



SAFCOL PRESENTATION TO Parliamentary Portfolio Committee on Public Enterprises



Mrs. Nomfanelo Magwentshu

11 February 2014





Nomfanelo Magwentshu

Board Chairperson



Nomkhita Mona

Group Chief Executive Officer



Francois de Villiers

Group Chief Operations Officer



Zoliswa Mashinini

Group Chief Financial Officer



Julia Mphafudi

SE: Human Capital Management and Transformation



- **Mandate, Vision, Mission and Values**
- **SAFCOL Group Structure**
- **Footprint in Africa**
- **Strategic Pillars**
- **Core Operations**
- **SAFCOL's Performance against Targets**
- **Transformation Charter Objectives**
- **Employment Equity**
- **Community Development**
- **Land Claims**
- **IFLOMA**
- **Key Risks and Challenges**
- **Requested Assistance from PC**
- **Future Outlook**

Mandate

To conduct forestry business which includes timber harvesting, timber processing and *related activities*, both domestically and internationally

VISION

Being a world-class, global business engaged in multi-functional forestry, revolutionising the integration of forests and communities.

MISSION

Our mission is driven by an unwavering commitment to facilitate the sustainable economic empowerment of communities and the alleviation of poverty through:

- “Implementing needs-driven interventions; and
- “ Becoming a partner of choice for land claimants.

CORE VALUES

- “Passionate about our forests, communities, customers and people;
- “Have a social and environmental conscience;
- “Trust founded on integrity and loyalty;
- “Equality, fairness and empowerment;
- “Respect for diversity; and
- “Focus on innovation and excellence

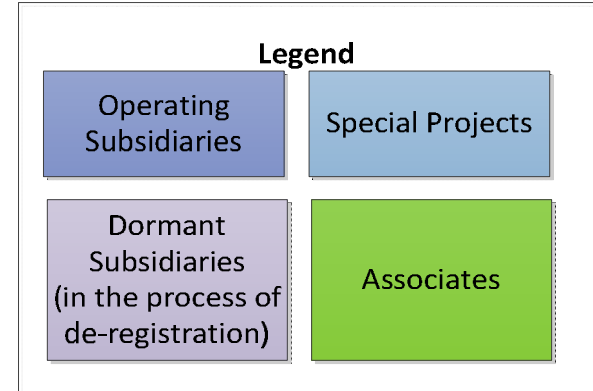


GROUP STRUCTURE

GROWTH THROUGH PARTNERSHIP

Republic of South Africa through the Minister of Public Enterprises

100%



100%



80%



* Under full control of Komatiland Forests (SOC) Ltd although it only holds 80% of the shares

100%

Lakenvlei Forest Lodge (SOC) Ltd

100%

Abacus Forestries (SOC) Ltd

100%

Kamhlabane Timber (SOC) Ltd

Seed Orchard

By Products

100%

Mountains to Oceans Forestry (SOC) Ltd

100%

Temba Timber (SOC) Ltd

25%

Siyahubeka Forests (Pty) Ltd

16%

Amathole Forestry Company (Pty) Ltd

17.58%

MTO Forestry (Pty) Ltd

17.4%

Singisi Forest Products (Pty) Ltd

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South Africa

“Spread over 187 320 ha – with 121 000 ha planted

“18 plantations



Mozambique


“Initial IFLOMA plantations cover 31 754 ha

“In partnership with Mozambican government (20% ownership)

“4 plantations

“Licensed for expansion by an additional 69 360 ha closer to the Beira port.



A wide-angle photograph of a vast pine plantation. The foreground is filled with young, vibrant green pine trees. In the middle ground, a dense forest of taller pine trees stretches across a valley. The background shows rolling hills and mountains under a cloudy sky, with some areas appearing to be cleared or recently logged.

**Manage 23 plantations, totaling
288 434 ha with expected
sustainable yield of close to
3 million m³ per annum**

SAFCOL STRATEGIC PILLARS

Horizontal Integration

Growth /
Expansion
(Government
owned
plantations,
Mozambique,
Other
regional
areas)

Vertical Integration

Sawmill
upgrades

Products for
exports

Strategic
partnerships

Rural Development

Agro forestry

Furniture
manufacturing

Timber framed
structures

Pole
Manufacturing

Green Energy

Biomass

Biofuel

Co-generation

Public
Private/
Partnerships

CORE OPERATIONS

GROWTH THROUGH PARTNERSHIP

Forestry



Processing





**Move 24,000 truck
loads of logs/annum**

SA - Timbadola

- “Owns 1 and rent 2 sawmills
- “Own mill currently operating at an intake volume of 130 000 m³ per annur (2013).
- “Upgrading the mill to increase capacity to 180 000 m³ per annum



Mozambique – IFLOMA

- “Messica sawmill
- “Refurbished and restarted September 2012





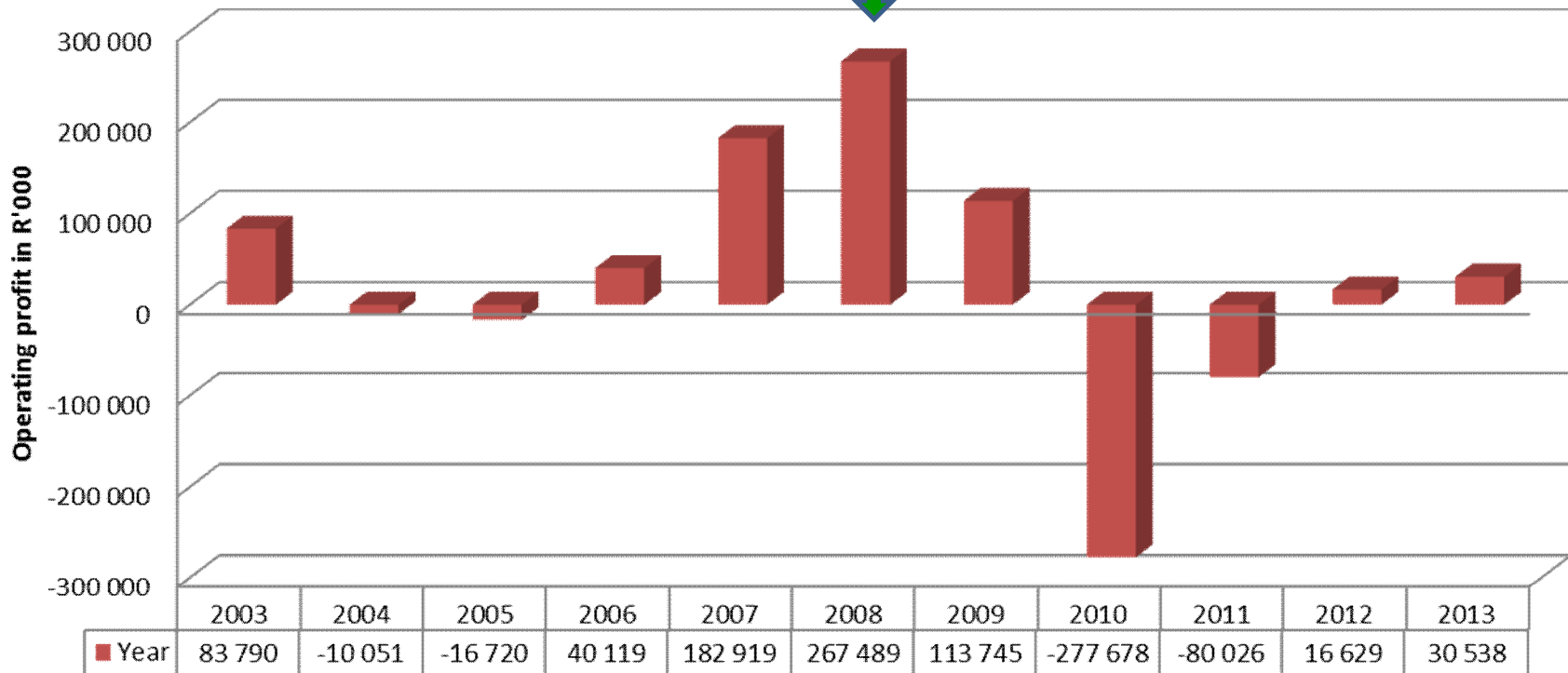
PERFORMANCE OVERVIEW

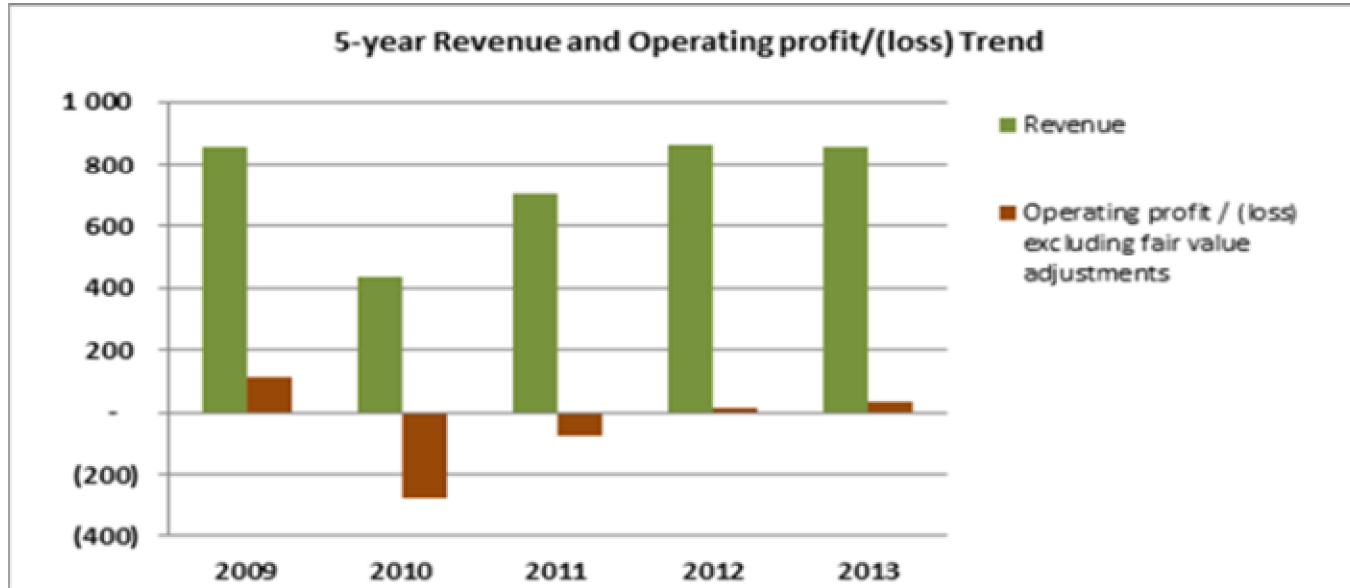
GROWTH THROUGH PARTNERSHIP

History: profit

Operating profit excluding fair value adjustment R'000

Highest operating profit in 2008 – R267m





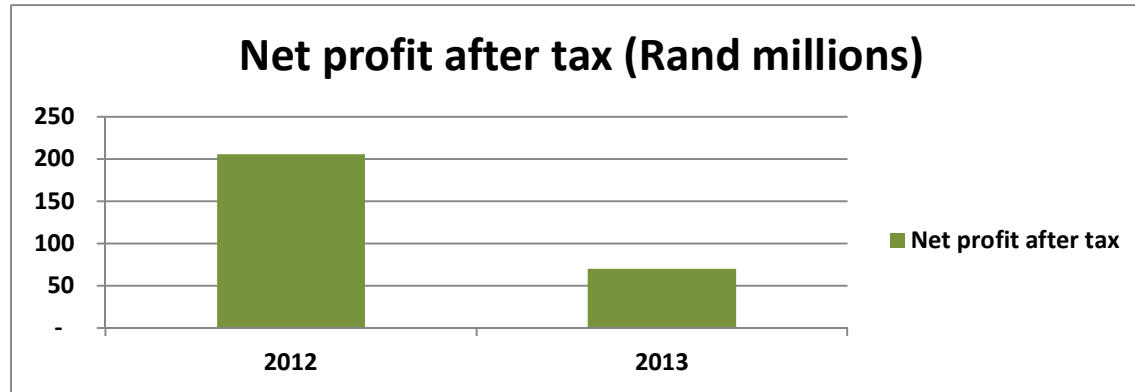
Revenue

“Upward trend since 2010 except FY2013 1% decline:

- “ Timber revenue improved by 9%
- “ Sawn timber revenue declined by 8%

“ Operating profit before fair value adjustments:

- Improvement against the yearly average performance of the past five financial years
- 84% YOY improvement
- profitability has not yet returned to FY2009 level



- “ Net profit of R70m was achieved (FY2012: R206 million profit).
- “ Higher profit was achieved in FY2012 due to:
 - “ Higher positive fair value adjustments;
 - “ higher turnover and higher dividends received;
 - “ lower costs; and
 - “ reduced deferred taxation
- “ The following significant items impacted the above results for FY2013:
 - “ Adverse impact of the strike in July 2012
 - “ R17 million land lease rental costs

The entity received a qualified audit opinion based on the following three areas:

- a. Biological assets:** Physical planted areas differed from the areas included in the biological asset valuation
- b. Reserves:** Capital profit reserves and retirement fund reserves classified as non-distributable rather than as distributable as would normally be the case under IFRS
- c. Abnormal losses:** VAT not calculated in terms of turnover-based method and accounted for as a one-line item (abnormal loss)

Emphasis of matter

Restatement of corresponding figures: Corresponding figures for 31 March 2012 restated as a result of an error discovered during 31 March 2013

Additional Matters: Audit findings relating to compliance are addressed to ensure no repeat findings

Shareholder Matrix 2013

Element of Strategic Intent	Key Performance Area	KPI	Achieved actuals	Annual Targets	Reason for variance
FINANCIAL AND COMMERCIAL SUSTAINABILITY	Financial Returns	EBITDA / Revenue	3%	6%	Lower earnings and lower revenue than anticipated
		Return on equity excluding fair value movements and translation gains (losses)	2%	2%	On target
	Creditworthiness	Gearing Ratio	1%	<50%	On target
		Cash Interest Cover	1	2	Not generating sufficient cash from operations to meet SAFCOL's obligations
	Working Capital Management	Current Ratio	3	≤4	On target
		Cash Ratio	1.2	1.5	Due to higher current receivable than anticipated

ANCE AGAINST COMPACT

GROWTH THROUGH PARTNERSHIP



Element of Strategic Intent	Key Performance Area	KPI	Achieved actuals	Annual Targets	Reason for variance
SUSTAINABLE FOREST MANAGEMENT	Area of Forest under Management	Total gross stocked area (SA) (ha)	121 276	121 350	On target, included a provision of 500ha for delineation and excisions
		IFLOMA	13 380	16 411	Mapping error can increase or decrease the area
		Temporarily unplanted area in South Africa	2.5%	<3%	On target
		IFLOMA	2980ha	1000ha	Unfavourable planting conditions
	Area of forest under management which is fully certified to FSC or PEFC standard	% of total forest area in South Africa (187 320ha)	100%	100%	On target
Processing	Timbadola	120 063 m ³	130 000m ³	Lost 20 days due to labour strike	

PERFORMANCE AGAINST COMPACT

GROWTH THROUGH PARTNERSHIP

Element of Strategic Intent	Key Performance Area	KPI	Achieved actuals	Annual Targets	Reason for Variance
ENHANCED DEVELOPMENTAL CONTRIBUTION	Achievement of charter transformation objectives	B-BBEE Contributor Level	2	2	On target
		Black people with disability	13	19	Resignations and failure to attract people in this category
		# black management	45	45	On target
		# black management females	14	16	To be filled during the 2013/14 financial year
		Training spend	3%	3%	On target
		SED: 1% of NPAT	1%	1%	On target
	Enterprise Development projects	new projects	4	2	Target exceeded
	Scarce and critical skills	Management trainees	12	12	On target
		Artisan trainees	4	4	On target
		Sector specific forestry workers	38	20	SETA funding enabled provision of training to more people
	Social compact implementation	No of community groupings with signed social compacts	13	13	On target



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ACHIEVED 63% OF SHAREHOLDER KPIs

GROWTH THROUGH PARTNERSHIP

an improvement to prior year's 44%

Contributors towards partial achievement of KPIs:

“Loss in the value of standing timber due to the strike and subsequent fires

“Loss of 20 working days due to labour unrest (Loss of sales)

“Adverse market conditions - Weak demand, customers not taking up allocated volumes

“IMPACT OF IFLOMA - Drain on SAFCOL financial resources

ion Charter Objectives

Element	Weighting	2012	2013
Management Control	15	14.63	15.00
Employment Equity	15	10.27	11.49
Skills Development	20	15.50	14.35
Preferential Procurement	20	15.99	19.92
Enterprise Development	15	14.82	14.49
Socio-Economic Development	15	18.00	18.00
Total	100	89.21	93.25

- SAFCOL has retained its level 2 B-BBEE rating
- The decline in skills development was due to the resignation of people with disabilities
- The decline in ED was due to lower volume sales of logs and saw-timber to SMME's

EMPLOYMENT EQUITY

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Programme	Male				Female				Total
	A	C	I	W	A	C	I	W	
Top Management	0	0	0	0	1	0	0	0	1
Senior Management	2	0	1	2	1	0	0	1	7
Professionally qualified	24	2	1	38	9	2	2	5	83
Skilled	57	1	0	22	34	5	0	17	136
Semi-skilled	610	1	1	4	55	7	2	20	700
Unskilled	601	0	0	0	190	0	0	0	792
TOTAL	1294	4	3	66	290	15	4	43	1719

Employee Training 2012/2013

Trainees	Male	Female	Total
African	782	216	998
White	66	39	105
Coloured	5	13	18
Indian	1	4	5
Disabled	8	3	11
Total	862	275	1 137



COMMUNITY DEVELOPMENT





R8 million spent on SED projects

“Developed 13 Social Compacts with communities surrounding and adjacent to plantations

“Implemented and monitored approximately 60 Socio-Economic Development projects

“Started five new co-operatives which created 55 jobs

“Over the past few years Enterprise Development initiatives created 360 jobs/opportunities

“251 unemployed youth participated in Skills Development Interventions
– 251 unemployed youth participated

“Bursaries - R694 000

PROGRESS ON LAND CLAIMS

Province	KwaZulu-Natal		Mpumalanga		Limpopo		Totals	
	2012	2013	2012	2013	2012	2013	2012	2013
Research	0	0	10	10	1	1	11	11
Gazetted	1	1	4	6	13	13	18	20
Approved for settlement	0	0	1	1	3	3	4	4
Settled and Transferred	0	0	1	1	0	0	0	1

- “ The Deputy Minister of Department of Public Enterprise has taken the initiative to assist SAFCOL in facilitating progress on the claims
- “ SAFCOL continues to engage the Land Claims Commission to develop a settlement model
- “ Social compacts signed with the land claimants

“ IFLOMA I:

- . Financial controls introduced
- . Engaging with the Mozambican business partner (IGEPE)

“ IFLOMA II expansion: Bankable feasibility study almost complete

Possible options:

- “ Hardwood chips for export
- “ Torrefied pellets
- “ Generation of electricity
- “ Independent investigation initiated by SAFCOL into allegations of misappropriation by employees
- “ Number of employees dismissed and criminal proceedings underway



“Unresolved land claims

“Incorrect Business Model

- Processing 25% vs Selling 75% raw materials

- Financial model based on biological sustainability rather than market

“Heavy reliance on the construction industry

“Finance/Funding: Required to explore new initiatives such as renewable energy projects

“Agility and flexibility to react to the changes in the external environment

“IFLOMA Investment

“The conversion in the pulp industry from Pine to Eucalyptus is still putting the log market under pressure and will continue to do so for years to come

- “ Progress on the further resolution of Land Claims
- “ SAFCOL survival in difficult market conditions
- “ Finalisation of the future role of SAFCOL
- “ Further investigation into the use of biomass in green energy initiatives
- “ Timbadola Sawmill upgrade feasibility study
- “ IFLOMA I turn around
- “ IFLOMA II feasibility study
- “ Community upliftment projects including timber framed schools, libraries, etc.

RAMED STRUCTURES

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- Good alternative to traditional building methods
- Quick to build
- Durable (Proven)
- Energy efficient
- Carbon sequestration/footprint





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ASSISTANCE FROM PC

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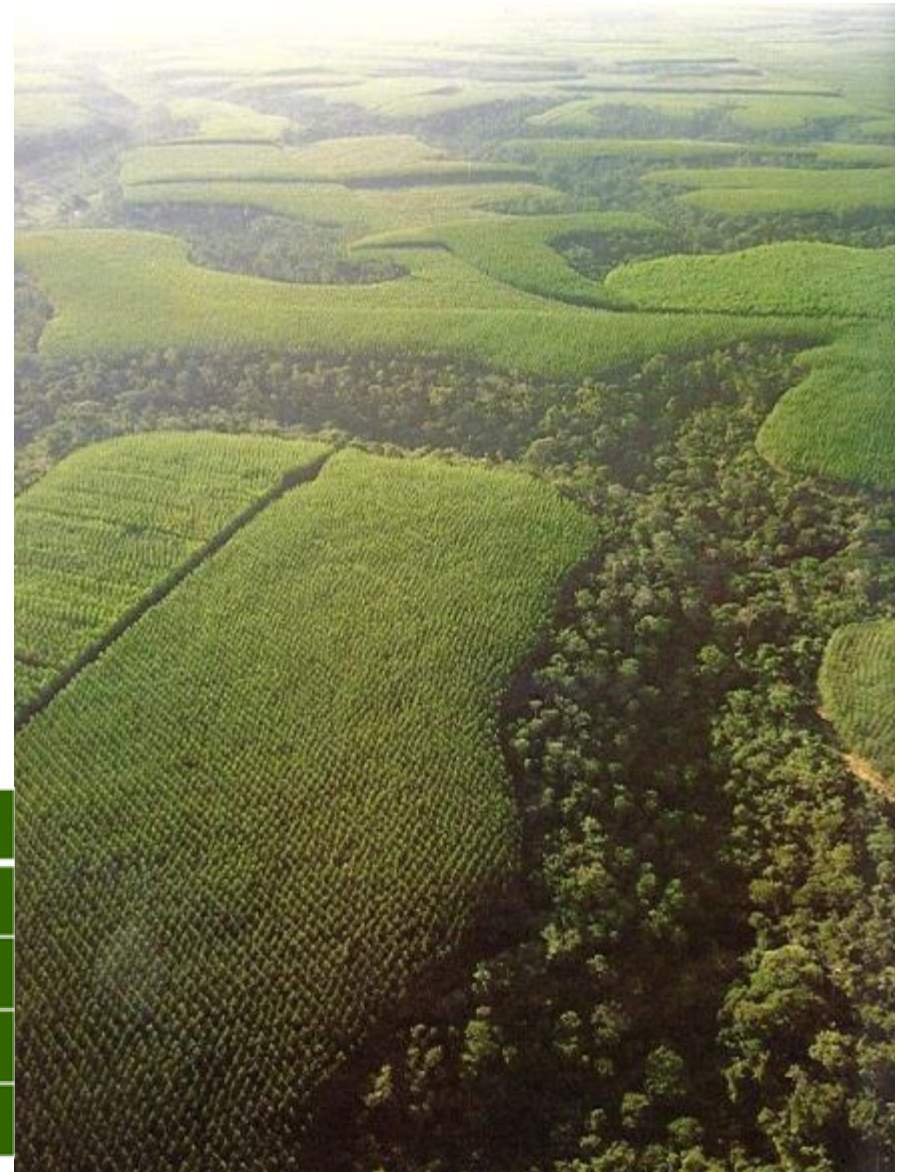
- “ Facilitation of land claims trilateral between DPE, DAFF and DRDLR
- “ Minority Shareholdings
- “ Market Related Land Rentals
- “ Leveraging government to be a strategic partner



- “ Fully FSC certified in SA
- “ Pre-certification completed in Mozambique
- “ Grow Pine trees on 30 year rotation
- “ Sustainable and looking at new growth opportunities

KLF lost 422 hectares during 2012/2013:

Reason	Area (ha)
Delineation	225
Re-mapping	161
Excisions	36
Total	422





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Thank you

