

SAFCOL

**Presentation to the Joint Meeting: Portfolio
Committee on Public Enterprises and Select
Committee on Public Enterprises and
Communication**

30 October 2019



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**INTEGRATED
REPORT**

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Looking Forward

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01

SAFCOL's Strategy and Business



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Mandate

•We have a dual mandate of commercial viability, as well as that of socio-economic development. Our commercial mandate is to conduct our commercial forestry business through the development in the long term of the forestry industry according to accepted commercial management practice. Our socio-economic development mandate is to show an effective return, to our shareholder, whilst we contribute to economic development mainly in the rural areas.

Mission

•To be a world leader in integrated forestry products business, powering sustainable growth and creating wealth through partnerships with communities

Vision

•We are dedicated to growing our business in the forestry value chain and maximising stakeholder value.
•We are driven by an unwavering commitment to facilitate sustainable economic development

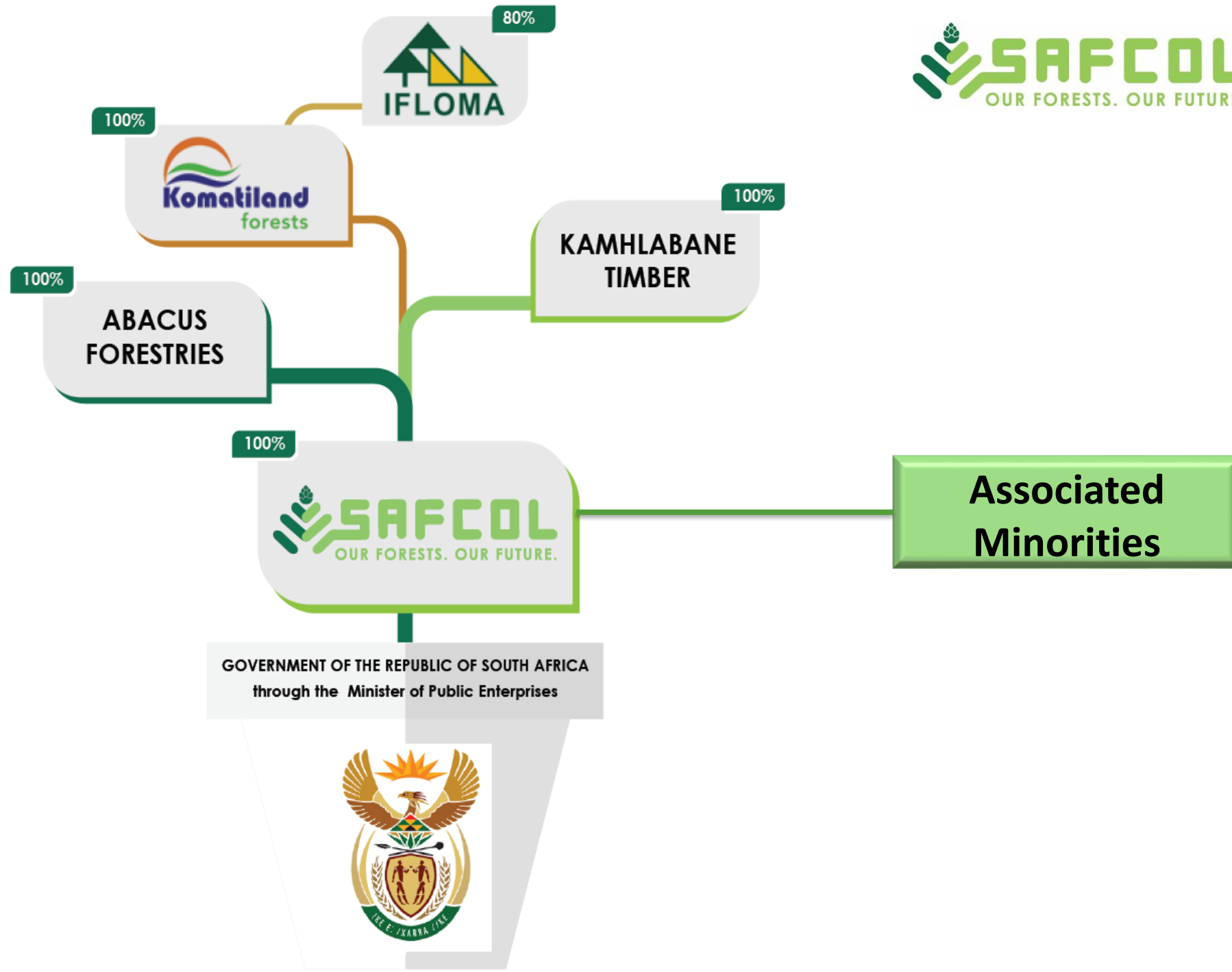
Values

•We are passionate about forests and the communities
•We respect and value our employees and customers
•We conduct ourselves with honesty and integrity, and
•We strive for excellence and innovation in our business.

SAFCOL’s Strategic Intent Statement from the Shareholder



BUSINESS STRUCTURE



ASSOCIATED MINORITIES COMPANIES



Post privatisation which occurred in 1999, SAFCOL holds minority equity stakes in the following four companies on behalf of communities:

Siyaqhubeka Forests (Pty) Ltd (25%) - Kwazulu Natal



Amathole Forestry Company (Pty) Ltd (16%) - Eastern Cape



Singisi Forest Products (Pty) Ltd (10.9%) - Eastern Cape



MTO Forestry (Pty) Ltd (17.58%) - Western Cape



Forestry Operations



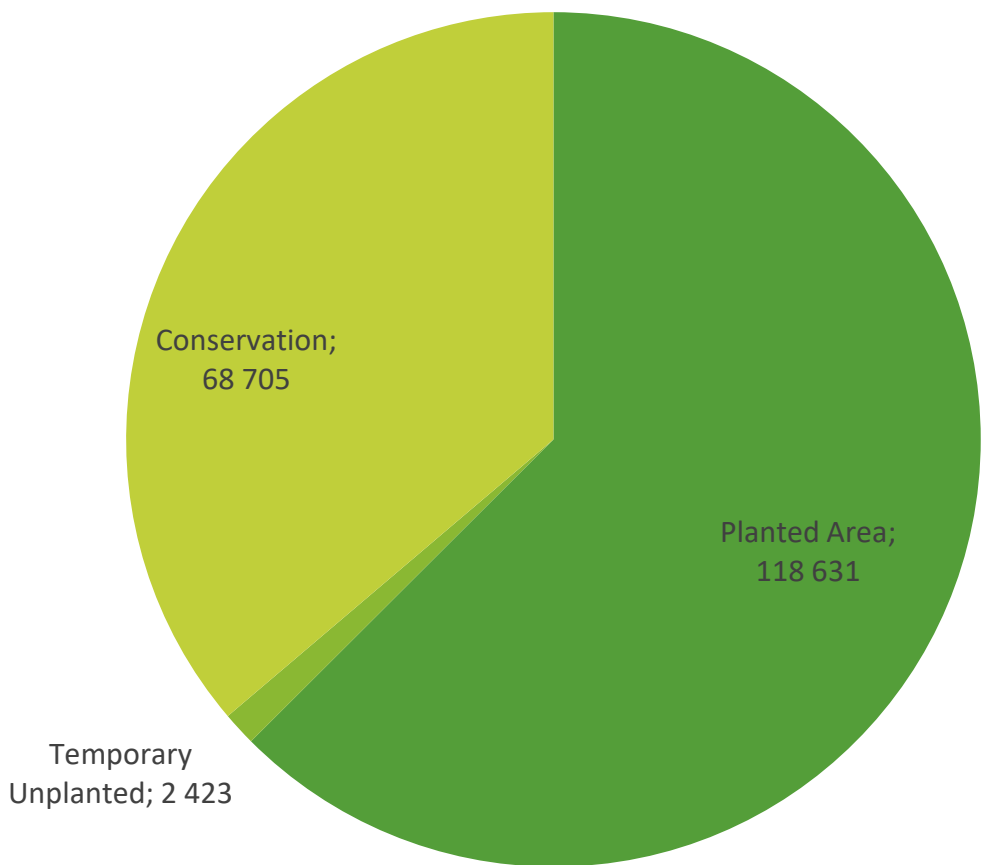
Sawmilling Operations



SAFCOL GROUP OPERATIONS (ha)

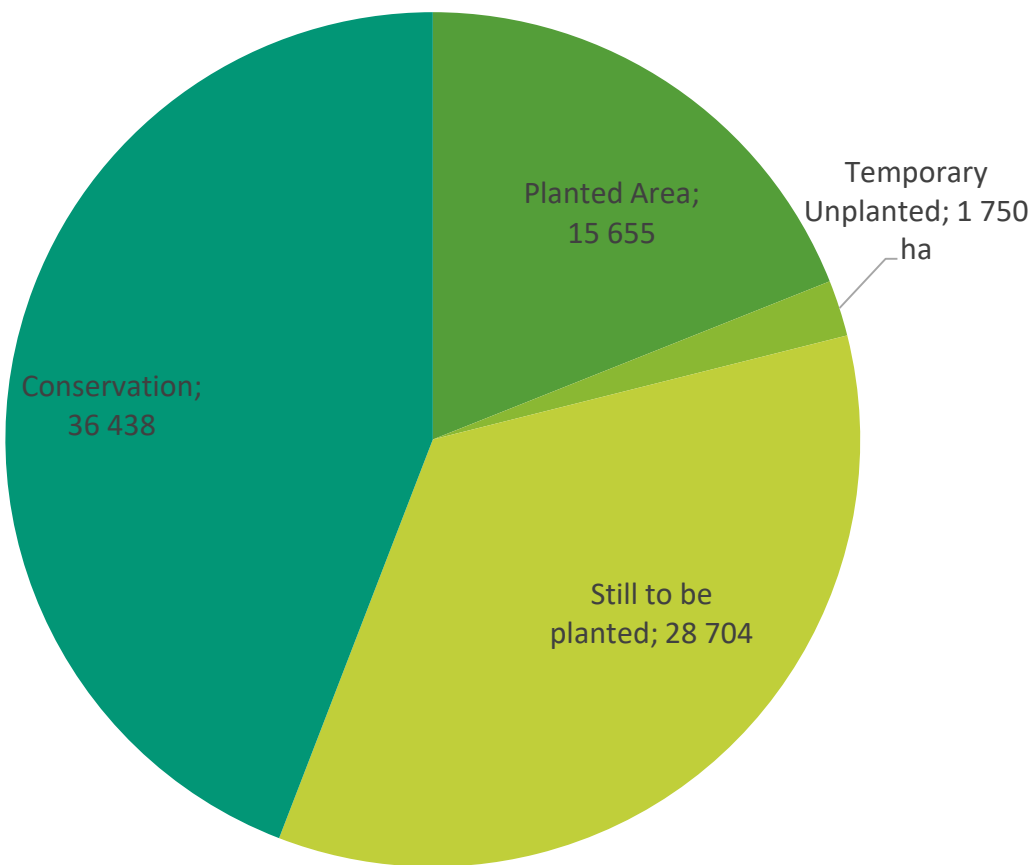


South Africa : KLF



Total area = 189 760 ha
Plantable area = 121 055 ha

Mozambique : IFLOMA



Total area = 82 547 ha
Plantable area = 17 405 ha

HOW WE CREATE VALUE

- The Six Capitals



Intellectual Capital

- a) World-class R&D facilities in Sabie; and
- b) Research on best in house genetic material



Manufacturing Capital

- a) 121 293ha commercial plantations in SA;
- b) 8-30 year harvesting cycle
- c) Internal / outsourced processing capability (10% logs)
- d) Established nurseries > 10 mil seedlings / cuttings per year.



Financial Capital

- a) Unencumbered balance sheet;
- b) Never required State bailout; and
- c) Long-term capital investment programme
- d) Total assets = R4.65 Billion



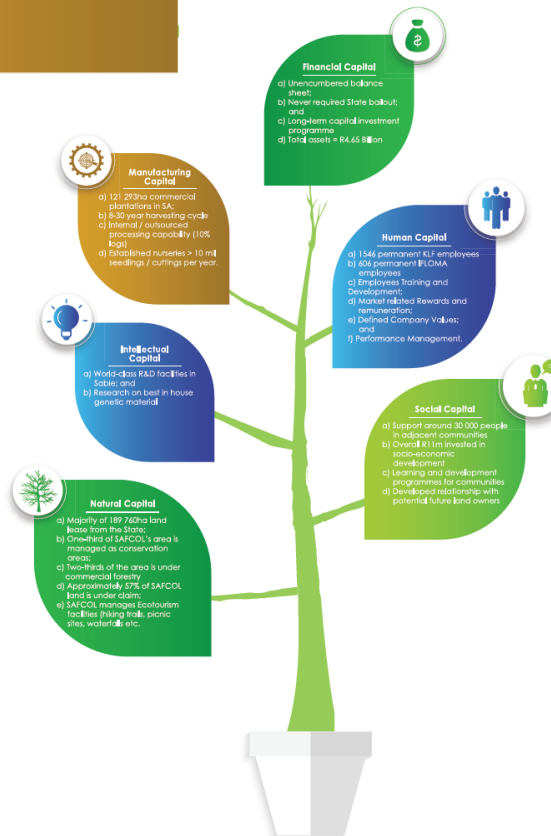
Human Capital

- a) 1546 permanent KLF employees
- b) 606 permanent IFLOMA employees
- c) Employees Training and Development;
- d) Market related Rewards and remuneration;
- e) Defined Company Values; and
- f) Performance Management.



Natural Capital

- a) Majority of 189 760ha land lease from the State;
- b) One-third of SAFCOL's area is managed as conservation areas;
- c) Two-thirds of the area is under commercial forestry
- d) Approximately 57% of SAFCOL land is under claim;
- e) SAFCOL manages Ecotourism facilities (hiking trails, picnic sites, waterfalls etc.



Social Capital

- a) Support around 30 000 people in adjacent communities
- b) Overall R11m invested in socio-economic development
- c) Learning and development programmes for communities
- d) Developed relationship with potential future land owners

KEY RISKS AND OPPORTUNITIES

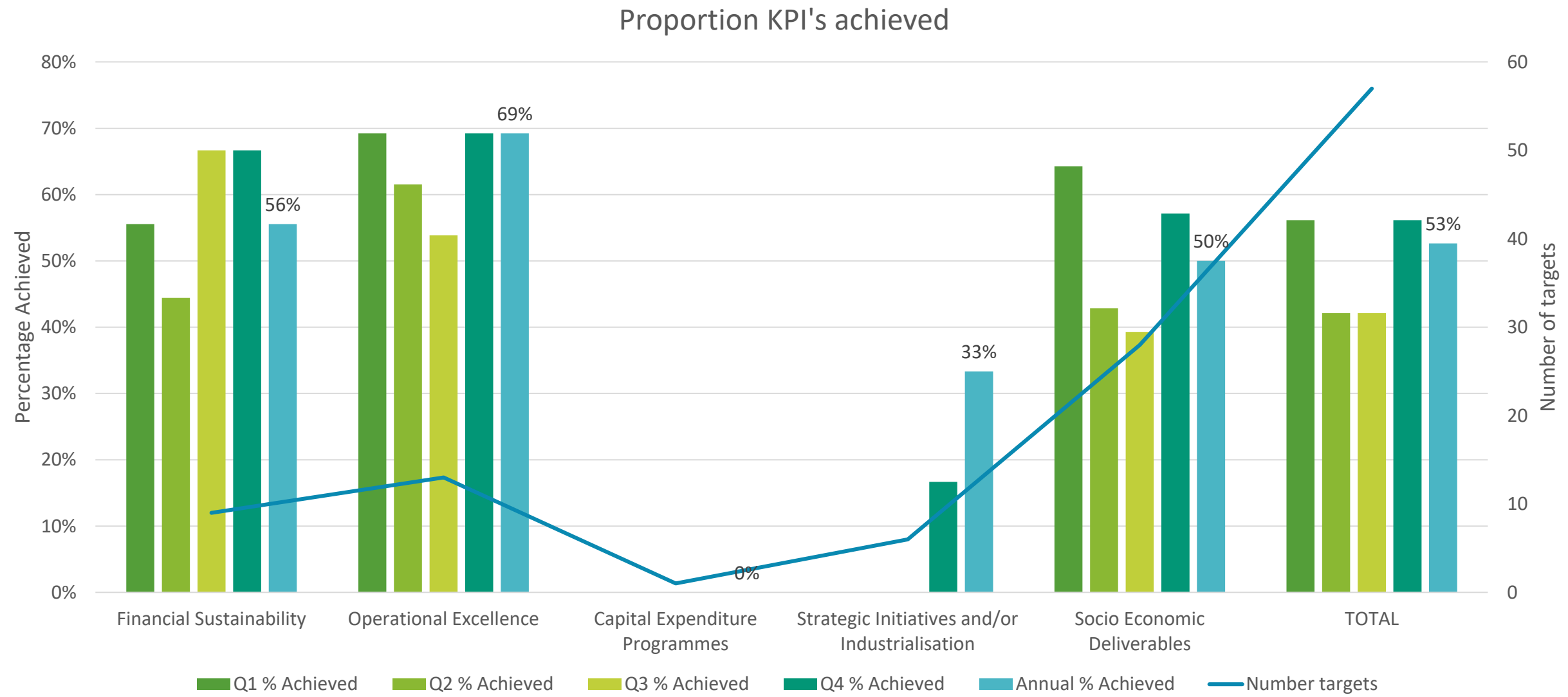
Rank	Risk Name	Likelihood	Impact	Mitigation
1	Fire	High	High	Industry collaboration and community partnerships, fuel load reduction, Fire Protection Association (FPA) membership.
2	Timber Theft, Pests and Diseases	High	High	Industry collaboration and research, genetic breeding improvements, deployment of technology.
3	Climate Change and Natural Disasters	High	Medium	R&D and industry collaboration, drought-resistant species, climate change strategy and response plan. Opportunity to leverage carbon credits through sequestration.
4	Infrastructure Maintenance	Medium	Medium	Upgrade to key infrastructure to mitigate risks, reduce costs and improve efficiency.
5	Loss of productive land due to Land Reform	Medium	Medium	Close collaboration with Land Claims Commission and communities, positioning SAFCOL as a partner of choice. Opportunities for partnerships with communities and future land owners to accelerate transformation of the industry and contribute to rural economic development.

02

Performance against Shareholder's Compact

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PERFORMANCE AGAINST SHAREHOLDER’S COMPACT



TARGETS NOT ACHIEVED

Element of Strategic Intent	Key Performance Area (KPA)	Key Performance Indicator (KPI)		2018/19 Annual Target	2018/19 Achieved	
Financial Sustainability	Financial Returns	EBITDA / Revenue [%]		5%	-7.5%	
		Overhead Reduction [%]		5%	-3.4%	
	Working Capital Management	Cash Ratio		1	0.4	
		Debtor Days		60	161	
Operational Excellence	Area of Forest under Management	Mozambique current operations: TUP		5%	7.8%	
		Mozambique: new establishment (Sofala) [ha]		2 000	212	
	Timber Processing	Additional Sawmill Processing (m³)		50 000	49 128	
		Mozambique IFLOMA Processing		10 000	2 594	
Capital Expenditure Programmes	Vertical Integration	Timbadola Upgrade		Strategy finalised; relevant processes and implementation plan development and approvals concluded	Service provider not appointed	
Strategic Initiatives and/or Industrialisation	Vertical Integration	Participation in the Sabie Techno Park initiative of the Mpumalanga Provincial Government (including timber value addition such as pole treatment, timber-frame plant and other timber value-adding activities); expansion of sawmill processing capacity in Sabie through various means (e.g. partnerships, etc.)		Implementation plan developed; agreements and approvals drafted and submitted	Feasibility study developed, but implementation plan not finalised	
		Pole manufacturing plant		Pole manufacturing capacity implemented and operationalised	Feasibility study and busines plan finalised	
	Horizontal integration Business Development expansion	DAFF Plantations Areas		Strategic Implementation Plan approved	Engagements with DAFF underway	
		SAFCOL Africa Strategy		Detailed plan developed	Service provider not appointed	
Socio Economic Deliverables	Skills development	Number Internships		35	34	
Socio Economic Deliverables	CSI	Rand Value	Total CSI Budget for CSI Projects / Initiatives	R11 500 000	R5 582 033	
	Enterprise and Supplier Development	Expenditure on Supplier Development		R2 558 792	R2 342 182	
	Job Creation	Number Direct Jobs Created (new)		32	0	
		% Total Black Top and Senior Managers		79%	74%	
		% Total Black Female Top and Senior Managers		36%	26%	
		% Total Black Female Middle Managers		30%	29%	
	Procurement	Preferential procurement Spend on Marginalised groups	B-BBEE Procurement Recognition Level		2	3
			% Spend on Local Content		85%	0%
			% B-BBEE Spend on QSE's		40%	17%
			% B-BBEE Spend on EME's		30%	27%
			% spent on Black Women Owned Suppliers		44%	14%
			% spent on Youth Owned Suppliers		5%	3%
% spent on Disabled Owned Suppliers			1%	0%		



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Financial Performance

FINANCIAL STATEMENTS DASHBOARD



REVENUE ACHIEVED
R 1 042 000 000 ↑ 12.5%



Loss for the period
R118 000 000 ↓ 46.7%



Sum of Costs and Revenues

● COSTS ● REVENUES

31 March 2018

-R1,842b

R1,760b

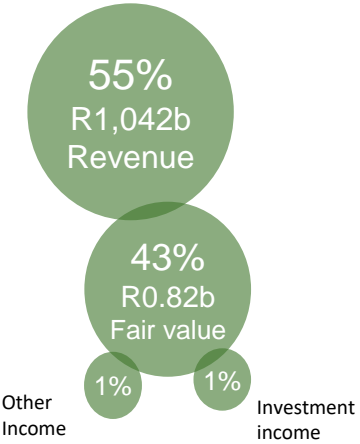
31 March 2019

-R2,025b

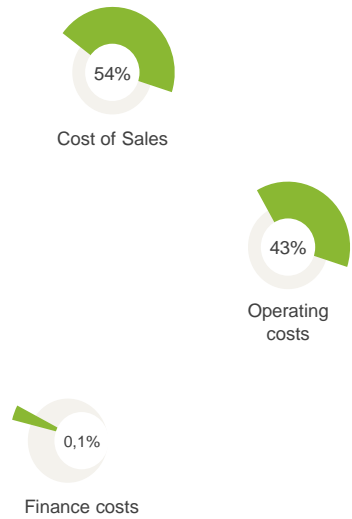
R1,907b

■ Expenses ■ Revenue

Total Income consists of the following:



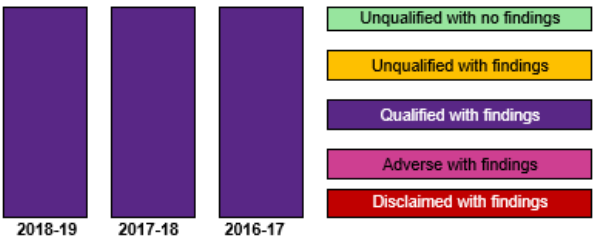
Total expenditure consists of the following:



Audit Results

Stagnation in audit outcomes

Types of audit outcomes



Qualification Areas

31 March 2019

1

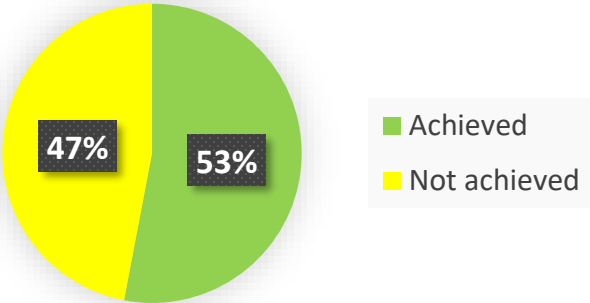
31 March 2018

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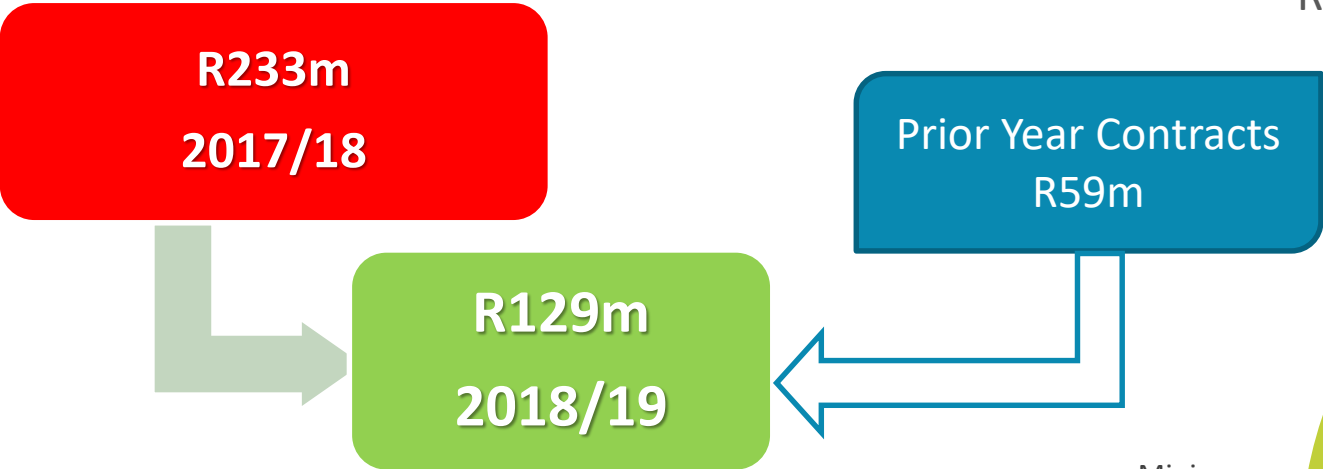
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Performance Targets

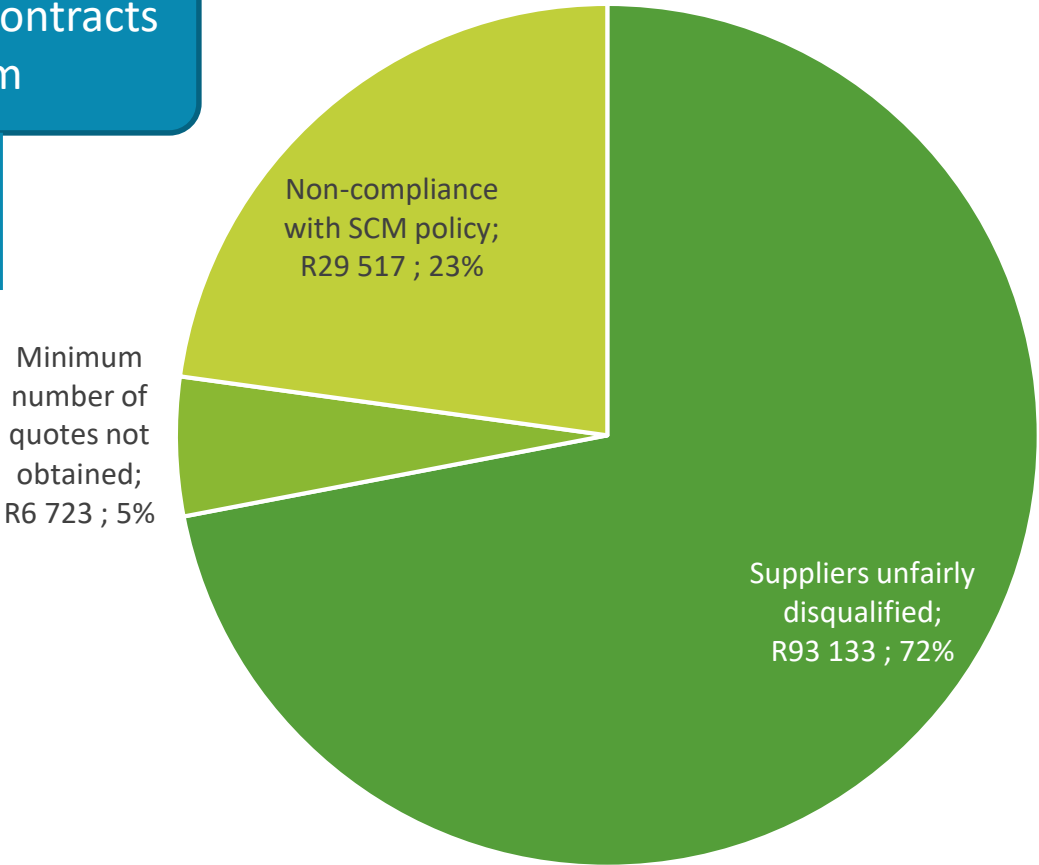


Irregular Expenditure



- Improved internal controls resulted in the decrease in irregular expenditure
- Early detection mechanism result in the prevention of irregular expenditure
- Awareness and implementation of consequence management enforced the internal controls.

Reasons for incurring Irregular Expenditure



FINANCIAL POSITION

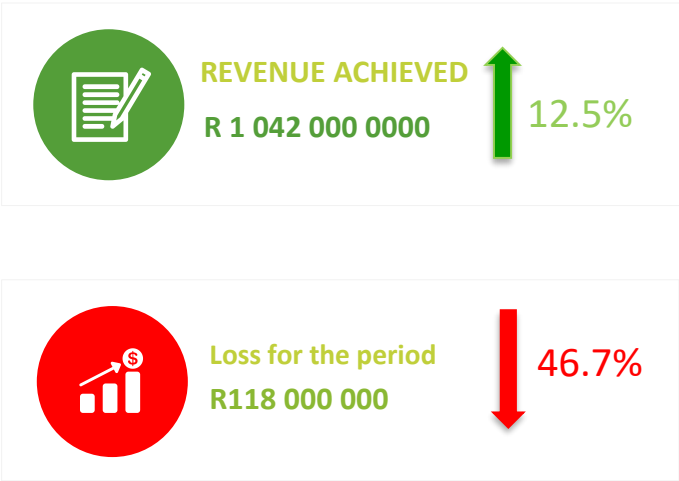


Description	31-Mar-19 (R million)	31-Mar-18 (R million)	Actual vs Prior Year Variance %
Non-Current Assets	3 555.64	3 666.23	-3.0%
Current Assets	1 090.02	1 032.09	5.6%
Non-Current Assets Held for Sale	-	1.01	0.0%
Total Assets	4 645.66	4 699.33	-1.1%
Equity	3 189.32	3 293.42	-3.2%
Non-Current Liabilities	1 047.58	1 075.81	2.6%
Current Liabilities	408.76	330.10	-23.8%
Total Equity and Liabilities	4 645.66	4 699.33	1.1%

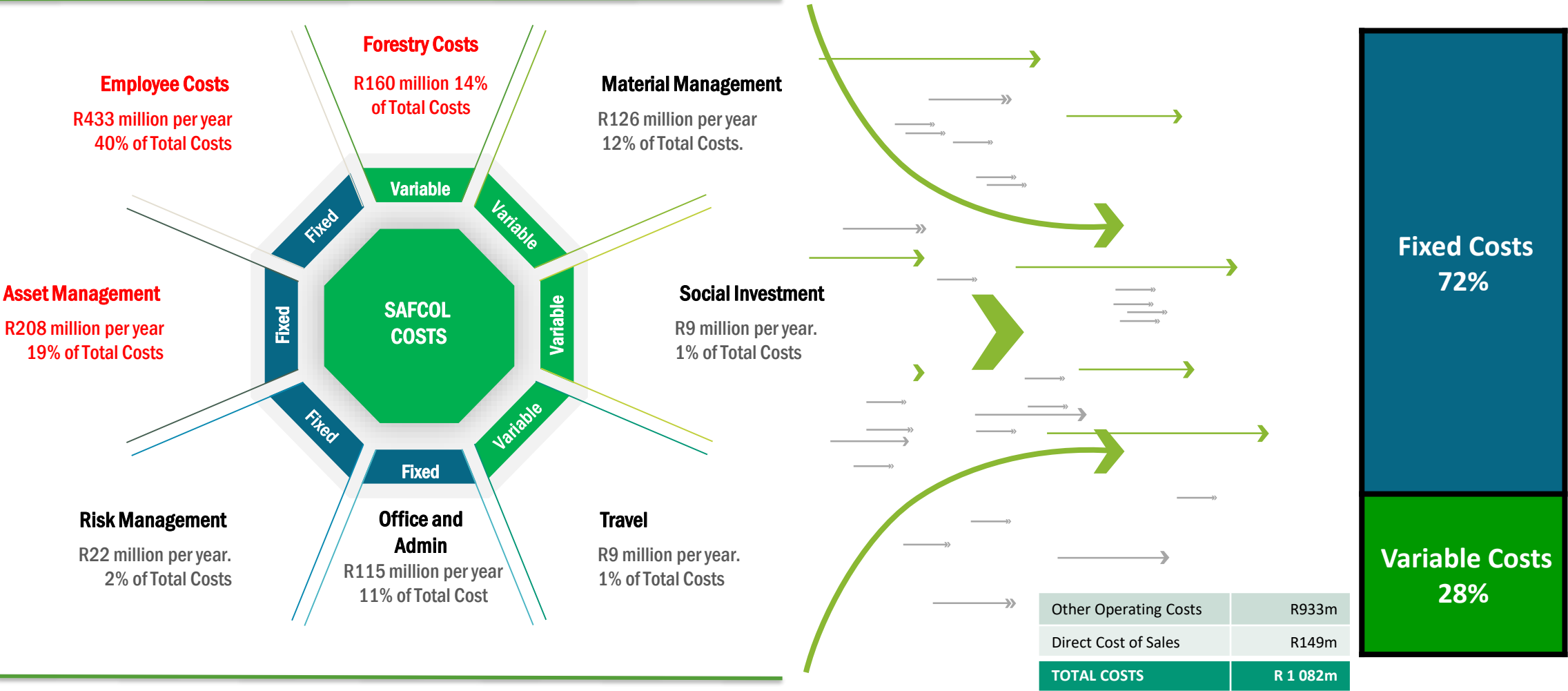
- Un-encumbered balance sheet
- No government guarantee
- Positive current ratio
- Positive cash balances
- Low debt to equity ratio
- Reduction in equity
- Increase in Total Liabilities
- Decrease on Return on Investment
- Decrease in cash balances
- Decrease in Total Assets

FINANCIAL PERFORMANCE

Description	Actual 31-Mar-19 (R million)	Prior Year 31-Mar-18 (R million)	Actual vs Prior Year Variance %
Revenue	1 042.11	926.46	12.5%
Cost of sales	-1 088.12	-933.59	-16.6%
Gross (Loss)	-46.00	-7.13	-545%
Other Operating Income	13.79	22.16	-37.8%
Fair Value Gain	823.38	751.00	9.6%
Other Operating Costs	-933.19	-902.25	-3.4%
Operating (Loss)	-142.02	-136.21	-4.3%
Investment Income	6.41	10.32	-37.9%
Finance Costs	-4.46	-5.69	21.6%
(Loss) before Taxation	-140.07	-131.58	-6.5%
Taxation	22.43	51.41	56.4%
(Loss) for the Year	-117.63	-80.17	-46.7%






FIXED COSTS PRESSURE ON PROFIT



Margin contribution would have to improve significantly to balance the fixed cost requirements under the status quo

CASH MANAGEMENT

Description	Actual 31-Mar-19 (R million)	Actual 31-Mar-18 (R million)
Net Cash Inflow / (Outflow) from Operating Activities	21.20	-15.92
Net Cash Inflow / (Outflow) from Investing Activities	-20.98	-11.47
Net Cash Generated / (Net Financing Required)	0.22	-27.39
Net Cash Inflow / (Outflow) Flow from Financing Activities	-25.99	-25.18
Cash Movement for the Period	-25.77	-52.68
Cash and Cash Equivalents at the Beginning of the Period	181.85	234.53
Cash and Cash Equivalents at the End of the Period	156.08	181.85

-  Business generates sufficient cash to support operations.
-  Decrease in cash resources
-  Fixed assets cannot be financed from operations



CASH FROM OPERATIONS
R21 200 000



DECREASE IN CASH
R156 080 000

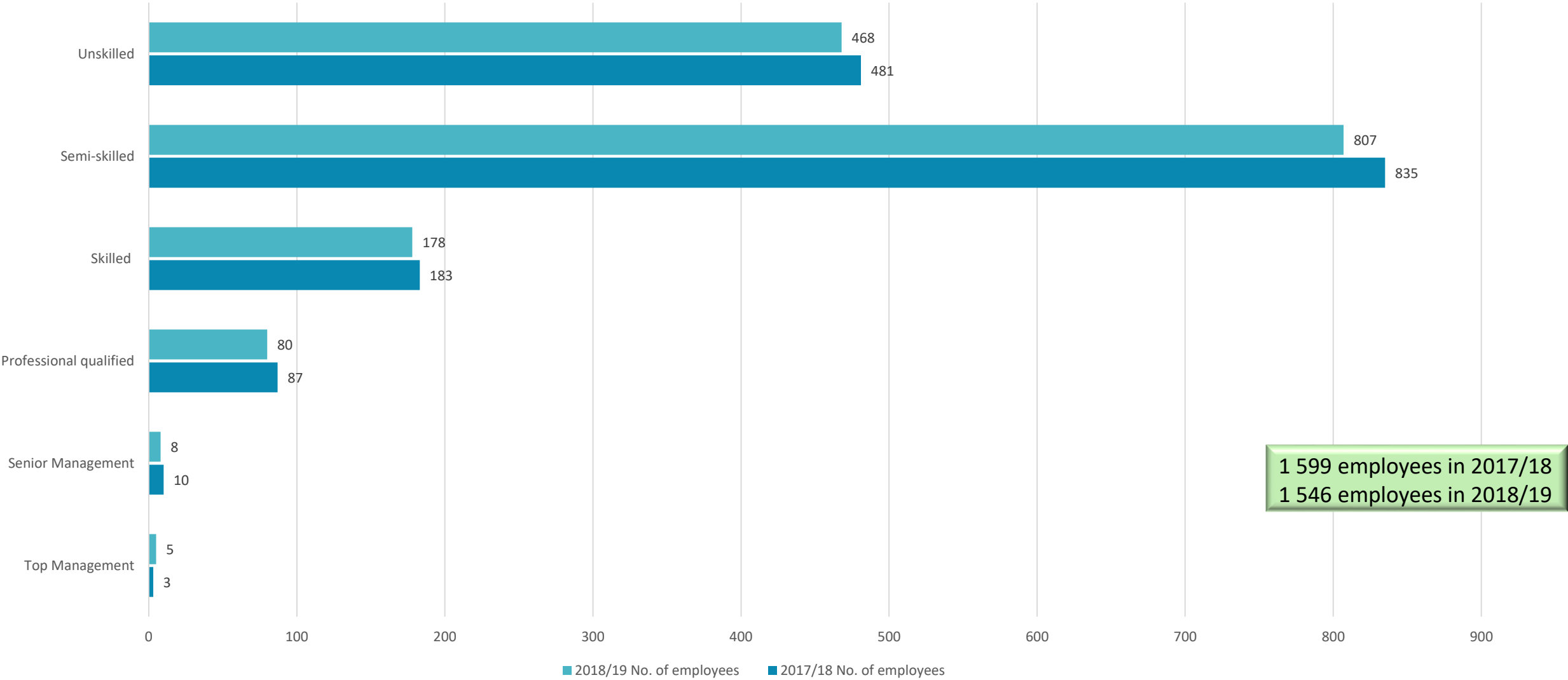


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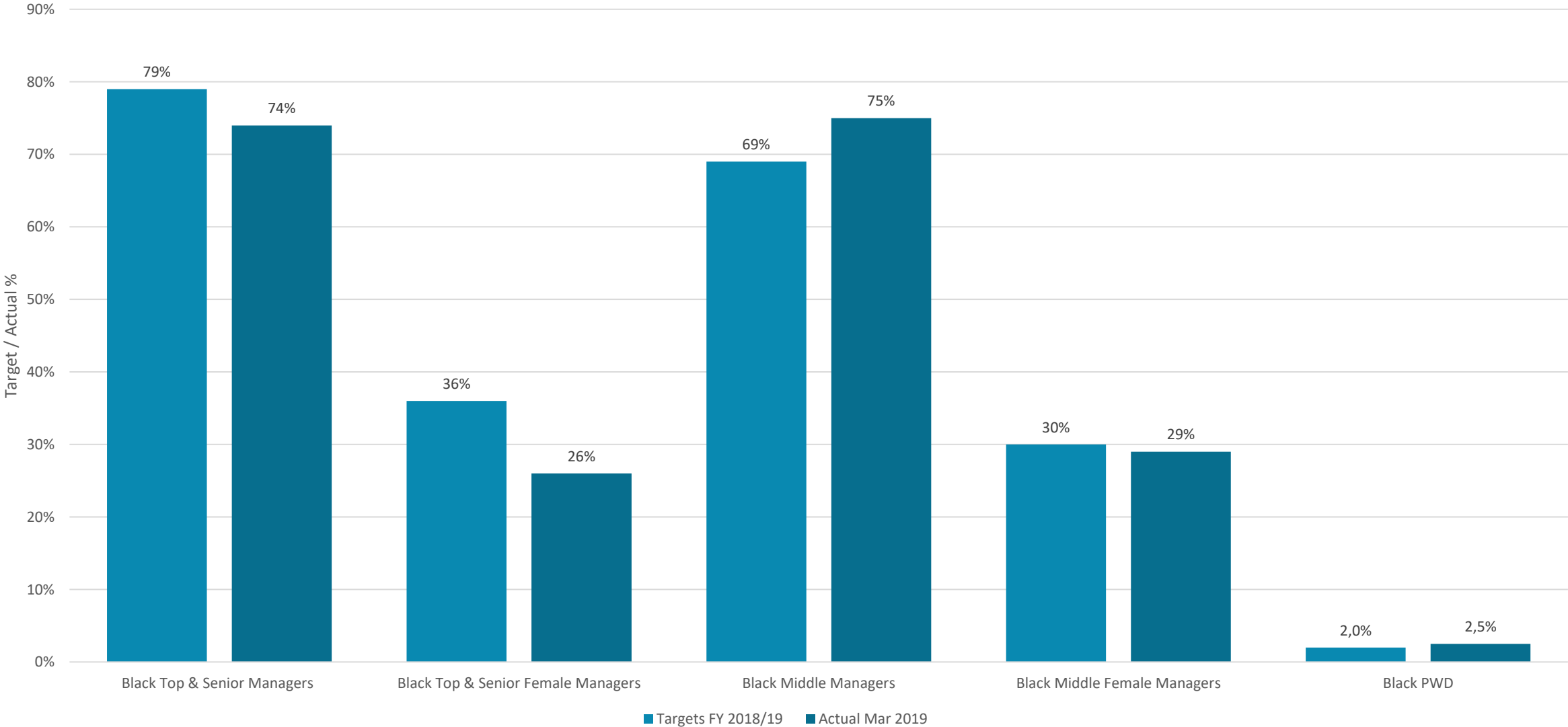
04

Human and Social Capital

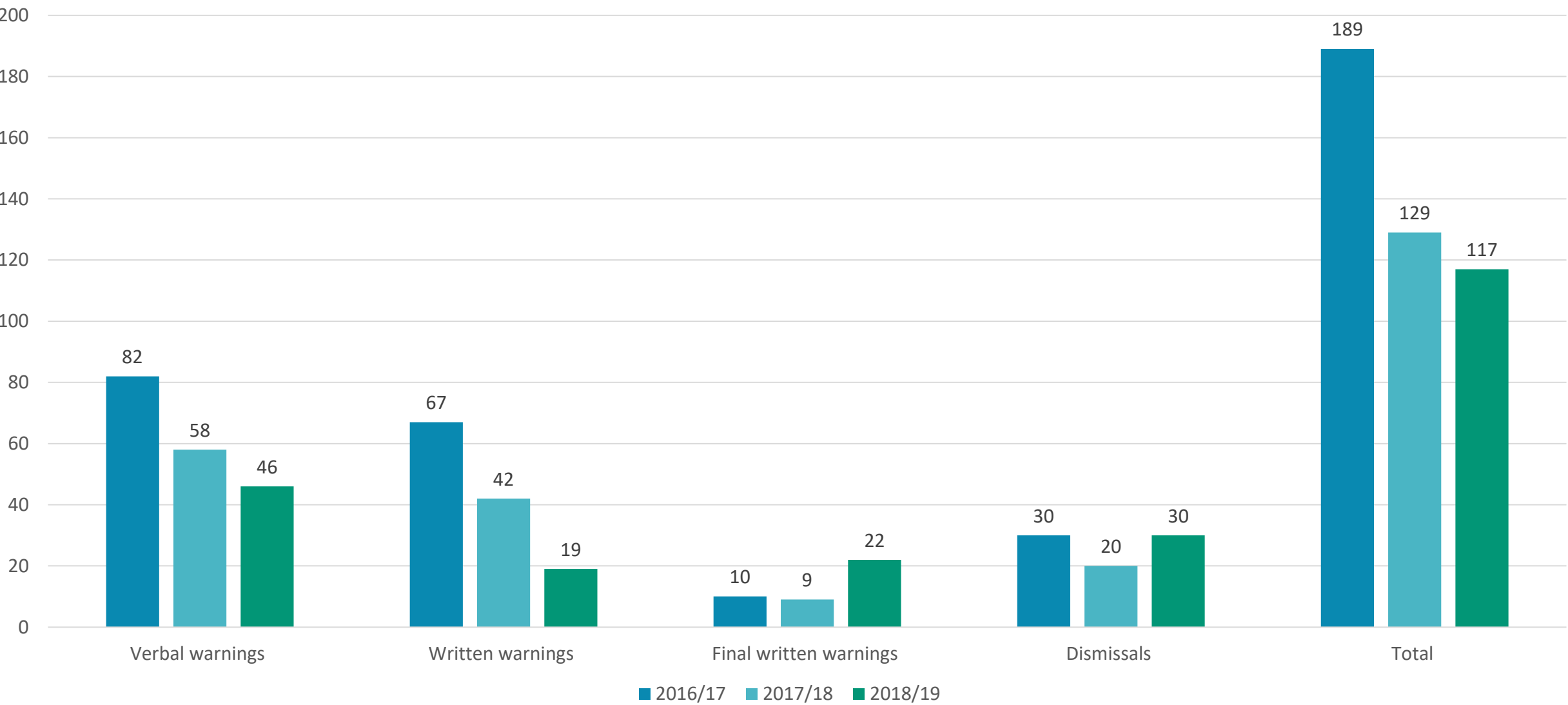
EMPLOYEES BY OCCUPATIONAL LEVEL



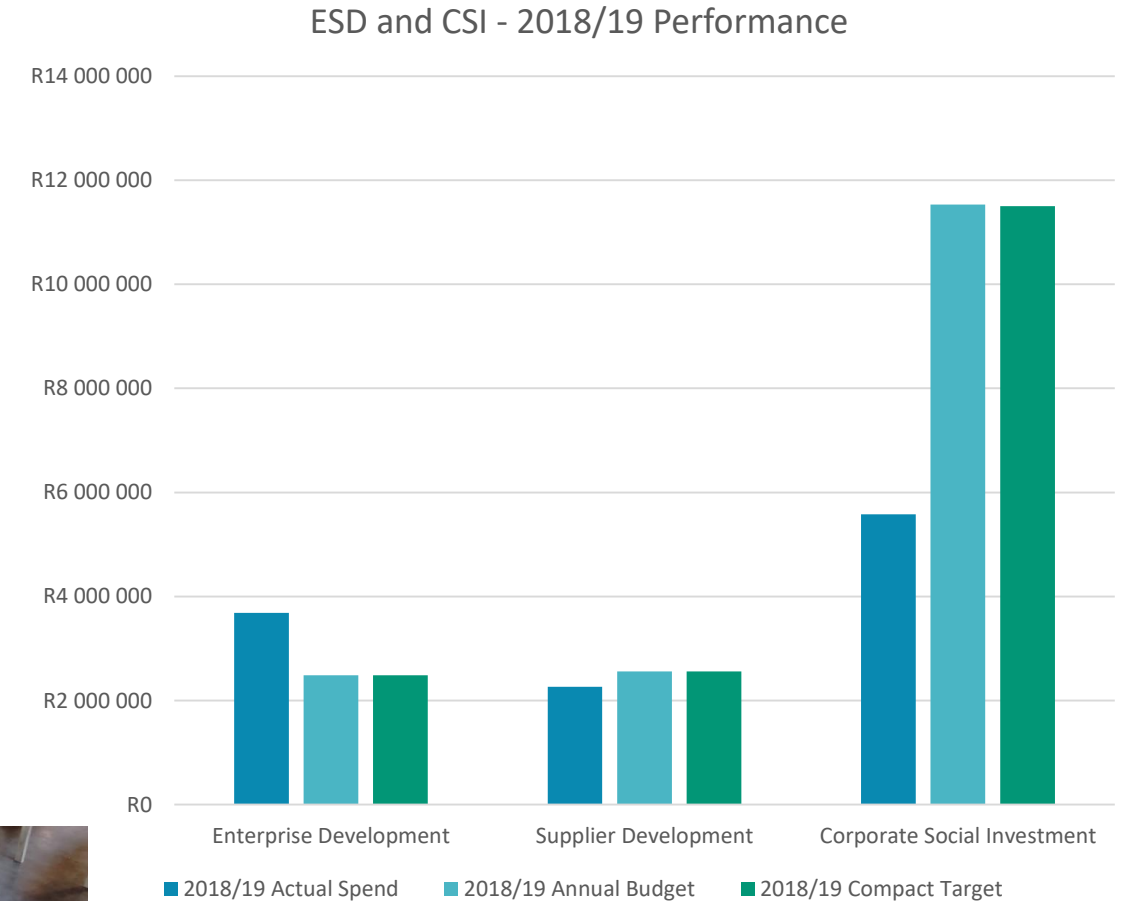
EMPLOYMENT EQUITY



DISCIPLINARY CASES



- Enterprise and Supplier Development
 - Themba Labasha (youth-owned furniture manufacturing cooperative) = overall winner in the category “Youth in Agriculture Forestry and Fisheries”
 - Limpuma Furniture Co-operative (Vhembe District) won second prize at the Young Business Awards at the Vhembe District Municipality



OTHER CSI PROJECTS

Corporate Social Investment Projects	Progress for the FY 2018/19
Early Childhood Development Centres (ECD) and Primary School Support	<p>A system to collect rain water by connecting gutters to jojo tanks has been installed for two ECD centers built in the previous financial year (Phutaditshaba and Sandford ECD centres).</p> <p>A fence was installed for Phutaditshaba ECD Centre which was built in the previous financial year.</p> <p>Four play structures were delivered to the following institutions:</p> <ul style="list-style-type: none"> a) Modjadji ECD Centre (situated in the Greater Tzaneen local municipality); b) Rea Shuma ECD Centre (situated in the Greater Tzaneen local municipality); c) Dientjie Primary School (situated in Thaba-Chweu municipality); and d) Buhlebuyeza Primary School (situated in Mkhondo Municipality).
Maintenance of Timber framed Structures built previously	Three timber-framed structures (Sinethemba ECD, Beketelani Primary School and Rathitanga Primary School) which were built more than five years ago were maintained during this financial year. The maintenance included the painting of the buildings.
Timber foot Bridges	Two foot bridges were constructed to assist the community, especially school learners, to cross the streams during rainy seasons.
Expanded Public Works Programme (EPWP)	Twenty-five people from the Sabie area were appointed for the Expanded Public Works Programme (EPWP) that was implemented at Tweefontein Plantation.
Timber Framed Structures	SAFCOL constructed four timber-framed structures for the following communities: Matsila, Modjadji, Mapheleni and Mooiplaas. These structures included Arts and Crafts centre, ECD centres and a community hall.



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LOOKING FORWARD

STRATEGY 2019/20 – FORWARD LOOKING



A yellow logging crane is shown in a forest, lifting a large log onto a truck. The truck's bed is filled with many logs, each with a small green tag. The crane's arm is extended over the truck, and the log is being lowered into the pile. The background shows tall pine trees under a clear sky.

Agenda – Land Claims

01

Background and Statistics

02

SAFCOL's Role

03

Draft Settlement Agreement Model

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Challenges

05

Collaboration and Relationships

SAFCOL is determined to ensure that the commercial sustainability and the continuity of SAFCOL’s business objectives as set out in terms of section 3 of the MSFA are achieved.

SAFCOL leases the state forest land on the basis of letters of delegation and interim agreements with Department of Environment, Forestry and Fisheries (DEFF).

The Department of Agriculture, Rural Development and Land Reform (DARD&LR) plays a pivotal and leading role in the management and resolution of land claims and SAFCOL is an important stakeholder.

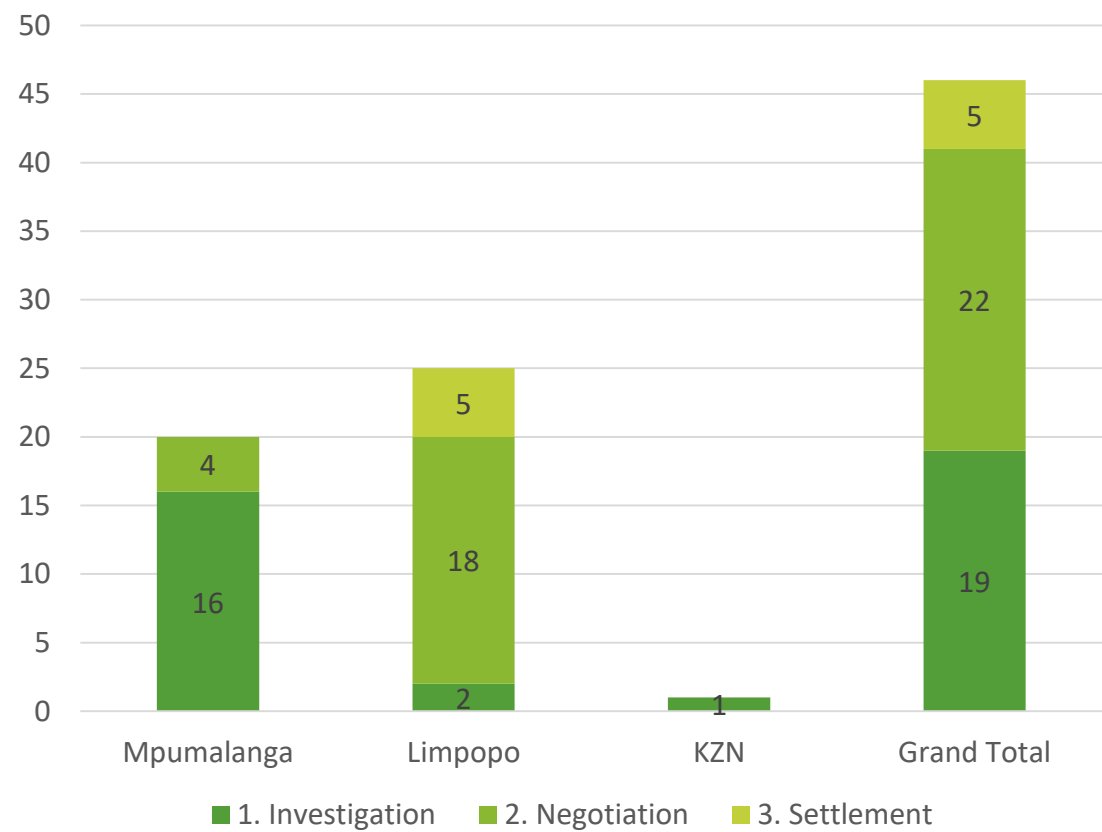
SAFCOL operates its forestry business on land parcels declared as state forest land in terms of the National Forest Act.

Approximately 57% of the South African plantations are affected by land claims, across Limpopo, Mpumalanga and KZN.

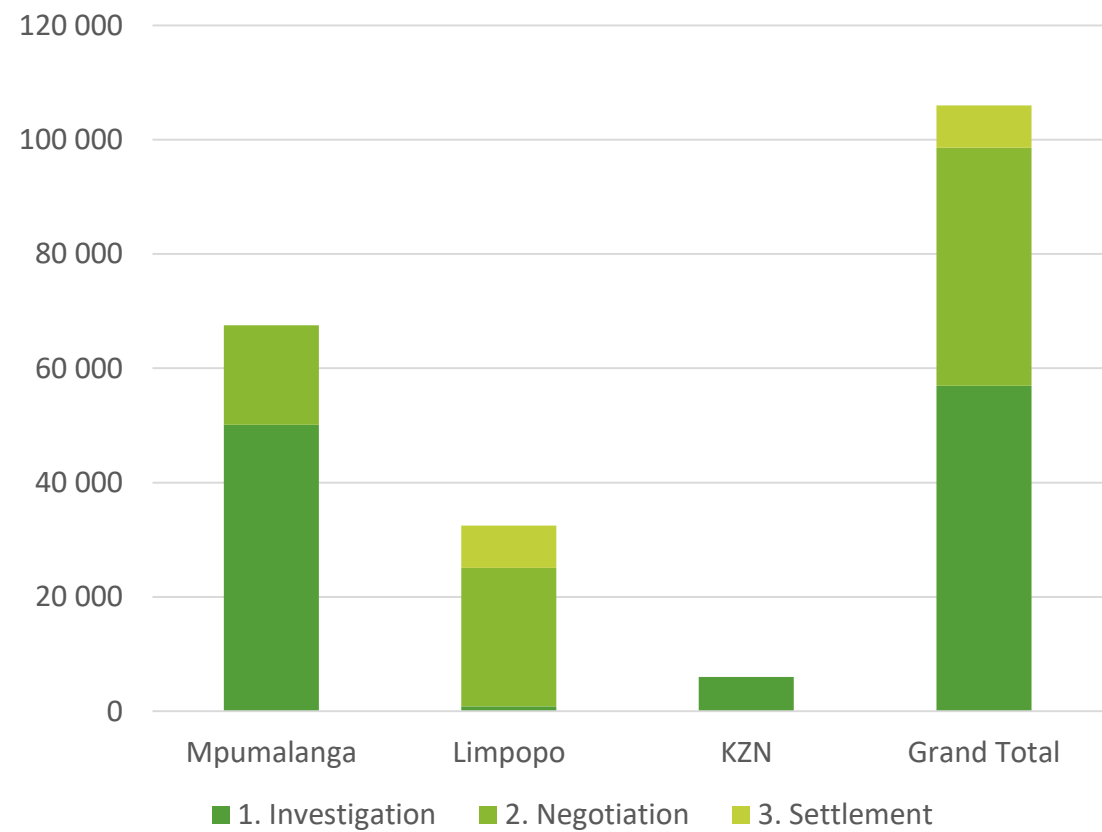
LAND CLAIMS STATISTICS



Number of Land Claims



Area affected by Land Claims



Limpopo: 5 claims approved, 1 transferred to communities

SAFCOL'S ROLE



SAFCOL aims to contribute to transformation in the forestry industry through the integration of land beneficiaries of the Government-led land restitution and reform programmes into viable business relationships.

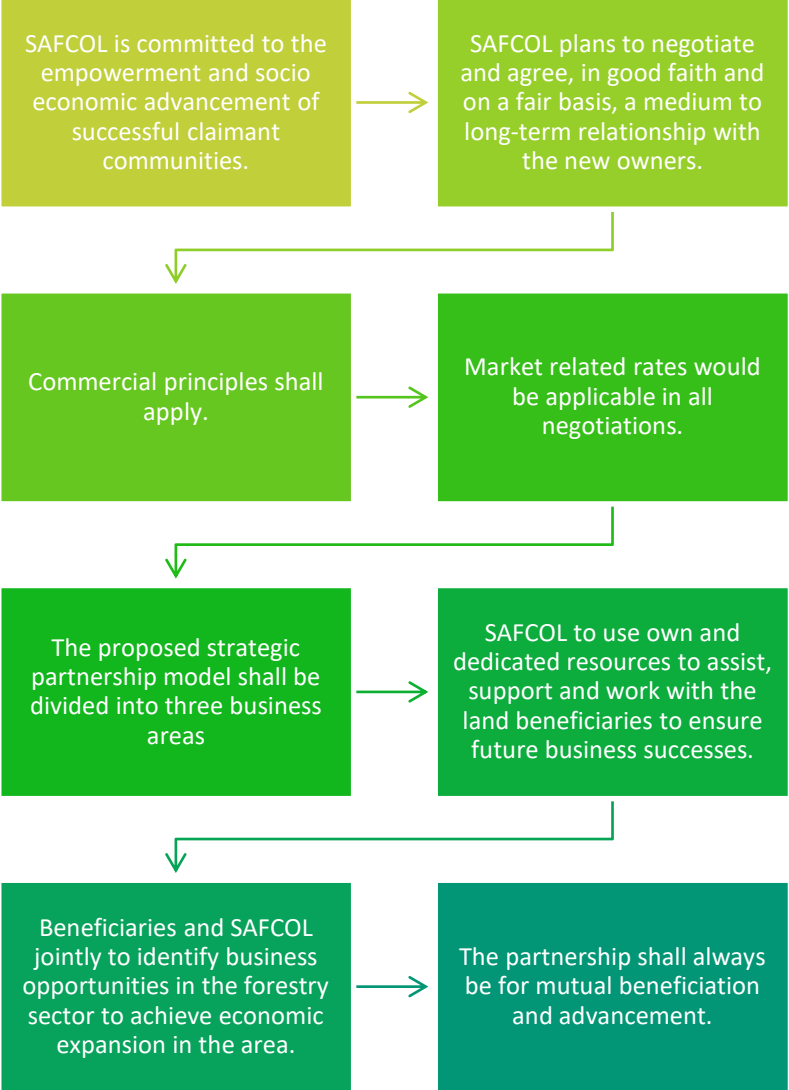
SAFCOL is exploring various economic empowerment initiatives to fully integrate the claimant communities into the business value chain through the supply of goods and services that are consumed by SAFCOL and the broader forestry industry.

As part of economic empowerment initiatives for communities, SAFCOL has embarked on agro-forestry initiatives and the development of black industrialists in the forestry sector for purposes of transformation.

Land beneficiaries and communities are assisted to establish independent businesses enterprises and provide services to plantation management, which is enabled through enable preferential procurement contracting opportunities for these enterprises.

Land beneficiaries who are entrepreneurs are considered and developed to become business owners.

SAFCOL'S DRAFT SETTLEMENT MODEL



proposed strategic partnerships – three business areas



Commercial plantation beneficition

- SAFCOL lease land from communities
- Economic participation by communities (CSI, ESD, value chain beneficition, job opportunities)



Processing business opportunities

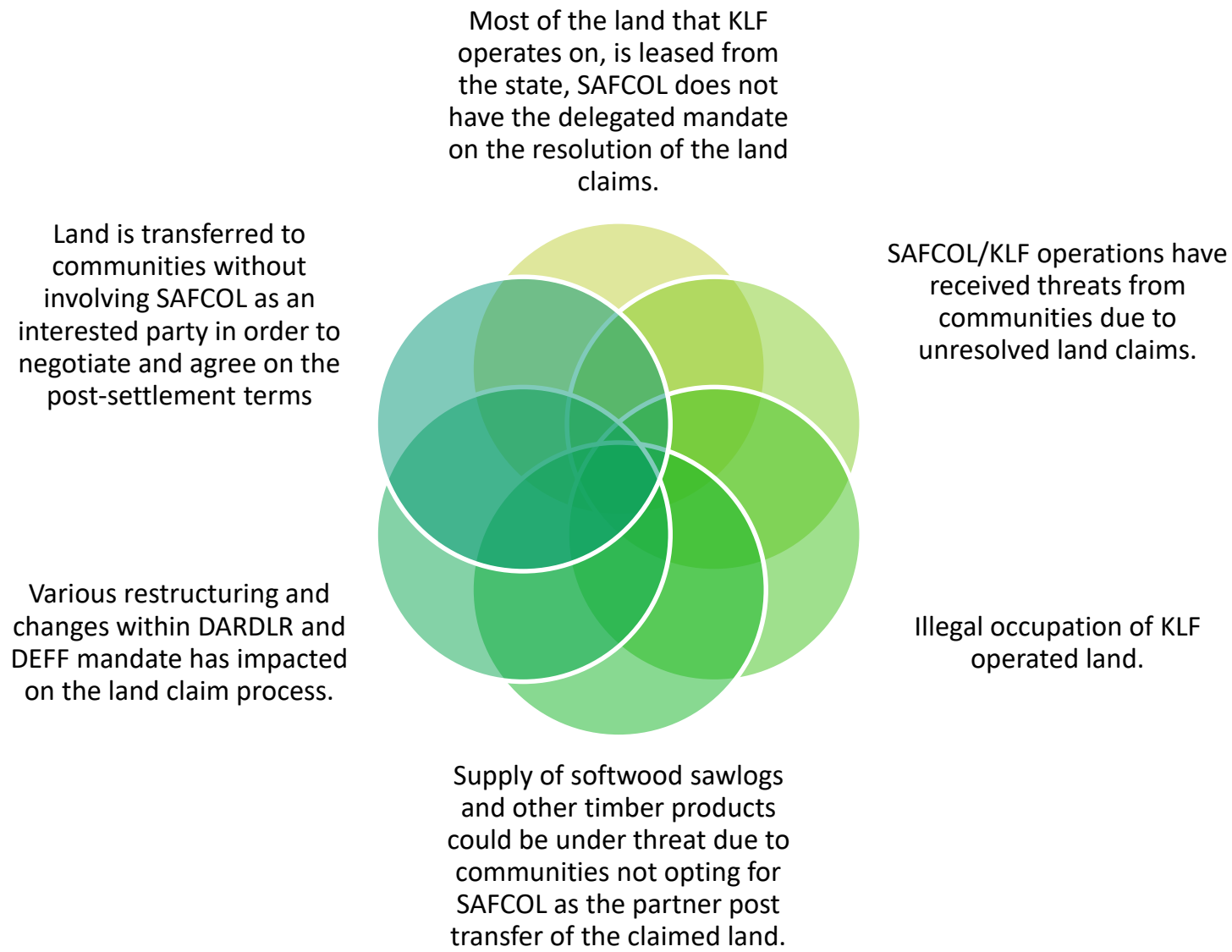
- Power generation / residue value beneficition enterprise co-ownership together with external partners
- Sawmill co-ownership (community shareholding)
- Second level processing (e.g. bio chemicals)



Products manufacturing (e.g. furniture, hard boards)

New owners economically active in value creation

CHALLENGES ASSOCIATED WITH AND CLAIMS



COLLABORATION WITH COMMUNITIES ADJACENT TO OPERATIONS



1. SAFCOL has 13 signed social compacts with communities and land claimants adjacent to operations:
 1. **Redhill Cluster** – Chief Albert Luthuli Local Municipality, Gert Sibande District, MP
 2. **Blairemore Cluster** – Chief Albert Luthuli Local Municipality, Gert Sibande District, MP
 3. **Roburnia Cluster** – Mkhondo Local Municipality, Gert Sibande District, MP
 4. **Mphephu Entabeni Cluster** – Makhado and Thulamela Local Municipalities, Vhembe District, LP
 5. **Tshivhase Cluster** – Thulamela Local Municipality, Vhembe District, LP
 6. **Mantjolo Cluster** – Chief Albert Luthuli Local Municipality, Gert Sibande District, MP
 7. **Ngome Cluster** – AbaQulusi and Nongoma Local Municipalities, Zululand District, KZN
 8. **Palm Ridge Cluster** – Mtubatuba Local Municipality, uMkhanyakude District, KZN
 9. **Berlin Cluster** – Mbombela Local Municipality, Ehlanzeni District, MP
 10. **Hebron Cluster** – Thaba Chweu and Bushbuckridge Local Municipalities, Ehlanzeni District, MP
 11. **Mapulana Cluster** – Thaba Chweu Local Municipality, Ehlanzeni District, MP
 12. **Greater Tzaneen Cluster** – Greater Tzaneen Local Municipality, Mopani District, LP
 13. **Emakhazeni Cluster** – Emakhazeni Local Municipality, Nkangala District, MP
2. Joint Community Forum meetings held with these groups discuss needs of the community to guide SAFCOL's social and economic development projects

Establishment and maintenance of stakeholder relationships

- Identify all key stakeholders, establish and maintain relationships with all stakeholders involved in resolving land claims.
- To this effect several forums were formed and meetings were held at different levels.

Participation in the Forestry Task Team

- The task team consists of relevant government departments and representatives from commercial forestry companies.

Operational-specific meetings between SAFCOL, RLCC, DPE and DEFF

- SAFCOL facilitates operational-specific meetings where SAFCOL's specific claims are discussed with the officials from the RLCC offices (Mpumalanga, Limpopo and KZN).

Provision of Resources to RLCC

- SAFCOL has continued to offer mapping resources to RLCC's in an effort to fast tract the resolution of the claims.



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Overall Concluding Remarks

OVERALL CONCLUDING REMARKS



- SAFCOL manages about 10% of the commercial forestry plantation area in South Africa and is a major producer of sawlogs, used for structural lumber resulting in less reliance on imports by South Africa;
- SAFCOL is committed to the transformation of the industry through partnerships with communities close to the operations;
- KLF continued to maintain 100% FSC Certification;
- SAFCOL is exploring the possibility for expansion of forestry training service offerings at its Platorand Training Facility;
- Opportunity to develop industrialists in the wood processing and advanced processing sector of the forestry industry; and
- SAFCOL supports government programmes, such as the implementation of socio-economic development projects (CSI, ESD, Black industrialists).



Thank you