TIMBER PLANTATION MANAGEMENT

Within the NCT group, farm management is carried out by NCT Tree Farming, a division of NCT Forestry Agricultural Co-operative Ltd.

NCT Tree Farming has a flexible approach in its arrangements with clients. We currently have 24 farm management contracts and a timber area (planted and unplanted) of approximately 39 010.5 hectares. It is important to note that NCT's primary goal in managing farms is not for profit, but to maintain its strong base of independent timber growers.

The salient points of our typical management contract are as follows:

1. NCT supplies a total management package, which includes the handling of all forestry operations, financial services, administration, marketing, and the employment of suitable staff. More details of these services are listed in Appendix 1.

2. The contracts are controlled by a management committee consisting of both parties. This committee will meet as often as required.

3. <u>Management fee structure</u>
   Normally our management contracts have a two-tiered structure to them. We are however flexible to a certain degree in structuring each fee arrangement to suit the needs of potential customers. The following are the standard terms of contract:

   (a) A management fee is payable to NCT Tree Farming to cover the following:
   - Head Office costs in providing forestry expertise, financial analysis and administration costs related to the contract are covered by this management fee.
   - The local costs of having an area forester, including salary, vehicle costs, housing, office, office staff etc. are charged to those schemes managed by the forester in his area.
   - All fees are apportioned on a hectare basis.

   (b) As a profit incentive, NCT Tree Farming participates in profits limited to the sum of 5% of farm profits after deduction of the abovementioned costs, excluding interest received or paid.

4. All costs relating to the day-to-day running of the plantation are for the contract account. These costs, which would only be incurred with the clients' approval of a budget, typically include:
   - Labour costs
   - Material (fertiliser, seedlings, herbicides)
   - Contractor costs (harvesting, etc.)
   - Insurance
   - Machine costs
   - Administration

5. NCT Tree Farming maintains a separate bank account in your name. All business transacts through this account.

6. All timber marketing is done through NCT Forestry Agricultural Co-operative Limited, with the aim of maximising profits to the scheme.

7. The assets and liabilities of the contract belong to the client at all times.

8. Either party may cancel the management arrangement at any time, giving a notice period, which is agreed at the start of the contract.

TIMBER PLANTATION MANAGEMENT

SUMMARY OF BENEFITS DERIVED FROM ENTERING A MANAGEMENT CONTRACT WITH NCT TREE FARMING

1. Technical and forestry expertise accessed through having a forester on the ground, access to a pool of qualified estate managers at NCT Tree Farming and to NCT Forestry Agricultural Co-operative Limited's technical knowledge, at a cost less than that of employing a farm manager.

2. Increased market for timber as order allocations to plantations managed by NCT Tree Farming are pooled and in the event of one farm is unable to supply in any given month, allocated orders become available to other farms.

3. Synergies between timber plantations managed in the area are achieved through the leasing of machinery, secondment of labour and increased purchasing power.

4. <u>Plantation certification</u> - 90% of our farms are already FSC® certified (Forest Stewardship Council®), and accordingly receive preferential order allocations and currently a R38/t bonus. The farms that are not FSC certified are PEFC certified (Programme for the Endorsement of Forest Certification).

5. Any labour disputes and negotiations are managed by NCT Tree Farming and NCT HR Department.

6. Insurance: Although insuring of timber remains the owner's responsibility, NCT Tree Farming, assists with timber valuations and obtaining quotes and can procure favorable rates due to the business we provide our insurers.

7. Long term planning, tax and strategic advice is available as part of the contract.

8. Costing analysis by genus and activity.

Please do not hesitate to contact us for further information.

JACOB KOTZÉ
GENERAL MANAGER
NCT Tree Farming Division

Tel: +27 (0) 33 8978509
Cell: +27 (0) 83 642 9044

SECRETARY
Lyn Cameron
Tel: +27 (0) 33 8978556

MANAGEMENT PACKAGE

Appendix 1

1. Forestry
    - All silviculture, harvesting, care, protection, and maintenance of the forestry areas.
    - Short and long-term planning with a view to ensuring an optimum long term sustained income from the plantations, including production and updating of plantation maps.
    - Procurement of the best contract prices for silviculture, harvesting, loading, short-haul, long-haul and railage of timber to markets.
    - Exposure to technological developments and research programs such as clonal forestry developments.
    - FSC certification and maintenance of the accreditation status.

2. Financial
    - Timber farming feasibility studies.
    - Cash flow projections.
    - Tax projections.
    - Budget preparation.
    - Preparation of detailed monthly management accounts, including crop analysis.
    - Preparation of working papers for audit purposes.

3. Administration
    - Contract Management
    - Debtors, creditors, and bank account administration.
    - Generation of invoices, payment of accounts, etc.
    - VAT returns completed and submitted.
    - Other statutory returns, i.e. PAYE, etc.
    - Cost allocation and maintenance of general ledger systems.

4. Marketing
    - All timber is sold through NCT Forestry Agricultural Co-operative Limited at the best prices possible.

5. Personnel
    - Management and Accounting staff are employed by NCT.
    - Any disputes and negotiations are managed by NCT.