7	583,122	(1,574,262)
Investment revenue	8	285,198	243,902
Finance costs	9	(8)	(1,130)
Profit (loss) for the year		<u>868,312</u>	<u>(1,331,490)</u>

Statement of Changes in Equity

Figures in Rand	Accumulated funds	Total equity
Balance at 1 January 2006	7,473,229	7,473,229
Changes in equity		
Loss for the year	(1,331,490)	(1,331,490)
Total changes	<u>(1,331,490)</u>	<u>(1,331,490)</u>
Balance at 1 January 2007	6,141,739	6,141,739
Changes in equity		
Profit for the year	868,312	868,312
Total changes	<u>868,312</u>	<u>868,312</u>
Balance at 31 December 2007	<u>7,010,051</u>	<u>7,010,051</u>

Forestry South Africa
Annual Financial Statements for the year ended 31 December 2007
Cash Flow Statement

Figures in Rand	Note(s)	2007	2006
Cash flows from operating activities			
Cash receipts from customers		15,038,843	13,642,330
Cash paid to suppliers and employees		<u>(15,214,524)</u>	<u>(14,618,829)</u>
Cash used in operations	11	<u>(175,681)</u>	<u>(976,499)</u>
Interest income		285,198	243,902
Finance costs		<u>(8)</u>	<u>(1,130)</u>
Net cash from operating activities		<u>109,509</u>	<u>(733,727)</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	2	<u>(11,586)</u>	<u>(59,879)</u>
Cash flows from financing activities			
Finance lease payments		<u>-</u>	<u>(26,622)</u>
Total cash movement for the year		97,923	(820,228)
Cash at the beginning of the year		4,024,929	4,845,157
Total cash at end of the year	5	<u>4,122,852</u>	<u>4,024,929</u>

Forestry South Africa

Annual Financial Statements for the year ended 31 December 2007

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice, and the . The annual financial statements have been prepared on the historical cost basis, and incorporate the principal accounting policies set out below.

These accounting policies are consistent with the previous period.

1.1 Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits associated with the item will flow to the company; and
- the cost of the item can be measured reliably.

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

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment.

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

Depreciation is provided on all property, plant and equipment other than freehold land, to write down the cost, less residual value, by equal instalments over their useful lives as follows:

Item	Average useful life
Buildings	50 years
Furniture and fixtures	10 years
Motor vehicles	4 years
Office equipment	5 years
IT equipment	3 years

The residual value and the useful life of each asset are reviewed at each financial period-end.

The depreciation charge for each period is recognised in profit or loss unless it is included in the carrying amount of another asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.2 Tax

Current tax assets and liabilities

No provision has been made for taxation as the association is exempt in terms of Section 10(1)(d)(iv)(bb) of the Income Tax Act. Donations by or to the association are exempt from donations tax in terms of Section 56(1)(h) of the Income Tax Act.

1.3 Leases (continued)

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases – lessee

Finance leases are recognised as assets and liabilities in the balance sheet at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

1.4 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 paid vacation leave 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.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the company's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

1.5 Revenue

Members levies and subscriptions are recognised as income.

Forestry South Africa
Annual Financial Statements for the year ended 31 December 2007
Notes to the Annual Financial Statements

Figures in Rand 2007 2006

2. Property, plant and equipment

	2007			2006		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Land	240,000	-	240,000	240,000	-	240,000
Buildings	930,000	(93,000)	837,000	930,000	(74,400)	855,600
Furniture and fixtures	111,831	(41,714)	70,117	100,246	(30,721)	69,525
Motor vehicles	126,789	(126,788)	1	126,789	(126,788)	1
Office equipment	10,297	(5,686)	4,611	10,297	(3,221)	7,076
IT equipment	129,899	(118,695)	11,204	129,899	(108,048)	21,851
Total	1,548,816	(385,883)	1,162,933	1,537,231	(343,178)	1,194,053

Reconciliation of property, plant and equipment - 2007

	Opening Balance	Additions	Depreciation	Total
Land	240,000	-	-	240,000
Buildings	855,600	-	(18,600)	837,000
Furniture and fixtures	69,525	11,586	(10,994)	70,117
Motor vehicles	1	-	-	1
Office equipment	7,076	-	(2,465)	4,611
IT equipment	21,851	-	(10,647)	11,204
	1,194,053	11,586	(42,706)	1,162,933

Reconciliation of property, plant and equipment - 2006

	Opening Balance	Additions	Depreciation	Total
Land	240,000	-	-	240,000
Buildings	874,200	-	(18,600)	855,600
Furniture and fixtures	26,656	48,951	(6,082)	69,525
Motor vehicles	31,697	-	(31,696)	1
Office equipment	3,150	5,999	(2,073)	7,076
IT equipment	23,596	4,929	(6,674)	21,851
	1,199,299	59,879	(65,125)	1,194,053

Details of properties

Freehold property

Erf 13, Woodmead, Sandton		
- Purchase price: 2002	1,170,000	1,170,000

Forestry South Africa
Annual Financial Statements for the year ended 31 December 2007
Notes to the Annual Financial Statements

Figures in Rand	2007	2006
3. Retirement benefits		
Defined contribution plan		
It is the policy of the association to provide retirement benefits to all its employees. A defined contribution pension fund, all of which are subject to the Pensions Fund Act exist for this purpose.		
The association is under no obligation to cover any unfunded benefits.		
4. Trade and other receivables		
Trade receivables	1,875,727	1,385,685
Deposits	649	649
VAT	16,500	-
Other receivable	3,070	2,902
	<u>1,895,946</u>	<u>1,389,236</u>
5. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	12,681	11,970
Bank balances	1,363,869	1,176,518
Short-term deposits	2,746,302	2,836,441
	<u>4,122,852</u>	<u>4,024,929</u>
6. Trade and other payables		
Trade payables	8,155	4,150
VAT	-	153,856
Accrued leave pay	97,753	160,448
Accrued audit fees	21,800	20,000
Other accrued expenses	27,208	40,472
Other payables	16,764	87,553
	<u>171,680</u>	<u>466,479</u>
7. Operating profit (loss)		
Operating profit for the year is stated after accounting for the following:		
Operating lease charges		
Premises		
• Contractual amounts	<u>42,000</u>	<u>44,780</u>
Depreciation on property, plant and equipment	42,706	65,125
Employee costs	<u>2,107,550</u>	<u>1,934,304</u>

Forestry South Africa
Annual Financial Statements for the year ended 31 December 2007
Notes to the Annual Financial Statements

Figures in Rand	2007	2006
8. Investment revenue		
Interest revenue		
Bank	<u>285,198</u>	<u>243,902</u>
9. Finance costs		
Bank	<u>8</u>	<u>1,130</u>
10. Auditors' remuneration		
Fees	21,800	20,000
Adjustment for previous year	200	800
Tax and secretarial services	1,000	-
	<u>23,000</u>	<u>20,800</u>
11. Cash used in operations		
Profit (loss) before taxation	868,312	(1,331,490)
Adjustments for:		
Depreciation and amortisation	42,706	65,125
Interest received	(285,198)	(243,902)
Finance costs	8	1,130
Movements in provisions	-	58,057
Changes in working capital:		
Trade and other receivables	(506,710)	652,474
Trade and other payables	(294,799)	(177,893)
	<u>(175,681)</u>	<u>(976,499)</u>
12. Commitments		
Operating leases – as lessee (expense)		
Minimum lease payments due		
- within one year	190,152	88,626
- in second to fifth year inclusive	103,527	156,272
	<u>293,679</u>	<u>244,898</u>

Operating lease payments represent rentals payable by the association for certain of its office properties and office equipment. Leases are negotiated for an average term of five years and rentals are fixed for an average of five years. No contingent rent is payable.

Forestry South Africa
Annual Financial Statements for the year ended 31 December 2007
Detailed Income statement

Figures in Rand	Note(s)	2007	2006
Revenue		15,545,553	12,989,856
Other income			
Interest received	8	285,198	243,902
National certification initiative		-	43,158
Other income		414,952	616,807
Rental income		58,099	58,400
Sponsorship		146,653	-
		904,902	962,267
Expenses (Refer to page 32)		(15,582,135)	(15,282,483)
Operating profit (loss)	7	868,320	(1,330,360)
Finance costs	9	(8)	(1,130)
Profit (loss) for the year		868,312	(1,331,490)

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

Forestry South Africa
Annual Financial Statements for the year ended 31 December 2007
Notes to the Annual Financial Statements

Figures in Rand	2007	2006
Expenditure		
Industry expenses		
Environmental consultant	565,367	548,668
Human resources		
Bursaries for research personal	24,300	24,300
Saasveld	84,500	120,775
Travel funds	-	10,000
University of Stellenbosch	80,000	7,500
University of KwaZulu Natal	-	-
Image promotion	-	750
Research		
ICFR	7,588,267	7,188,703
Pretoria University (Pathology)	307,299	307,299
Pretoria University (Entomology)	269,711	269,711
SAIF	50,000	20,000
Sirex control programme	1,885,000	1,884,187
International Forestry Summer School	50,000	-
Water committee	431,561	401,927
	<u>11,336,005</u>	<u>10,783,820</u>
Operational expenses		
Accounting fees	-	10,100
Assessment rates and municipal charges	32,168	30,380
Auditors' remuneration	23,000	20,800
Bank charges	19,149	17,019
Bursaries	50,000	50,000
Computer expenses	62,886	19,395
Consulting fees	123,175	397,042
Depreciation	42,706	65,125
DFID project	256,972	534,473
Electricity and water	11,003	9,114
Entertainment	80,565	82,340
General expenses	60,712	50,166
Insurance	50,759	36,223
Lease rentals	42,000	44,780
Loss on disposal of assets	-	-
Meetings	126,647	63,492
Motor vehicle expenses	249,506	207,771
Postage	37,606	32,554
Photocopying, printing and stationery	172,323	173,650
RSC - levies	1,883	2,047
Repairs and maintenance - office	24,786	70,329
Salaries and staff costs	2,107,550	1,934,304
Security	7,622	7,184
Subscriptions	56,711	60,872
Telephone and fax	125,034	129,273
Travel - local	408,229	395,940
Travel - overseas	44,098	27,890
Web site expenses	29,040	26,400
	<u>4,246,130</u>	<u>4,498,663</u>
Total expenditure	<u>15,582,135</u>	<u>15,282,483</u>