

PEFC UK ANNUAL REPORT

2011



PEFC™

PEFC /16-01-01

CONTENTS

CHAIRMAN'S REPORT	1
MARKET OUTREACH	2
PUBLIC AFFAIRS	4
GOVERNMENT PROCUREMENT	5
PEFC INTERNATIONAL	6
GROWTH OF FOREST CERTIFICATION AND CHAIN OF CUSTODY	7
BOARD OF DIRECTORS	8
ACCOUNTS	10
NEW PEFC STANDARDS	13



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Programme for the Endorsement of
Forestry Certification schemes

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BOARD OF DIRECTORS

Peter Latham *Chairman*

Ross Bradshaw

Julia Griffin

Hugh Miller

John Sanderson

Rob Shaw

Mark Weatherbed

see page 8 for details

Registered in Scotland: Number 209443

CHAIRMAN'S REPORT

PETER LATHAM, CHAIRMAN, PEFC UK

Welcome to the 2011 Annual Report. Although the prevailing economic climate remains challenging, the PEFC UK team continues to work hard to raise the organisation's profile and grow market demand for certified timber and paper products.

November saw the UK team head off to warmer climes to join the rest of the PEFC family in Rio de Janeiro for its General Assembly. The occasion provided us with an opportunity to take stock of where we are and to address the challenges of the future. PEFC International was able to report that the certified forest area had grown by a healthy seven percent. Newly certified areas in Malaysia, Belarus, Russia, UK and Estonia now bring the global PEFC total to 230 million hectares.

PEFC is poised to contribute to a further expansion in supply over the coming years. It is investing resources to increase the certified forest area in Russia, and more countries may potentially contribute to the total supply if the ongoing assessments of the national forest certification systems in Uruguay and Latvia demonstrate compliance with PEFC's Sustainability Benchmarks. We hope that new member countries will also eventually provide more PEFC-certified material. Argentina became the newest addition to the PEFC family at the General Assembly and the China Forest Certification Council expressed its intention to join PEFC, advising that it will submit a formal application in 2011.

A revision process arising from the 2009 Strategic Review also concluded in Rio when Members approved a new Forest Management Standard. Representatives from forest owners, environmental groups, trade unions, indigenous people, industry and the scientific community had been involved in the lengthy revision process. However, the revised Standard remains firmly rooted in globally recognised, intergovernmental, multi-stakeholder processes and guidelines, with additional

and modified requirements developed in response to changing stakeholder expectations.

Additionally, changes to the international chain of custody standard means that PEFC is the first global certification system to require compliance with social criteria throughout the supply chain. These social requirements aim to provide an additional layer of confidence, that rights of workers in companies along the supply chain have been respected.

January saw the publication of the results of the latest bi-annual CPET (Central Point of Expertise on Timber) review. Compliance with the UK government's timber procurement policy is mainly demonstrated by certification to either the FSC or PEFC schemes. New criteria were introduced covering social issues, forest conversion and national implementation. CPET concluded that both FSC and PEFC continue to deliver evidence of sustainability in compliance with the Government's timber policy and that both schemes have made improvements since the last assessment in 2008.

It has also been another busy year on the marketing front. Our marketing team continues to raise PEFC's profile across key industry sectors to ensure that we add value, both to PEFC-certified products and to companies trading in them. PEFC brand recognition is increasing rapidly with even Government Bills and Hansard now carrying the logo in order to provide assurances of responsible paper sourcing.

I would like to record my appreciation to the Board for time they have devoted to our affairs over the past year. I would also

like to thank the Finnish Forest Foundation for their continued support – we simply could not have achieved what we have without this generous funding. Thanks also to Heritage Envelopes and Williams Lea for supplying us with PEFC certified paper – every penny we save on stationery and printing enables us to devote more of our resources to growing the market for PEFC-certified products to reward those who have invested in responsible forest management and chain of custody. Thanks are also due to Elite Office Furniture for their generous donation of PEFC-certified office furniture for our new Sheffield office.

Finally, I would like to thank the PEFC UK team of Alun Watkins, Hilary Khawam and Tracey Reeve who have worked so hard to take the organisation forward.



Peter Latham

MARKET OUTREACH

In order to grow recognition of the PEFC brand and add value to companies who have invested in PEFC chain of custody, market outreach continues to be a priority for PEFC in the UK. This year has been another busy one for the PEFC team on the communications and marketing front. The following are some of the highlights of the events, seminars and trade shows that PEFC has attended in 2010-11.

FORESTRY AND CONSTRUCTION

PEFC Sponsors 'RFS Excellence in Forestry' Award

As part of its 2011 Year of the Forest activities, PEFC UK has sponsored the Royal Forestry Society (RFS) Community Forestry Award – one of four awards dedicated to recognising well-managed woodlands in the UK. The Community Forestry Award is for projects involving community woodlands and forests which have been established and managed in a way that is sustainable and beneficial to the landscape, the local people, biodiversity and the economy.

The competition aims to recognise and promote wise management of trees and woods and is travelling England, Wales and Northern Ireland in a seven year rotation. Forestry has a great role to play in this country – benefitting local communities and providing owners with a truly environmentally-friendly crop.

Timber in Construction Award

Together with Canada Wood, PEFC UK co-sponsored the 'Timber in Construction' prize at the Builder & Engineer awards last November. The winning company, Blue Forest, was a worthy winner for its Benenden Eco Classroom project. Blue Forest, based in East Sussex offers bespoke design and construction of inspirational, sustainable buildings and tree houses.

Constructed primarily from FSC or PEFC certified softwood timber, the structure sits harmoniously within the landscape and blends in naturally with the surrounding woodland. The school used the eco-classroom (pictured below) to provide a cost effective solution to extend its teaching space and judges it a positive step towards meeting the government's aims for 'Sustainable Schools'.



In Touch with Timber 2010

Last May, PEFC UK was one of the twenty five sponsors that participated in TRADA Technology's one-day continuous professional development seminar: In Touch with Timber 2010. The conference, which was held at The Queen Elizabeth II Conference Centre in London, aimed to inspire construction industry professionals to make the most of timber.

Close on 200 delegates, including architects, engineers, specifiers and other construction industry professionals, attended to listen to keynote speaker Andrew Waugh, Director, Waugh Thistleton Architects and learn more from a range of case studies include the Wood Wave roof system of the Richmond Oval and the award-winning Deal Pier & Café Bar.

This year the event is being replaced by a two-day show, Timber Expo, which will be held at the Ricoh Centre in Coventry on 27-28 September. PEFC has already committed to supporting this exciting new timber showcase and we look forward to meeting up with many of PEFC's timber sector stakeholders there.



Benenden Eco Classroom Photo courtesy of Blue Forest

TIMBER EXPO Ricoh Arena - Coventry
27 & 28 SEPTEMBER 2011
www.timber-expo.co.uk



New PEFC publications in 2010

PRINT AND PUBLISHING

Ecobuild 2011

March found the PEFC team at Ecobuild for the fourth consecutive year. The show, which this year moved from Earls Court to the ExCeL Exhibition Centre in London's Docklands, was bigger and better than ever. Despite a challenging economic climate, this year's event exceeded all expectations, delivering standing-room-only audiences at conference and seminar sessions, and provided exhibitors with a broad cross-section of visitors from around the world. Over 1,300 companies exhibited and more than 50,000 people visited over the course of the 3-day show.

The show provided an excellent opportunity to promote the benefits of PEFC-certified timber to a constant flow of visitors from around the world. It was considered such a success that we have already booked for next year.



The PEFC stand at Ecobuild 2011

Demand for PEFC certification amongst UK print buyers is rising rapidly. In the 2011 PrintWeek Environment Report responding to the question "When selecting a printer, what environmental accreditations are important to you?" 40% of print buyers said PEFC, a 10% increase from 2010. This survey confirms the growing demand for the PEFC logo on publications to demonstrate responsible paper sourcing.

IPEX 2010

May was a busy month for the PEFC team. In addition to flying the flag for certified timber at In Touch with Timber, we were also promoting the benefits of PEFC-certified paper at IPEX 2010 which was billed as "the largest English-speaking global technology event for print, publishing and media". Despite BA strikes and the uncertain economic climate, more than 50,000 visitors from 135 countries made their way to the NEC for the seven-day show which is held once every four years, with almost half of those attending coming from outside the UK.

Exhibiting in one of the 30 small exhibition pods in the Knowledge Centre area, the PEFC team were kept busy engaging with a steady stream of visitors from the print and publishing sectors keen to learn more about the benefits of using certified paper. PEFC Director, Ross Bradshaw also presented the PEFC programme to a full house in the Knowledge Centre theatre. This was the first time that PEFC UK had participated in the show but we are already looking forward to the 2014 event.

MediaPro 2010

In November, PEFC exhibited for the second year in a row at MediaPro. This show is aimed at those involved in the creation, production procurement and distribution of media and marketing communications.

Participation in this event provided PEFC with opportunities to engage with the creative sector and corporate print buyers to promote certified paper for their publications so that they can provide customers with assurances on responsible paper sourcing.

New Publications

Four new brochures were published in the past year (see above) and are all available for download from the PEFC UK website: www.pefc.co.uk. New brochures for consumers and the retail sector will follow later this year.

PUBLIC AFFAIRS OUTREACH

PEFC'S PUBLIC AFFAIRS CAMPAIGN

The UK's political environment has changed significantly since the last Annual Report. The 2010 General Election brought in a Coalition Government after Labour's 13 years in power. Building upon the work from the past two years, PEFC was in a prime position to successfully adapt to the political power change.

PEFC continues to work with Bellenden, its appointed public affairs agency, to deliver its public affairs campaign engagement and outreach. In 2010 and into the first quarter of 2011, PEFC continued its campaign programme with the UK Government and Parliament, while broadening its engagement to the devolved governments and strengthening its profile with the private sector.

In January the Government's Central Point of Expertise on Timber (CPET) announced (from its 2010 Review) that PEFC continues to meet its sustainability standards for public sector procurement. 2011 also launched the UN's International Year of the Forests and PEFC is eager to use this campaign's messages to promote responsible timber procurement to a wider audience. The remainder of 2011 is shaping up to be a very positive year for PEFC.

WESTMINSTER AND WHITEHALL

In 2010, PEFC met again with James Paice, Minister of State for Agriculture and Food in the Department for Food, Environment and Rural Affairs (Defra). PEFC raised key issues including the CPET Review, EU Timber Regulation and group schemes for certification. This meeting was a follow-up from the pre-General Election meeting where PEFC was invited to submit a policy paper. As a result of these meetings, PEFC continues to be a valued source of information and guidance for the Government's timber procurement policies.

Over the past year, PEFC has met with more parliamentary stakeholders including the Shadow Minister of State for Environment. The Shadow Minister was very supportive of PEFC and as a result tabled more than 20 Parliamentary Questions, including queries to every Government department about their timber sourcing policies and compliance.

In early 2011, PEFC met with Defra civil servants to discuss issues relating to the EU Timber Regulation and FLEGT.



Scottish Parliament



Welsh Assembly

DEVOLVED GOVERNMENTS

Engagement in Scotland and Wales has reaffirmed PEFC's profile with the devolved governments and has helped to raise concerns among key environmental spokespeople prior to the Welsh and Scottish elections in May 2011.

From these meetings, Assembly Members and Members of the Scottish Parliament tabled questions on the campaign's issues, demonstrating cross-party support for PEFC. During this engagement, PEFC also had the opportunity to submit a line for consideration in the parties' election manifestos.

MOVING FORWARD

The next few years will be a vital period for PEFC with the Scottish and Welsh elections taking place in May 2011 and the EU timber regulations coming into effect in March 2013. The Coalition Government has also declared a commitment to be the "Greenest Government ever" and has put forward a strong sustainability agenda.

Therefore, over the course of the next year, PEFC will continue to strengthen its relationships within both the political and industry circles to ensure certification and responsible timber procurement are both understood and properly implemented.



EU TIMBER REGULATION / FLEGT

GISELA CARR, POLICY ADVISOR AT DEFRA, PROVIDES AN UPDATE ON EU INITIATIVES TO STAMP OUT THE TRADE IN ILLEGAL TIMBER.

The EU government will introduce major new legislation to tackle the global trade in illegal timber. The EU Timber Regulation and the FLEGT Regulation underline the UK Government's continued commitment to tackle illegal logging and support responsible timber procurement.

EU TIMBER REGULATION

The Regulation, which will apply from 3rd March 2013, will make it an offence to first placing of illegally harvested timber or timber products, including many pulp and paper products, onto the EU market. Furthermore, operators who place timber or timber products on the market for the first time must put in place a due diligence system to mitigate the risk that it is illegal. This due diligence system must include:

- information about the supply of timber products, for example; species, quantity, country of harvest
- risk assessment to determine the risk of illegality
- a procedure to mitigate the risk of illegality if necessary.



Operators can either set up their own due diligence system or use one provided by a monitoring body. This is a body which helps operators comply with the Regulation by providing an established due diligence system which operators can pay to use. Certification schemes such as PEFC and FSC will be a key tool to help operators evaluate the risk of illegality. Criteria against which certification schemes can be assessed, will be established in due course.

Defra is leading the UK's implementation of the EU Timber Regulation and will be working with other EU Member States and the European Commission to develop additional legislation to clarify details of the Regulation, for example the criteria against which certification schemes can be assessed. Defra is keen to work with as many stakeholders as possible when implementing the Regulation and will shortly carry out a public consultation to seek views. For more information contact Gisela Carr - gisela.carr@defra.gsi.gov.uk

FLEGT UPDATE

EU action to tackle the trade in illegal timber is supported by the Forest Law Enforcement, Governance and Trade (FLEGT) Regulation, which establishes a licensing system between the EU and certain timber producing and processing countries. Agreements have already been signed with Ghana, the Republic of Congo and Cameroon, and negotiations are well underway with other countries, including Indonesia and Malaysia. FLEGT-licensed timber is expected to become available by the end of 2011 and will automatically comply with both the EU Timber Regulation and the UK Government Timber Procurement Policy, CPET (Central Point of Expertise on Timber) - www.cpet.org.uk.

BEN GUNNEBERG SECRETARY GENERAL, PEFC COUNCIL

As the first decade of the 21st century drew to a close, PEFC considered that it was an appropriate time to take a step back and take stock of everything the organisation has achieved since it was founded a little over ten years ago. We asked ourselves what the organisation has achieved in that time and reassuringly, the answer was, quite a lot.

Since its creation in 1999, PEFC has grown to become the world's largest forest certification organisation. Today, there are more than 230 million hectares of forest certified to the PEFC standard and this area continues to expand. A growing number of national certification schemes continue to seek PEFC endorsement. More and more companies are opting for PEFC Chain of Custody certification in order to provide their customers with assurances of responsible sourcing. The selection of products carrying the PEFC logo around the world is growing exponentially.

These are all significant achievements. However, like any other organisation, we

recognise that we cannot afford to rest on our laurels. This is particularly the case given the growing challenges forests face around the globe, including climate change and its related impacts, population growth, urbanisation, land-use conversion, increased trade and growing demand for wood and wood-based products.

Despite major strides in certification, only 9% of the world's forests have been certified and 90% of these are in Europe and North America. Similarly, despite some progress in alleviating poverty in the world, population growth means that in real terms, the number of people living below the poverty line remains high and poverty is a major cause of deforestation and illegal logging. This situation is further complicated in rapidly emerging economies where land tenure rights have been ill defined or may be weak or still evolving. Certification is one mechanism that offers potential to improve livelihoods, particularly in developing countries, and to help lift people out of poverty.

In the light of this, PEFC decided to update its Sustainability Benchmarks and core standards to clarify and, where necessary, strengthen existing requirements and to place greater emphasis on social issues. The result is a set of revised standards which were adopted at the 2010 General Assembly (below).



At the same time, PEFC chose to step up its efforts to increase demand for PEFC certification in countries where forest certification systems are new or are still being developed. This was reflected in our work programme over the past year. More information on these initiatives can be found in our 2010 Annual Review which can be downloaded from the PEFC International website – www.pefc.org

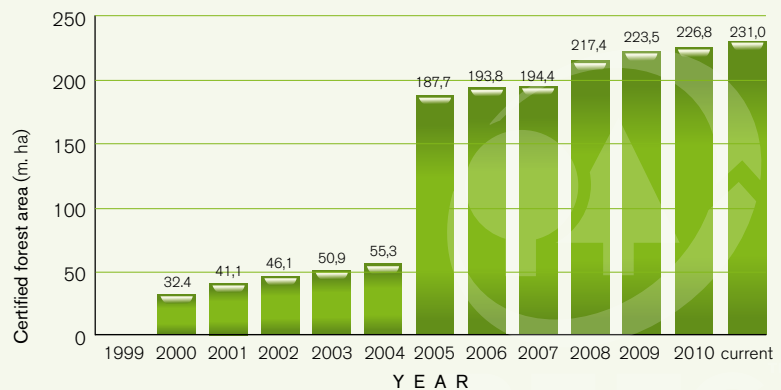
I would like to take this opportunity to thank all our stakeholders around the world for their continued support. PEFC is looking forward to collaborating with you further as the second decade of the 21st century gets under way.



GROWTH IN FOREST CERTIFICATION AND CHAIN OF CUSTODY

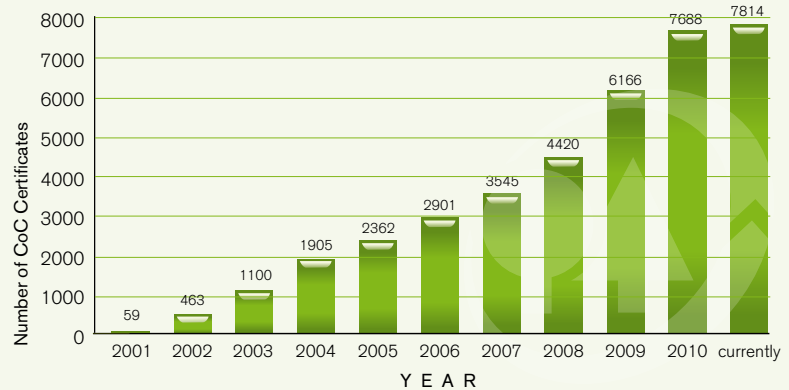
GLOBAL GROWTH IN PEFC-CERTIFIED FOREST AREA

Despite growth slowing in certified areas recently, 2010 saw newly certified areas in Malaysia, Belarus, Russia, UK and Estonia bringing the global PEFC certified hectareage to 230 million hectares.



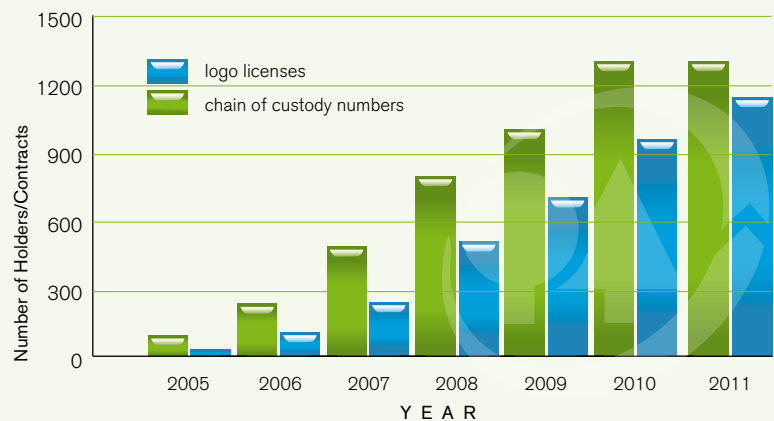
GLOBAL GROWTH IN CHAIN OF CUSTODY NUMBERS

Demand for PEFC chain of custody certification rose, growing by 27% in 2010. To date over 7,500 certificates have been issued, covering 10,000 companies around the world.



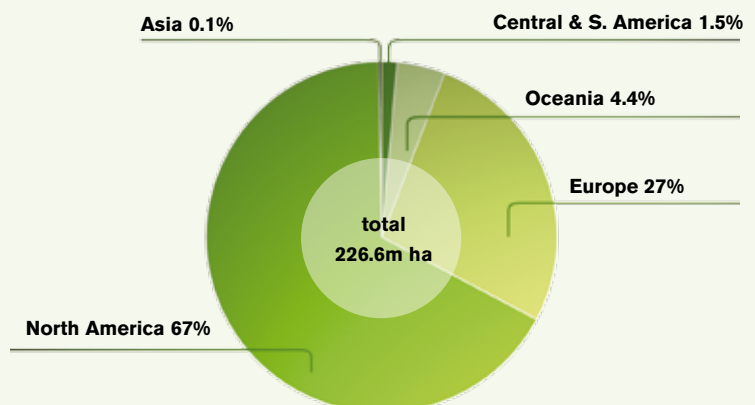
GROWTH IN DEMAND FOR CHAIN OF CUSTODY AND PEFC LOGO LICENSES IN THE UK

PEFC UK has not been immune from the effects of the global recession and as a result, chain of custody numbers have remained fairly static. PEFC UK has retained its second place position for the largest number of chain of custody certificates within the PEFC global family; accounting for more than 20% of the global total. However, demand for the PEFC logo is strong and the number of logo licenses issued grew by more than 10%.



BREAKDOWN OF CERTIFIED FOREST AREA BY CONTINENT

Currently only 9% of the global forest area is certified and the majority of this is in Europe and North America. The challenge for certification is to grow demand in areas such as Africa and Asia where the threat posed by deforestation is more acute.



THE BOARD OF DIRECTORS, PEFC UK

As a membership organisation, PEFC UK takes its governance responsibilities very seriously. One of the key objectives in our 2011-2014 Business Plan is to continue to improve the organisation's governance by ensuring that key stakeholder groups are engaged in PEFC UK's activities and represented on its Governing Board. At present, representatives from the paper and packaging, timber trading, forestry and retail sectors are members of the Board of Directors.

PETER LATHAM (CHAIRMAN)



Peter is Chairman of James Latham plc, one of Britain's oldest timber companies. Since the first James Latham began importing hardwoods into Liverpool in 1757, the company has developed into a leading importer and distributor of panel products, joinery quality softwood and hardwood and hardwood flooring. The company operates from nine sites in England and recently opened its first distribution centre in Scotland. Peter, is a former Chairman of the Forests Forever Committee of the Timber Trades Federation, and is a member of the Council of the Commonwealth Forestry Association.

ROSS BRADSHAW



Ross Bradshaw, Managing Director of TSP, a leading supplier of thinprint paper, has worked in the paper manufacturing industry for over twenty years. He is a member of the Paper Agents Association Environmental Committee and a Freeman of Stationers' Hall. Ross joined the PEFC UK Board in July 2006.

JULIA GRIFFIN



Julia Griffin is a member of B&Q's Social Responsibility team and her area of expertise is timber. She works with the commercial and quality assurance teams as well as suppliers to monitor timber and forest products sourced by the business to ensure they meet the requirements of B&Q's Timber Policy.

Julia is also responsible for reporting performance to the B&Q Board, the Kingfisher Board and the WWF UK Forest and Trade Network (FTN). Julia has been the timber expert in B&Q's Social Responsibility team for almost five years and has first-hand experience of the practicalities and challenges associated with implementing and adhering to a responsible timber sourcing policy.

HUGH MILLER



Hugh Miller graduated in forestry from the University of Aberdeen in 1964. For the next two decades he led research into forest biogeochemistry at the Macaulay Institute for Soil Research, during which time he published extensively and in 1981 was awarded the Scientific Achievement Award of the International Union of Forest Research Organizations. In 1984 he was appointed Professor and Head of the Department of Forestry in the University of Aberdeen, retiring in 2004. He is a Fellow of the Institute of Chartered Foresters and was President from 1994 to 1996. In 2007, the Institute awarded him its Medal. He was made a Fellow of the Royal Society of Edinburgh in 1985.

JOHN SANDERSON



John is Director, Global Environmental Market Support for UPM Kymmene, a global forest products group with core businesses in printing papers, speciality papers, label materials and wood products. John has worked exclusively for UPM since graduating from the University of Wales over twenty years ago with a degree in wood science and forestry.

Increasing environmental focus and concern from UPM's customers has led to an unprecedented increase in demand for environmental education, commitment and performance from suppliers. John's current role is designed to address this market interest head on by educating customers and end users about the industry's sustainability credentials.

ROB SHAW



Rob graduated from Aberdeen University in 1988 and joined Scottish Woodlands Ltd. In 1998 he helped achieve FSC Resource and Group Scheme Management status for the Company, a first within the UK. He has since implemented PEFC Forest Management and Chain of Custody.

As QESM Manager for the Company he is now responsible for a range of internal systems and accreditations. Between 1999 and 2002 he carried out international Certification Consultancy work in Latvia, and Slovakia. In 2007 he was appointed SEO & Contracts Director and oversees the Utility and Landscaping Division in addition to Certification and Safety issues.

MARK WEATHERBED



Mark's current role is European Head of Category – Paper & Envelopes for Williams Lea, the UK's largest print management company. He is responsible for all paper and envelope procurement, currently in excess of 100,000 tonnes per annum for the Williams Lea Group in the UK and Europe and for ensuring that corporate sustainability programmes are properly implemented throughout the Group. Prior to joining Williams Lea, Mark held a variety of senior positions within the print, paper and publishing industries.

AUDITED ACCOUNTS

Audited Accounts for year ending 31st July 2010

DIRECTORS

The directors shown below have held office during the whole of the period from 1 August 2009 to the date of this report.

H G Miller

P D L Latham

R N Bradshaw

M R Weatherbed

Other changes in directors holding office are as follows:

W B Walker - resigned

G H Skinner - resigned

J Bardsley - resigned

Mrs J Griffin - appointed

R Shaw - appointed

J A Sanderson – appointed

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS

The auditors, Miller McIntyre & Gellatly CA, will be proposed for re-appointment at the forthcoming Annual General Meeting.

This report has been prepared in accordance with the special provisions of Part 15 of the Companies Act 2006 relating to small companies.

The report was approved by the Board of Directors on 12th April 2011 and signed on its behalf by Peter Latham, Director and Chairman.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF PEFC UK LIMITED

We have audited the financial statements of PEFC UK Limited for the year ended 31 July 2010.

The financial reporting framework that has been applied in their preparation is applicable law and the Financial Reporting Standard for Smaller Entities (effective April 2008) (United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in a Report of the Auditors and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors, including "APB Ethical Standard - Provisions Available for Small Entities (Revised)", in the circumstances set out in note nine to the financial statements.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 July 2010 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements and the Report of the Directors in accordance with the small companies regime.

Derek Grant MA (Hons) CA (Senior Statutory Auditor) for and on behalf of Miller McIntyre & Gellatly CA, Statutory Auditor, Chapelshade House, 78-84 Bell Street, Dundee DD1 1RQ

12 April 2011

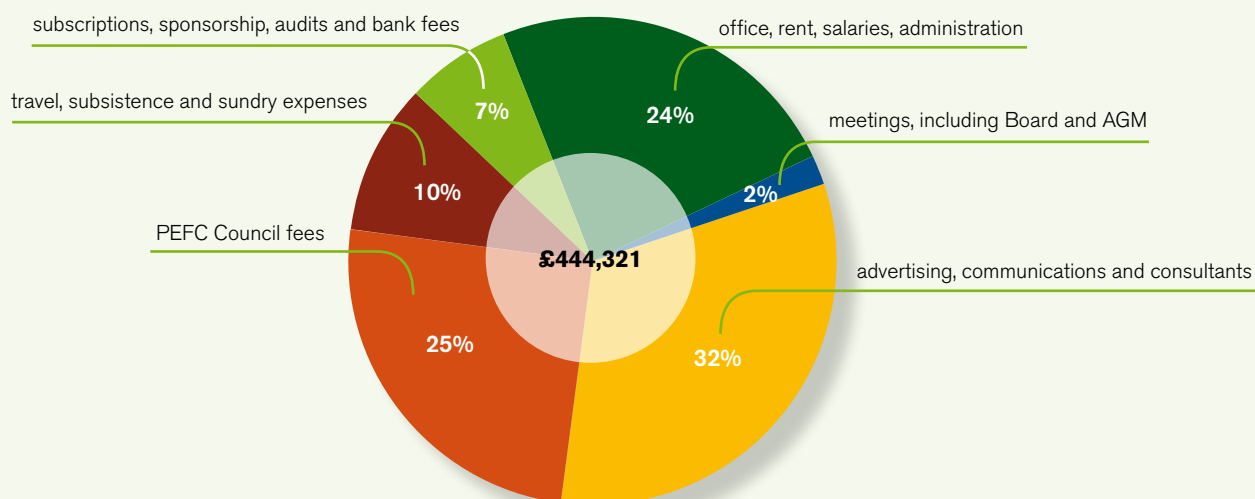
PEFC UK LIMITED PROFIT AND LOSS ACCOUNT

for the Year Ended 31 July 2010

	2010	2009
	£	£
TURNOVER	423,759	399,844
Administrative expenses	444,321	400,003
OPERATING LOSS	(20,562)	(159)
Interest receivable and similar income	420	832
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	(20,142)	673
Tax on profit/(loss) on ordinary activities	459	141
PROFIT/(LOSS) FOR THE FINANCIAL YEAR AFTER TAXATION	(20,601)	532

BREAKDOWN OF PEFC UK LTD EXPENDITURE

for the Year Ended 31 July 2010



NEW PEFC STANDARDS

PEFC Council has had a busy year updating and revising existing standards. Several standards have now been through the full revision and consultation process and were approved at the PEFC General Assembly in November 2010.

THE NEW STANDARDS ARE:

Previous Standard

Replaced by

Annex 4 Chain of Custody of forest based products – Requirements

PEFC ST 2002 : 2010 Chain of Custody of Forest Based Products – Requirements

PEFC ST 2001: 2008 PEFC Logo Usage Rules

PEFC ST 2001: 2008 PEFC Logo Usage Rules – Requirements – Second Edition

Annex 3 Basis for Certification Schemes and their Implementation

PEFC ST 1003 : 2010 Sustainable Forest Management – Requirements and PEFC ST 1002 : 2010 Group Forest Management Certification - Requirements

The Chain of Custody and Logo Usage standards will of course be of most interest to UK certified companies. Annex 4 was last revised in 2005 and the latest review enabled a number of changes to be made, mainly as improvements to the Standard, but also to simplify the text and make it easier to understand.

The new Standard and the amended logo use rules can be applied from 26th November 2010, with a one year transition period. This means that certified companies will definitely be assessed against the new Standard after 26th November 2011. All certification, re-certification and surveillance audits carried out after this date will be against the new chain of custody and logo usage requirements standards.

Some of the changes are quite subtle but nonetheless important. For example:

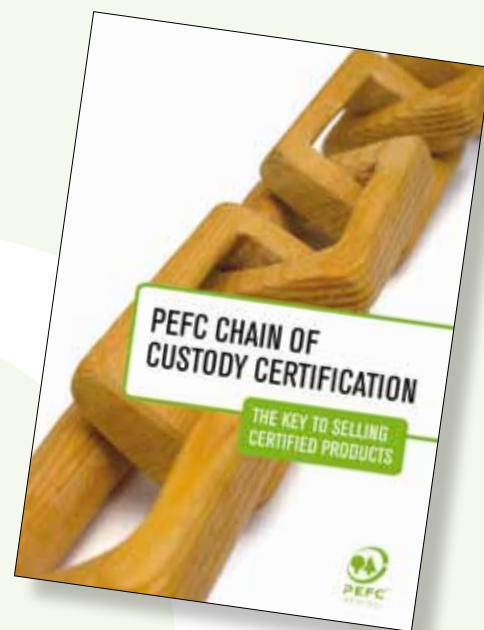
- The supplier delivery documentation must now state the name of the customer and have a specific claim of x% PEFC Certified

- The new Standard has also clarified the use of recycled materials and the Logo usage rules have changed to reflect this
- The Standard is also more prescriptive about procedures required to meet the criteria.

As for new additions to the Standard, revised procedures are required for dealing with complaints and sub-contracting. Perhaps the most notable addition however, occurs in Appendix 4 to the Standard. This introduces social issues for the first time into Chain of Custody audits.

Social issues were already included in the PEFC Forest Certification scheme so it was only natural that they would enter the manufacturing element at some point. Appendix 4 to the new Standard, which contains the social criteria, should not be an issue for UK companies as these requirements are covered by UK law and compliance should therefore be a formality.

These issues include basic labour rights along with health and safety. Companies will need to provide evidence of compliance to the certification bodies during their



audits or assessments. PEFC considers that social requirements will provide an additional layer of confidence to consumers and buyers, that elementary rights of workers in companies along the supply chain have been respected.

The appendices to the PEFC ST 2002 : 2010 also includes information on multi-site or group certification with documented restrictions on the size of group companies and due diligence information for avoidance of raw material from controversial sources. The due diligence section of the Standard will shortly undergo another full review so that it is compatible with new legislation designed to exclude illegal timber products from the EU. See *EU Timber Regulation* on page 5.

In addition to the new Chain of Custody Standard, a Guidance Document has been developed which will be available in June 2011. The guidance will assist in the implementation of and auditing against the Standard and will also include details of 'project certification' procedures.

PEFC ST 2001: 2008 (second edition) has also been updated to reflect the use of recycled product and the logo/label for recycled products. A second edition of the logo use toolkit has been released to reflect the revised standard. Compliance with both will not be required until certified companies have been assessed against PEFC ST 2002 : 2010.



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