Established in 1949, NCT Forestry Co-operative Limited is a marketing co-operative catering to the needs of private and independent timber growers. It is recognised as an international supplier of quality hardwood pulp wood chips, round-wood timber and is the largest forestry marketing organisation in southern Africa.
### MISSION
NCT assists its members to achieve their full forestry potential and thereby optimise financial results on a sustainable basis

### SERVICE VISION
To win and maintain the unreserved confidence and support of all its members, customers and employees

### STRATEGY
With the strength inherent in co-operative principles and using motivated staff and appropriate technology, the NCT mission will be achieved by:
- Marketing round wood timber to best advantage
- Technology transfer
- Facilitating the harvesting & transportation of timber
- Managing NCT’s plantations and beneficiation assets
- Representing members at appropriate industry and governmental organisations
- Facilitating group certification
- Investigating alternative value adding opportunities
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CT delivered another solid performance in 2015 despite a high level of global economic volatility, including tensions in the Eurozone, a decline in crude oil and commodity prices and an unpredictable South African economy.

Commodity prices weakened mainly due to China’s slow down during the year. Although the performance of the Chinese economy was disappointing, the overall Asian market for wood chips was reasonably balanced.

Unfortunately, the demand for biofuels, which could have been a potential market for NCT, did not emerge to the point of economic viability.

The oil price dropped from a high of US$62 to US$28 a barrel thereby resulting in a decrease in shipping costs – to NCT’s advantage – especially compared with countries like Vietnam and Australia which enjoy a geographic advantage to Asian markets.

ACHIEVEMENTS

It is pleasing to report that NCT made windfall profits. While international wood chip prices remained steady in 2015 compared to 2014, the exchange rate weakened substantially by 30%. As a result of these outcomes, NCT was able to raise prices substantially ahead of inflation and pay record retrospective payments in the form of bonuses and price enhancements. This was particularly rewarding in view of the growing drought that devastated other agricultural enterprises.

On top of this and assisted by a successful marketing effort, NCT was able to meet all volume and member supply targets.

The year was characterised by a number of key elements:

• Optimising cost and operational efficiencies of the wood chip mills particularly with NCT Richard Bay Wood Chips receiving considerable attention. The refurbishment of the new acquisition to operational standards progressed well.
• Improvements were made in the supply chain, load scheduling, communication and forecasting with members and guaranteed supply contract (GSC).
• Investigation into alternative and expanding access for members’ wood in renewable energy markets.
• Restructuring in terms of tax & operational efficiencies. Recommendations incorporating Tree Farming as a division were completed and other significant structure changes are in the pipeline.
• Focus on further enhancing services to members: a pilot stump-to-mill project was implemented in northern KwaZulu-Natal and the gall wasp resistant Corymbia henryi was rolled out to small growers who have been affected by this pest in their Eucalyptus grandis compartments.

COMPOSITION OF THE BOARD

Succession-planning is an important factor in the composition of both the board and management team. During 2015, I was elected chairman of NCT after Mr Harald Niebuhr stepped down. Mr Niebuhr served in that position with distinction during the past five years, and I am pleased still to have him on our board. Mr Ian Hill was elected vice-chairman.

Messrs Brian Aitken and Volly Keyser did not make themselves available for re-election; both served NCT admirably over many years, Mr Aitken for 15 years and Mr Keyser for 24 years. Mr Keyser also played a pivotal role as chairman of NCT Durban Wood Chips in its formative years while Mr Aitken chaired our risk and audit committee.

Messrs Ant Gibbs and Colin Hohls became new members on the board and both have added great value to our debates at board level.

APPRECIATION

During the past year, NCT has marketed 2.1 million tonnes of timber. This is no mean feat. On behalf of all members, I must express appreciation to the general manager, Mr Patrick Kime, and all staff of the NCT group for a job well done. Together with a healthy set of financial results, this would not have been possible without the clear direction and support given by the board. The support I have received from every member of the board has been a key factor to a successful year and I am deeply grateful to the team. It has made my job a pleasure to execute.

Lastly my appreciation to our members whom we serve, with the emphasis on serve. Our members are committed and loyal and deserve to be kept fully informed at all times of developments. Without them, needless to say, NCT would not exist. I have enjoyed being the link between members, the board and management. It has been most fulfilling to work with you all. Thank you for the honour.

PHILIP DAY  CHAIRMAN
In the past, strategies by NCT aimed at taking full ownership of its wood chipping facilities and investing in a significant reservoir of hardwood plantations. This ensured that the co-operative was in a very strong position to take advantage of the balanced market and weakening rand that prevailed during the year.

The result was a very successful year, and one which enabled NCT to introduce record pulpwood prices and retrospective payments to members. This could not have come at a better time, when most of the co-operative’s members’ other agricultural enterprises were severely affected by one of the worst droughts in memory.

Highlights

- NCT initiated new hardwood pulpwood prices that amounted to increases of more than 25% during the course of the year.
- The group’s farms made a record combined profit, before revaluation of biological assets, of R55 million.
- Volumes traded through NCT reached an eight-year high, amounting to 2.1 million tonnes. The co-operative succeeded in selling all targeted volumes that members signed up to supply in their annual guaranteed supply contracts.
- In an increasingly complex and demanding market place, strong market relationships were maintained with existing customers in Japan and India, and two shipments were supplied to a new customer in Taiwan.
• In line with a board policy to have hardwood reservoir farms closer to wood chip mills, the co-operative, together with a land-owning member, agreed to the sale of one NCT-owned and three leased farms in the Panbult area to members.

• Bolstered by supplies of NCT’s own farms together with one member in Swaziland, NCT increased its sales of pure *Eucalyptus smithii* to four shipments during the year.

• Following refurbishment work carried out on NCT Richards Bay Wood Chips (formerly Mondi SilvaCel) which was purchased in 2014, NCT produced and sold its first wood chips from this facility.

• In consultation with members, NCT improved its web-based load scheduling system and achieved greater transparency and improved turnaround times. Further improvements are planned.

• A modernised weighbridge system was installed at all NCT mills in order to maximise security and efficiencies.

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**MEMBER SERVICES**

The guaranteed supply contract continues to be the mainstay of NCT supply planning tools. The majority of pulpwood suppliers into NCT are now GSC holders, regularly submitting their annual guaranteed supply tonnage (GST) estimations.

A significant majority of GSC holders perform accurately against their GST year on year thereby contributing towards the GSCs significant value as a forecasting and supply planning mechanism.

The 2014/15 supply year (November to October) was marked with the first signs of a potentially serious and protracted drought but fortunately this did not impact materially on hardwood pulpwood supply.
Periodic low-wagon allocations to sidings, by Transnet Freight Rail, particularly in northern KwaZulu-Natal and southern Mpumalanga, caused member frustration and delayed timber supply to mills (mainly *Acacia mearnsii*). This however did not impact negatively on the overall supply against GST. A temporary closure of Sappi Saiccor in the south, towards the end of the supply year, caused some concern to Eucalyptus suppliers but also had minimal impact on the season’s supply.

**Adding value to small-growers**

Given NCT’s continued high focus on Broad-based Black Economic Empowerment (BBBEE) and development, the hardwood pulpwood supply by black members is testimony to significant progress being made in this arena.

During the 2014/15 supply year, this demographic group supplied 181 000 tonnes of *Eucalyptus* and 87 000 tonnes of *Acacia mearnsii* equating to over six wood chip vessels holding 42 000 tonnes each.

![Hardwood pulpwood](image)

**Hardwood pulpwood**

268 000 tonnes = 42 000 tonnes of chips in each ship

Contributing towards the continued allegiance displayed by small-scale growers towards NCT, is the programme of interactive workshops designed to be topical and informative. The flagship of the workshop series focused on key aspects of *Corymbia henryi* nursery propagation and coppice management. Further workshops, pertaining to fire protection and planting techniques, added more insight towards making a success of a small forestry enterprise.

Mill visits, chain-of-custody discussion and a load scheduling and road transport legislation workshop, provided small-scale growers with the essential tools to ensure the successful transfer of their valuable growing resources to mill, where its full financial value is unlocked. Other topics included Forest Stewardship Council® (FSC®) awareness and the benefits of NCT membership.

For the benefit of small growers, NCT operates two depots in the KwaZulu-Natal midlands that serve as a point of sale to those growers with logistical constraints and small loads.

The depots reflected a throughput of over 19 000 tonnes for the year and assisted 188 growers by connecting the rural KZN midlands with main road and rail networks to the coastal mills.
Representative eco-systems that are managed for their contribution to bio-diversity
LOGISTICS

>1 million tonnes (R160 million)

576 000 tonnes  
R116 million

258 000 tonnes  
R40 million

258 000 tonnes  
R5 million

Rail

NCT negotiated a 5.3% rail tariff increase on branch lines for the year beginning 1 April 2015 with main line business adjusted to 8.3%.

NCT continued to negotiate with Transnet and the KwaZulu-Natal Department of Transport towards improving the branch line services and attracting more volumes back onto rail.

Road

NCT maintained participation in an industry-wide initiative aimed at eradicating over-loading on roads and adhered to the new overloading legislation.

Performance based standard (PBS) vehicles, which carry an extra 20% payload, have formed part of NCT’s road brokerage fleet. These continue to reduce the direct cost to growers and the number of trips carried out on the country’s roads.

Scheduling system

NCT’s web-based, real-time scheduling system has improved queuing delays and off-loading times at wood chip mills. NCT continues to interact actively with members and transporters to enhance the system further.
The foundation on which NCT’s business is built is the timber resource, marketed through NCT, off of a private land-holding of over 320 000ha (21%) of afforested land in South Africa. Planted land owned or leased by NCT totals 18 000 ha.

NCT’s shareholding membership stands at 1 800 made up of members who own timber farms, growers who farm in tribal areas, and contractors.

To secure NCT’s marketing reliability, the organisation has procured a reservoir of hardwood farms over the past 20 years. These are a combination of owned farms and leases. All NCT farms are FSC-certified and provide a number of benefits:

- They enable NCT to perform against multi-year contracts in the event that there is a medium-term under-supply from members.
- They enable NCT to make short-term thrusts for specific shipments where there are shortages in supplies from members.
- They give customers confidence that NCT will be a reliable supplier.
- They boost the FSC portion of NCT’s wood chip sales.
- They boost the percentage of Eucalyptus smithii available to NCT. This is a preferred species to certain customers.
- They provide NCT with good economic and other information.
They are an increasingly valuable resource for tree breeding, research and technology transfer.
They improve the economy of scale of NCT and its wood chip mills.
They provide a base from which NCT can offer services, such as standing purchases and logistic support.
They provide a base from which NCT Tree Farming can manage member farms (currently 7 000 ha).
They provide profit.
They contribute towards the retention of tree farms in private hands.

**TREE FARMING**

NCT Tree Farming, a subsidiary of NCT Forestry, managed 31 contracts. These total a planted area of 25 000ha.

**Highlights**

- NCT leased/owned farms made a profit before tax and revaluation of R55 million.
- Cost-controlled efforts were assisted by lower than expected fuel cost increases.
- The agreed sale of the Panbult farms. This is in line with NCT’s policy to have future reservoirs closer to mills.
- A significant contribution towards *Eucalyptus smithii* supply to meet the market demand for this species.
- The purchase of a small hardwood farm in Melmoth totaling a planted area of 266ha.

![Graph showing NCT Farms and leases](image-url)
NCT leased/owned farms made a profit before tax and revaluation of R55 million.
The quality of inbound timber with regard to sizing and age profiles remains world class, and NCT continues to pass this onto its customers.
Another solid operational and financial performance was recorded at all NCT’s wood chip mills with export volumes consistent with the previous year at each site. A key milestone during the period was the start-up of NCT Richards Bay Wood Chips (formerly Mondi Silvacel) and the delivery of the first wood chips from this plant to customers.

From a mill perspective, the quality of inbound timber with regard to sizing and age profiles remains world class, and NCT continues to pass this onto its customers.

With all four mills under a single management structure, the extent of consolidation and standardisation continues in many areas, with benchmarking of operational efficiencies, cost controls, processes and procedures now the norm.

The focus for the new financial year will be for the Richards Bay facility to operate close to capacity with rebuilt log decks and new log cranes. The sales and marketing team will explore the possibilities of South African plantations being a capable and sustainable source of woody biomass material, thus further diversifying NCT’s market arena.

Total exported tonnes from the Richards Bay complex again exceeded the one million tonne mark. It also featured the sale of two Eucalyptus vessels to a new customer in Taiwan. The diversity of customers Richards Bay services remains a strategic strength for NCT.

NCT Durban Wood Chip export tonnes increased to 550 000 tonnes, a highlight being the revised vessel loading technique, allowing for a more efficient vessel capacity utilisation, increasing the loaded tonnes on each vessel, and improving key customer’s freight costs per tonne.
There were significant increases in sales recently, most notably in the *Acacia mearnsii* arena. However, it is worthy of mention that two *Eucalyptus* vessels were loaded in the first week of March 2016 due to vessel delays, and not in the 2015 financial year.

PESTS and DISEASES

Damage to forestry plantations caused by pests and diseases has increased significantly over the past 10 years and it is likely that this trend will continue. This is a global problem driven largely by an increased movement of people and products, and climate change.

During the past decade, the Tree Protection Co-operative Programme (TPCP), a collaborative programme funded by industry and government, has developed impressive biological control capacity. The positive impact of this investment is being realised with a number of control agents being developed and released. Biological control and the deployment of material that is more tolerant to pests are the main management strategies to reduce the impacts of damage to plantations.

NCT supports various initiatives through the tree improvement programme to ensure that members have access to disease/pest tolerant planting stock. This is done through selection of species for planting or through breeding projects that select tolerant families or clones (hybrids).

Two new pests have been identified during the past year. The *destructans* leaf blight (*Tetratosphaeria destructans*) has been recorded on *Eucalyptus* hybrids in Zululand and the KwaZulu-Natal midlands. It is too early to predict the impacts of this pathogen on our plantations but it has caused serious damage in *Eucalyptus* plantations in Asia. A second new pest report was the discovery of a different type of the gall wasp (*Leptocybe invasa*). This may represent a new species of the wasp and could impact on the effectiveness of the biological control programme.
TREE IMPROVEMENT

NCT has supported the Institute for Commercial Forestry Research (ICFR) tree improvement programmes for over 30 years. This investment has resulted in the establishment of advanced generation seed orchards on NCT-owned farms. Many of these orchards are now producing improved seed which is sold to private nurseries to germinate seedlings for members.

In recent years, NCT has also funded the development of two breeding projects to improve the characteristics of *Eucalyptus badgensis*. These species have good pulping characteristics and have the potential to enhance the quality of wood chips that NCT markets.

The site niche for *Corymbia henryi* has been identified as warm temperate to sub-tropical regions of South Africa. This species has the added advantage of being able to perform on drought prone sites and of being an unsuitable host for the eucalypt gall wasp (*Leptocybe invasa*). *Eucalyptus badgensis* can be grown on higher elevation sites and shows good tolerance of frost and moderate snow events.

*Eucalyptus smithii* has become an important species for NCT and is highly sought after by a number of customers. NCT has invested in a joint breeding project with SAPPi Research to improve the species. One of the main limiting factors to expanding the area planted to this species is that it is susceptible to a root rot disease (*Phytophthora*). This project will focus on developing material that is more tolerant of the pathogen and thereby expand the area planted to *Eucalyptus smithii*.

The tree improvement programme has also focussed on ensuring that species are matched to site conditions and market requirements. This has resulted in changes in species planted on members’ farms over the past 15 years. The main shift has been the conversion of *Eucalyptus grandis* to higher density species that are more tolerant of some of the new pest introductions.

RESEARCH

NCT has developed strong research and development programmes with the ICFR and TPCP. The organisation has also established in-house capacity to ensure that research gains are translated into practice. This is done through field days, publications, direct extension services and making available improved genetic material to growers.

The co-operative has invested in a variety of research projects that include supporting the re-establishment and sustainable forest productivity programmes at the ICFR. These programmes focus on developing best forestry operating practices and ensuring that plantation management activities are implemented on a sustainable basis.
Volumes traded through NCT reached an eight-year high amounting to 2.1 million tonnes.
ACCREDITATION

Forest certification

FSC-certified timber remains an essential part of NCT’s marketing strategy. There are 76 certified plantations under NCT’s group schemes. The total certified area under timber is approximately 77 000ha. A further 26 000ha is made up of representative eco-systems that are managed for their contribution to bio-diversity.

For the 2015 SGS audit of NCT’s group scheme, the group was divided into a main and SLIMF (Small & low impact managed forests) groups. The main group was issued with a number of minor corrective actions and the SLIMF group received a major corrective action relating to wetland delineation. This major was successfully closed out though the issue of identifying and delineating wetlands remains a risk to the group. NCT is working with the forestry industry, certification bodies and members to reach a balanced solution and agreement on the issue.

ISO standard

NCT successfully retained the ISO 9001:2008 standard certification during 2015. No corrective actions were raised. However, two opportunities for improvement were suggested that pertained to compliance with the Protection of Personal Information Act and to develop a separate register to handle members’ queries.

NCT will convert to the new ISO 9001:2015 standard by 2018. Although the new standard is radically different, NCT is well-positioned for a smooth transition. A major shift in the new ISO standard is the focus on assessing and addressing risk. NCT’s management team has implemented departmental risk

FSC® certified area (ha)
1999 – 2016
registers which, when ranked and consolidated, identifies a list of organisational risks. These risks and any associated action plans have been included in the senior management action agenda and overall NCT strategy, both of which are monitored and assessed bi-monthly.

**Broad-based black economic empowerment (BBBEE)**

NCT is committed to the BBBEE process having implemented social, procurement, enterprise and skills development programmes. However, the legislated system of accreditation does not fully address ownership in a co-operative model. Despite this obstacle, NCT achieved level 6 status.

NCT’s goal is to improve its BEE status by the next audit. To achieve this, NCT has invested in skills’ development, funding 16 students at various universities to conduct research in forestry projects. The research output will benefit NCT operations and members alike. In addition, small growers in Zululand have been subsidised to plant 120 ha to *Corymbia henryi*, a sought-after species that is resistant to pests prevalent in Zululand. NCT has also supported a further 36 rural communities through its social investment programme.
NCT encourages sustainable use of natural resources and the protection of wildlife through, amongst others, the Oribi Working Group. NCT plays an active role in encouraging members to preserve natural grassland habitats.
HUMAN RESOURCES

NCT continues to prioritise the development of its employees with a special focus placed on the overall well-being of its staff to maintain an efficient and productive working environment. NCT has 568 staff in its employ.

Employee development

NCT views the training and development of its staff to be of strategic importance and recognises that the sustainability of the business relies on its ability to build an ever-improving reserve of intellectual capital by developing, nurturing and retaining talent. Consistent with this, NCT focuses on skills and career planning to attract, develop and retain staff.

NCT’s annual performance development assessments have once again proved invaluable in identifying individual training requirements and highlighting individual career aspirations.

In addition to employee development, NCT funds an off-site student learnership programme which allows 29 unemployed female learners an opportunity to obtain a tertiary education in the form of a diploma.

NCT’s forestry programme through the Nelson Mandela Metropolitan University – George campus continues on a positive path. Three students are funded by NCT to study towards a national diploma in forestry.

Employment equity

NCT adheres to current government legislation in employment equity. The equity committee consists of 10 staff members from across all spheres of NCT. The employment equity workforce profile is carefully monitored with the 17th annual employment equity report submitted timeously.

Employee wellness

In an on-going attempt to promote a healthy and productive workforce, another successful wellness day was held. The day was hosted by NCT and Discovery Health with qualified health care professionals to assist staff members with individual health issues.
NCT conducts member and employee surveys biennially to measure service and organisational satisfaction levels.
NCT conducts member and employee surveys biennially to measure service and organisational satisfaction levels.

The surveys have indicated that members generally are satisfied with the marketing efforts and service provided by the co-operative. The 2015 results have been no different, showing a high average rating score of 88 points out of 100 for members. Employees too have shown positive results with a steady improvement over the years, with a high average rating score of 75 out 100 points in the latest study.

![Surveys 2004 to 2015](image-url)
NCT invests 1% of its pre-tax profit in community programmes
NCT’s approach to corporate social responsibility focuses on the impact it has on rural communities, conserving our natural heritage and reducing our environmental footprint.

<table>
<thead>
<tr>
<th>Responsible forestry</th>
<th>Communities</th>
<th>Conservation</th>
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<tbody>
<tr>
<td>NCT subscribes to the following principles to manage impact on the environment:</td>
<td>NCT invests 1% of its pre-tax profit in community programmes that focuses on:</td>
<td>NCT encourages sustainable use of natural resources &amp; the protection of wildlife through:</td>
</tr>
<tr>
<td>• Encourages land owners to set aside conservation areas. 27% of NCT-owned land is managed as representative ecosystems.</td>
<td>• Literacy and education with attention to early childhood development;</td>
<td>• The Oribi Working Group in protecting the endangered South African oribi antelope. NCT plays an active role in encouraging members to preserve natural grassland habitats.</td>
</tr>
<tr>
<td>• Supports R&amp;D to optimise the use of resources on a sustainable basis and gain a better understanding of the impact of plantation forestry on the natural environment.</td>
<td>• Welfare of the most vulnerable especially orphans and HIV infected children.</td>
<td>• Improving capacity of communities and private farmers to manage their land sustainably with a view to promoting biodiversity and ecosystem management. This includes improving plantation management and enterprise development. Partners are the SA National Biodiversity Institute &amp; the Global Environmental Fund.</td>
</tr>
<tr>
<td>• Promotes environmentally-friendly practices to members &amp; staff through its Green policy.</td>
<td>• Special needs equipment for the physically- and mentally-challenged.</td>
<td></td>
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<tr>
<td>• Offers forest certification schemes to members to ensure that good forestry practices are implemented.</td>
<td>• Food security with the establishment of vegetable gardens.</td>
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Thanks to a focussed board, professional staff and a loyal membership, NCT has shown continued growth and record performance this year. Members have reason to face the future with optimism.

PATRICK KIME \textit{GENERAL MANAGER}