



## INTEGRATED REPORT

.....  
===== **2019/20**

**Presentation to the Joint Meeting: Portfolio Committee on Public Enterprises and Select  
Committee on Public Enterprises and Communication  
17 MARCH 2021**

# INTEGRATED REPORT PRESENTATION - AGENDA



INTEGRATED  
REPORT

.....  
===== 2019/20

- 
- 01 The Report
  - 02 The Company
  - 03 The Operations
  - 04 Performance Against Shareholder Compact
  - 05 Governance
  - 06 Combined Assurance
  - 07 Human Capital
  - 08 Social Capital
  - 09 Financials
  - 10 Overall Concluding Remarks



# 01 The Report

- Scope
- Assurance Providers



## INTEGRATED REPORT

.....  
===== 2019/20

The Integrated Report presents the financial, technical, operational, social and environmental performance of the company for the 2019/20 financial year (1 April 2019 to 31 March 2020).

## **SAFCOL PERFORMANCE REPORT** **F/Y 2019/20**

The information contained in the presentation refers to the performance of SAFCOL SOC Ltd, which includes the subsidiaries Komatiland Forests SOC Ltd (KLF), ABACUS Forestries SOC Ltd, Kamhlabane Timber SOC Ltd and Indústrias Florestais de Manica (IFLOMA), SARL, based in Mozambique.

SAFCOL's assurance is provided to the Board of Directors by management, internal and external assurance providers which include:

- a) SAFCOL Risk, Compliance and SHEQ functions;
- b) SAFCOL Internal Audit function;
- c) Independent Broad-Based Black Economic Empowerment verification agencies;
- d) Forest Stewardship Council® Certification; and
- e) Auditor-General of South Africa (AGSA).

## 02 The Company

- The Company Structure
- Associated Minorities



INTEGRATED  
REPORT

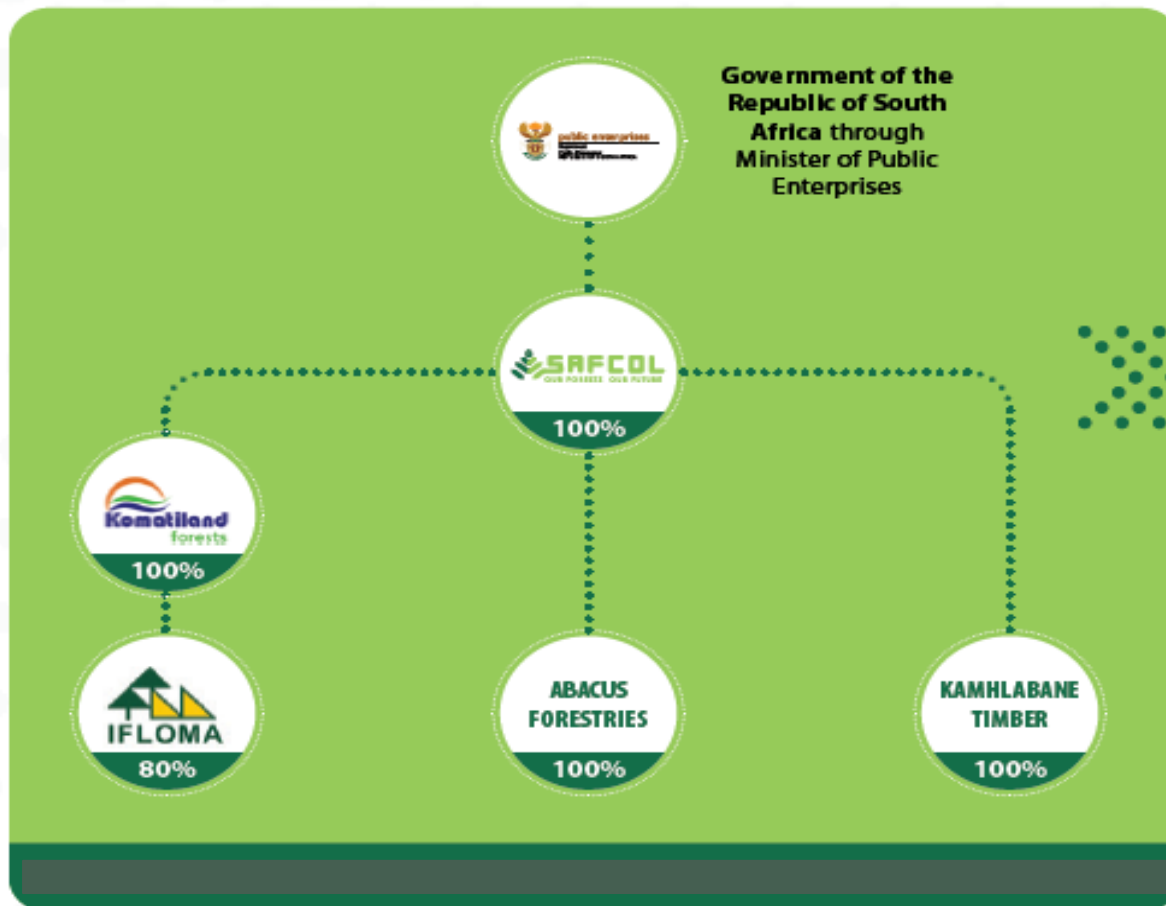
2019/20



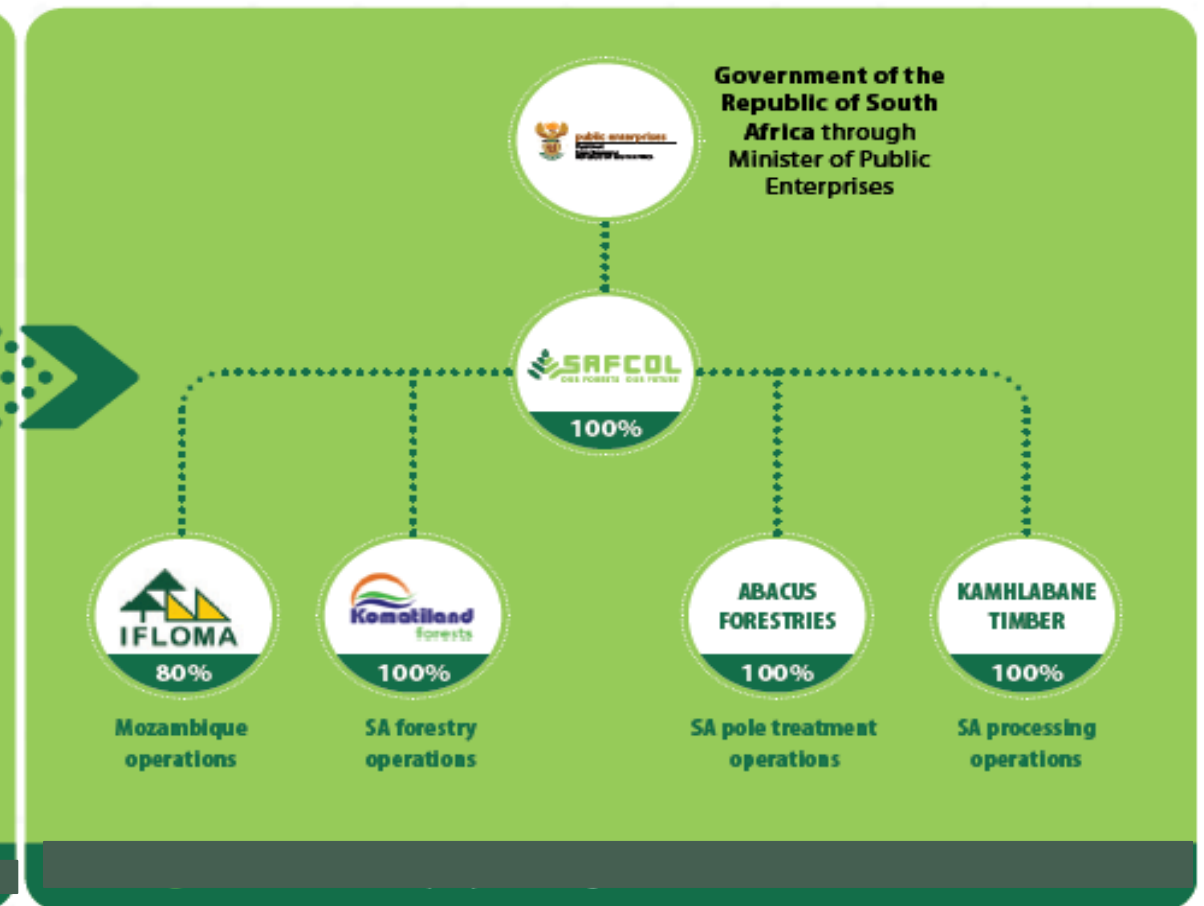
# THE STRUCTURE

SAFCOL was established in 1992, under the Management of State Forests Act No. 128 of 1992 (MSFA). In terms of Section 3 of the MSFA, the objectives of SAFCOL are described as, 'the development in the long-term of the forestry industry according to accepted commercial management practice.'

## Old Structure

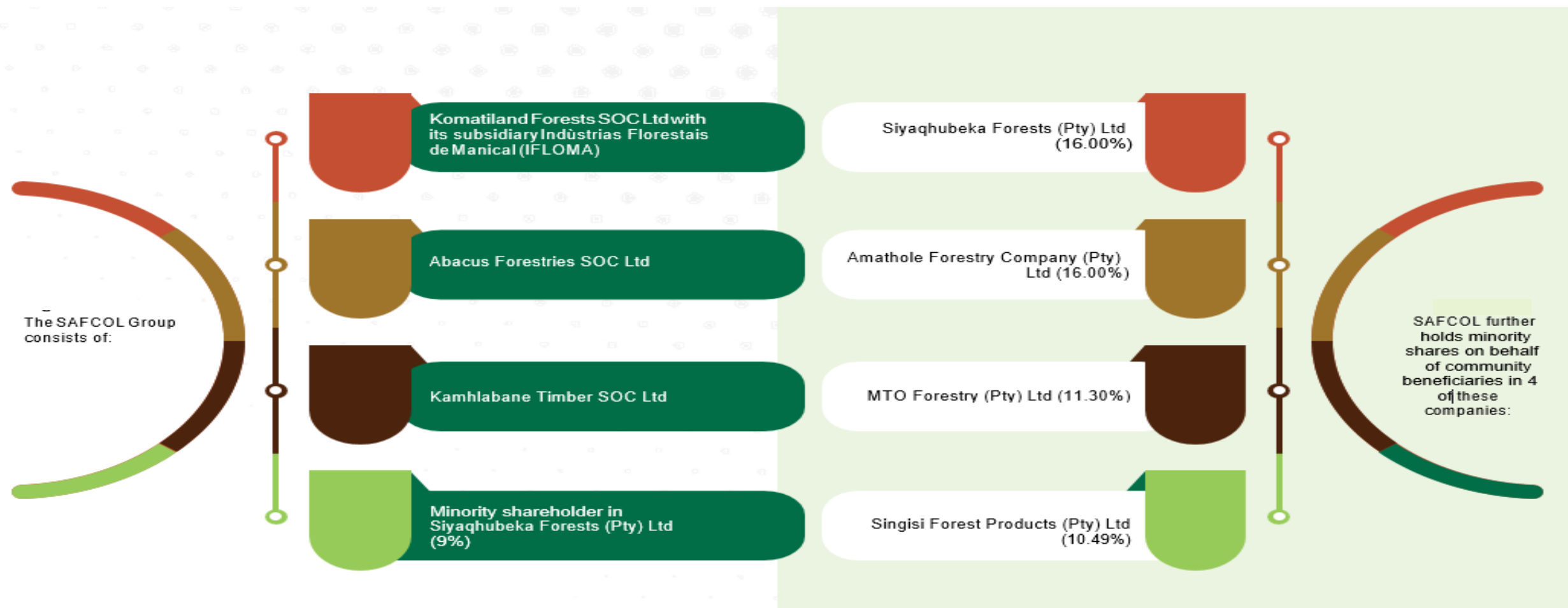


## New Structure



# SAFCOL GROUP AND ASSOCIATED MINORITIES COMPANIES

Post privatisation of four (4) business regions (packages) which occurred in 1999, SAFCOL holds minority equity stakes in the following four companies on behalf of communities:



SAFCOL is in the process of repositioning IFLOMA to be a direct subsidiary and operationalise dormant entities (ABACUS and Kamhlabane) to grow the business



## 03 The Operations

- Operations
- Locations
- Highlights, Challenges and Lowlights



INTEGRATED  
REPORT

.....  
===== 2019/20

# OUR OPERATIONS

SAFCOL conducts its business through the sustainable management of plantation forests and other assets. Revenue is generated from the sale of logs and lumber, as well as other non-timber related products.

Areas of operation	Total area (ha)	Plantable area (ha)	Planted area (ha)	TU (ha)	Conservation (ha)
South Africa (KLF)	189 747	120 870	117 272	3 598	68 877
Mozambique (IFLOMA)	82 547	17 477	15 728	1749	65 070
Total SAFCOL Group	272 294	138 347	133 000	5347	133 947

SAFCOL has a responsibility to care for the ecosystem by protecting the environment in which it operates. We are fully committed to the continual improvement of environmental performance across all our business activities and recognize the key environmental impact of our business. Within the Ecotourism Business, SAFCOL manages hiking trails, picnic sites, waterfall sites, Lakenvlei Forest Lodge as well as the Sabie Forestry Museum.



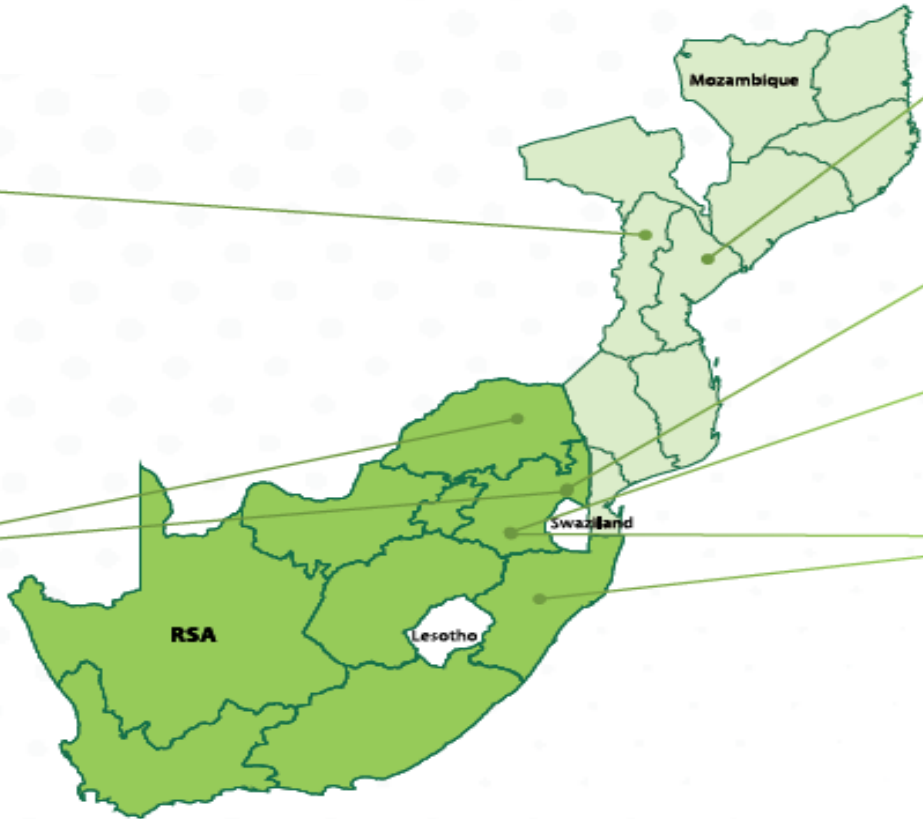
# LOCATIONS

## IFLOMA Messina District Snapshot

Genus : Pine and Gum  
Plantations : Rotanda, Bandula, Penhalonga and Mavonde plantations  
Area : Manica district and Sussundenga District in Manica Province  
Size : 50% of Total Area Under Management

## Northern Region Snapshot

Genus : Pine and Eucalyptus  
Plantations : Entabeni, Woodbush, Blyde, Wilgeboom  
Area : Graskop to Limpopo (Tzaneen, Vhembe District)  
Size : 25% of Total Area Under Management



## IFLOMA Muanza District Snapshot

Genus : Gum  
Plantations : Galinha  
Area : Muanza district  
Size : 59% of Total Area Under Management of which 3.9% is planted now

## Central Region Snapshot

Genus : Predominantly Pine and Eucalyptus  
Plantations : Tweefontein, Bergvliet, Brooklands, Witklip, Uitsoek  
Area : Graskop, Sabie, Hazyview, Lydenburg  
Size : 37% of Total Area Under Management

## Highveld Region Snapshot

Genus : Pine, Eucalyptus and Wattle  
Plantations : Berlin, Belfast, Nelshoogte, Jessievale, Roburnia, Ngome  
Area : Mpumalanga Highveld around Ermelo, Belfast, Kaapschehoop, Barberton, Warburton, as well as Nongoma in KwaZulu-Natal  
Size : 38% of Total Area Under Management



# HIGHLIGHTS, CHALLENGES BEING ATTENDED TO AND LOWLIGHTS



## Highlights

- a) Unqualified Audit Opinion
- b) Achieved the temporary unplanted target in South African operations
- c) IFLOMA achieved breakeven after a long care and maintenance period
- d) Conducted a successful Log Customer Conference with all logs clients
- e) Improved stakeholder management
- f) FSC certification achieved for the 23rd consecutive year

## Challenges being attended to

- a) SAFCOL is working to replace old technology and equipment in forest and processing
- b) Working on replacement of the Enterprise Resource Planning (ERP) system
- c) Revision of the high Timbadola cost structure
- d) SAFCOL is working with relevant industry and other role players to combat timber theft

## Lowlights

- a) Two fatalities in operations
- b) The budgeted revenue per employee was not achieved



04

## Performance Against Shareholder Compact

- Performance Against Shareholder Compact
- Year-on-Year Performance



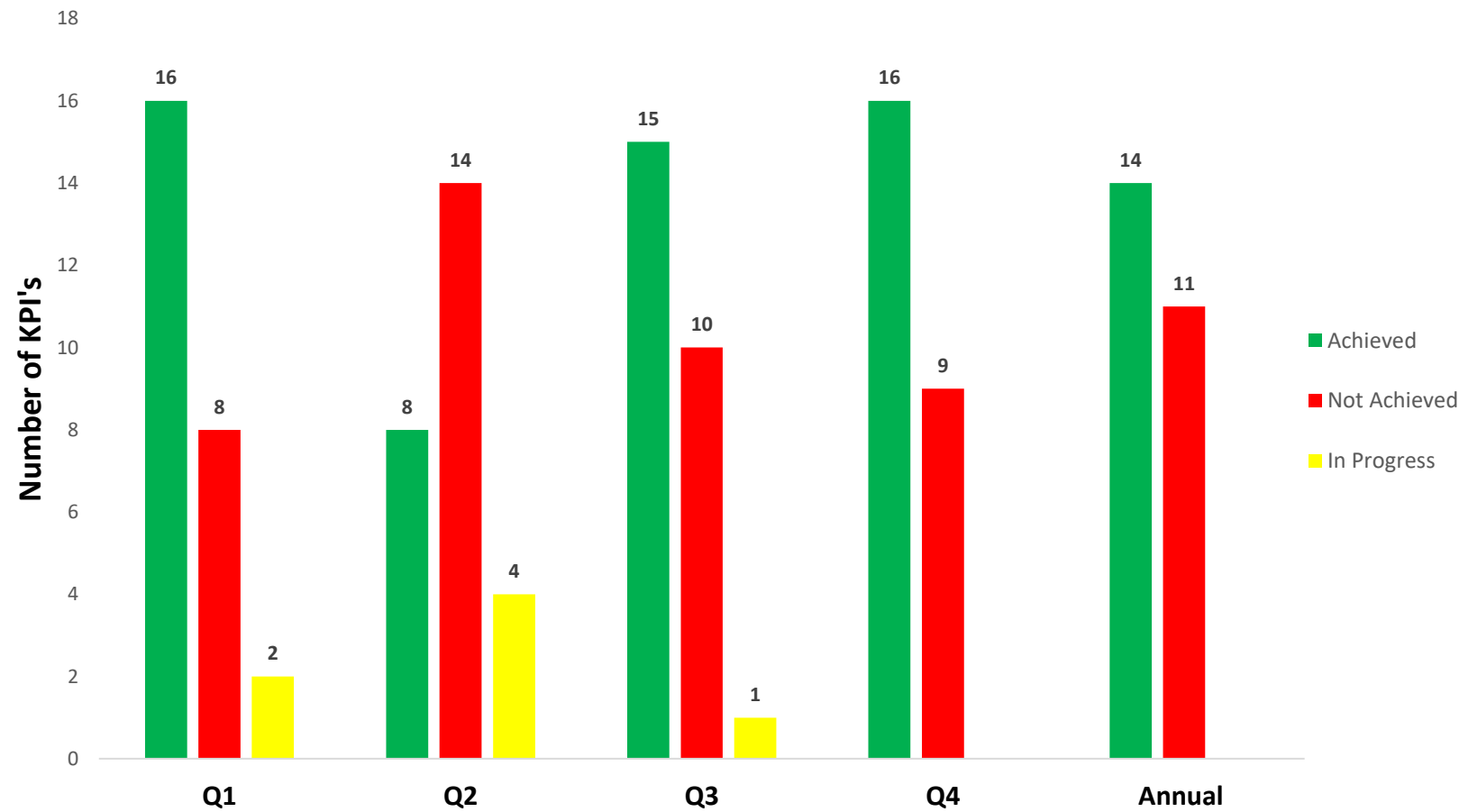
**INTEGRATED  
REPORT**

.....  
===== **2019/20**

# PERFORMANCE AGAINST SHAREHOLDER’S COMPACT



Comparison of quarterly and annual performance information for 2019/20 financial year.

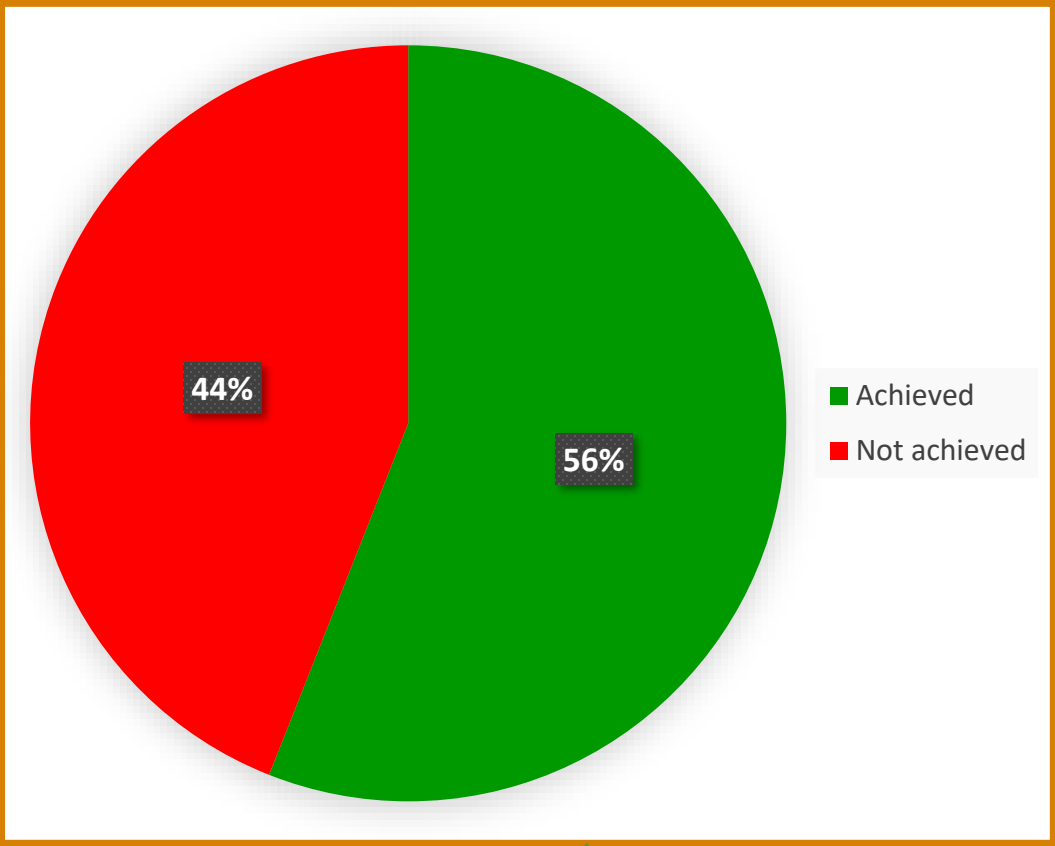


The SAFCOL Group performance was measured on 25 KPI’s for the 2019/20 financial year. During the year under review, 14 KPI’s were achieved and 11 were not achieved – this equates to an achievement of 56% against plan

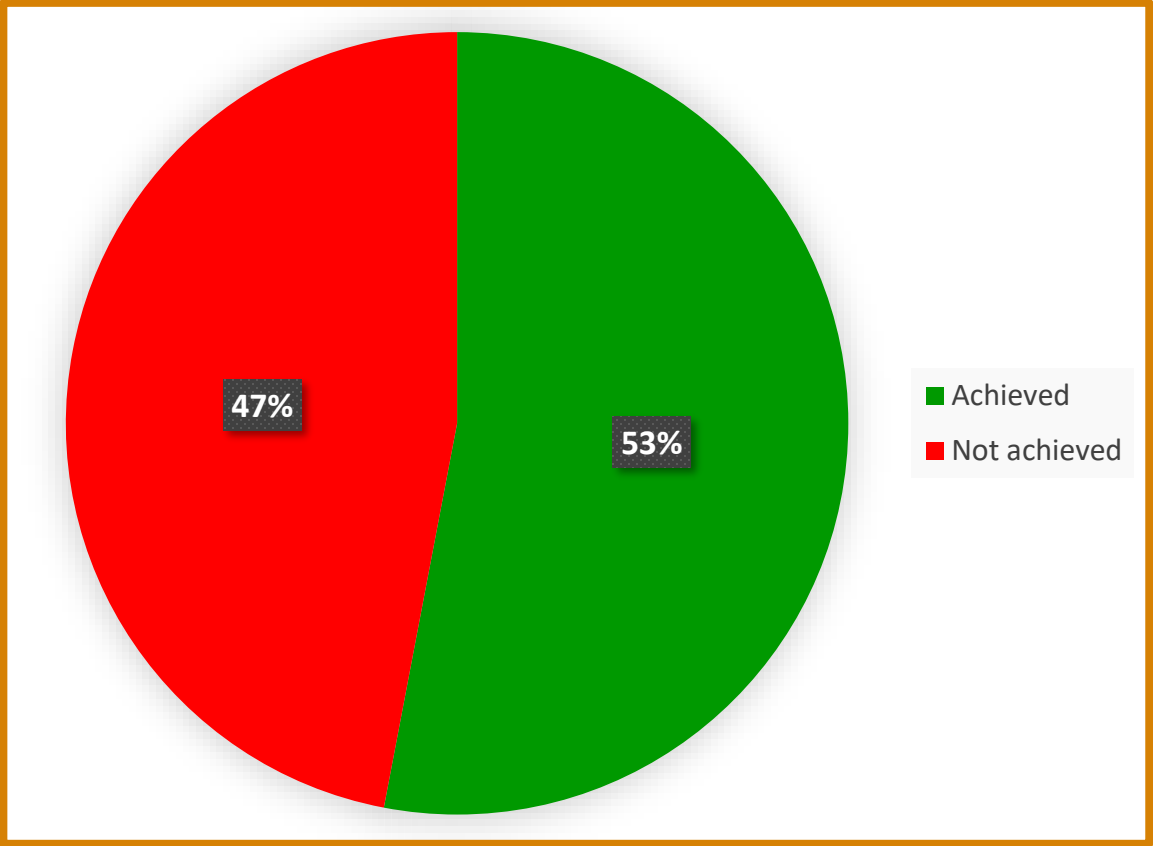
- Main reasons for not achieving some of the targets are:
- a) Revenue lower than budget
  - b) Two fatalities
  - c) Lower than planned planting in Mozambique
  - d) Strategic projects targets not achieved
  - e) Target spend on designated groups not achieved
  - f) Lower spend on enterprise development

# YEAR-ON-YEAR PERFORMANCE

2019/20 Performance Targets



2018/19 Performance Targets



← Target to achieve 85%

## 05 Governance

- The Board
- Executive Committee



### INTEGRATED REPORT

.....  
===== **2019/20**



# THE BOARD



**PM Makwana**  
Chairperson of the Board  
Non-Executive Director



**ZP Zatu**  
Non-Executive Director



**MF Baleni**  
Non-Executive Director



**B Hanise**  
Non-Executive Director



**N Balton**  
Non-Executive Director



**L Mnisi**  
Non-Executive Director



**Adv. L Mokgatle**  
Non-Executive Director



**J Yawitch**  
Non-Executive Director

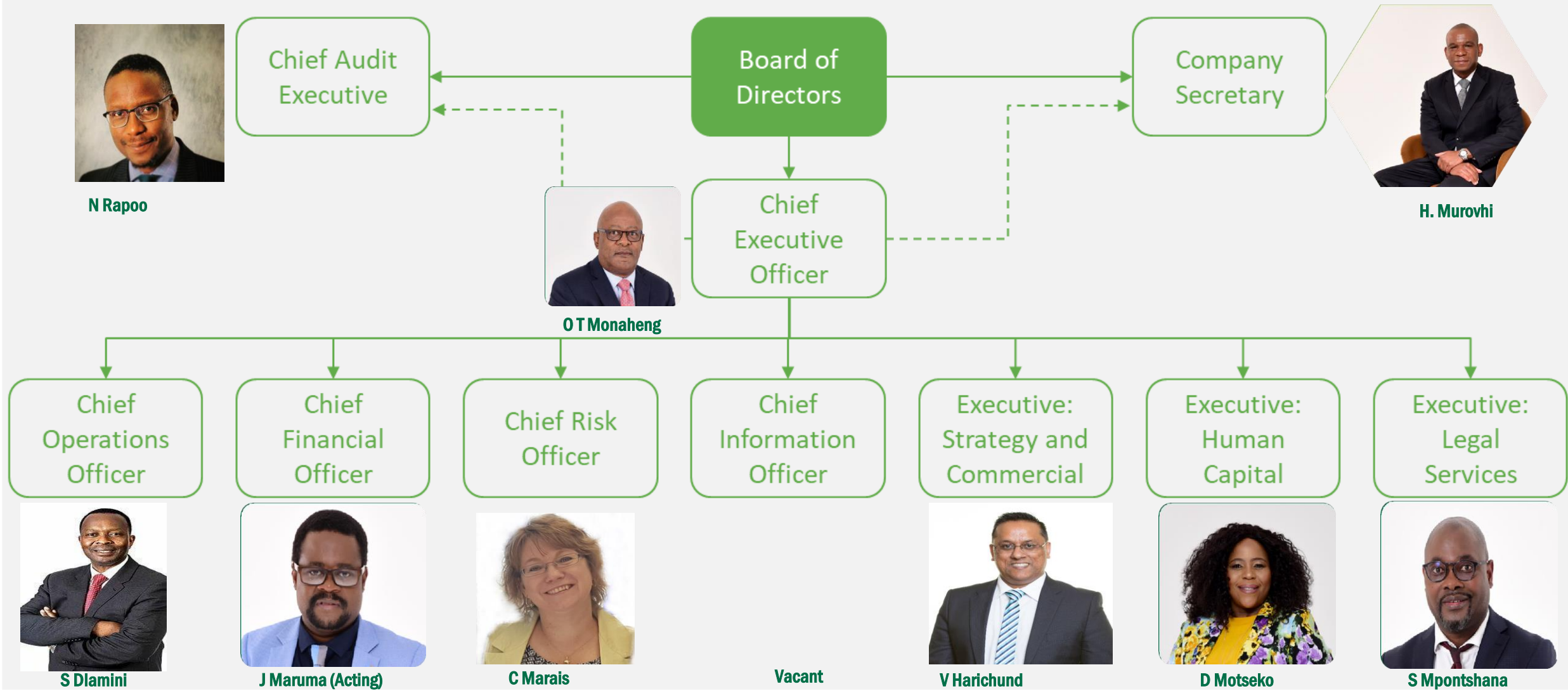


**Y Pillay**  
Non-Executive Director



**P Derby**  
Non-Executive Director  
Resigned 1 February 2020

## SAFCOL's Organisational Structure



## 06 Combined Assurance

- Risk Management
- The Environment
- Health and Safety
- Progress On Investigations



**INTEGRATED  
REPORT**

.....  
===== **2019/20**



# RISK MANAGEMENT

## Risk Management

The Companies Act 71 of 2008 provides for the establishment of the Audit Committee as a statutory Committee of the Board. The independent Committee oversees SAFCOL's monitoring and control systems and is accountable to the Board and Shareholders.

The Committee doesn't assume functions of management, which remain the responsibility of the Executive Management, officers and other members of senior management. The Committee has a role to ensure, amongst others, disclosure of risks is comprehensive, timely and relevant and that the internal control systems are operating effectively.

Risk is managed closely to ensure commercial and environmental sustainability of the national asset.





- a) SAFCOL maintains practices that are economically viable, environmentally acceptable and socially beneficial. It removes carbon dioxide from the atmosphere and contributes very little to the causes of climate change.
  
- b) Of greater concern, though, is the potential effect that climate change may have on the future growth of the biological asset, largely due to increased temperatures and reduced rainfall. This is being addressed through our established Research and Development programmes that seek to breed hybrid trees, which are more resistant to hot and dry conditions, and associated pests, which may occur as a result. SAFCOL is developing a 3-year Climate Change Response Plan, which includes optimal consumption of resources (electricity, water and fuel) at our Timbadola sawmill.

- a) SAFCOL achieved the Shareholder's Compact target for the Disabling Injury Frequency Rate (DIFR) for the 3rd consecutive year. This was achieved by recording a rate of 1.62 against an upper target of 1.80.
- b) SAFCOL also achieved its highest average compliance score on record at the annual external health and safety audit conducted across all South African business units by the National Occupational Safety Association (NOSA).
- c) Through the application of robust health and safety management systems, we remain focused on efforts to reduce and ultimately eliminate illness and injury in the workplace.

## Fraud Prevention

During the year under review, SAFCOL Fraud Hotline was managed by an external service provider. During this period, 28 fraud and corruption related allegations were recorded; the breakdown is shown in the table below:

Nature	Number of allegations
Procurement irregularities	6
Human Resource irregularities	5
Theft	4
Fraud and Corruption	12
Other	1

After the employees roadshow and customers conference (stakeholders engagements) fraud and corruption reporting has gone up by 86% compared to 2018/19



## 07 Human Capital

- Employees By Occupational Level
- Employment Equity



INTEGRATED  
REPORT

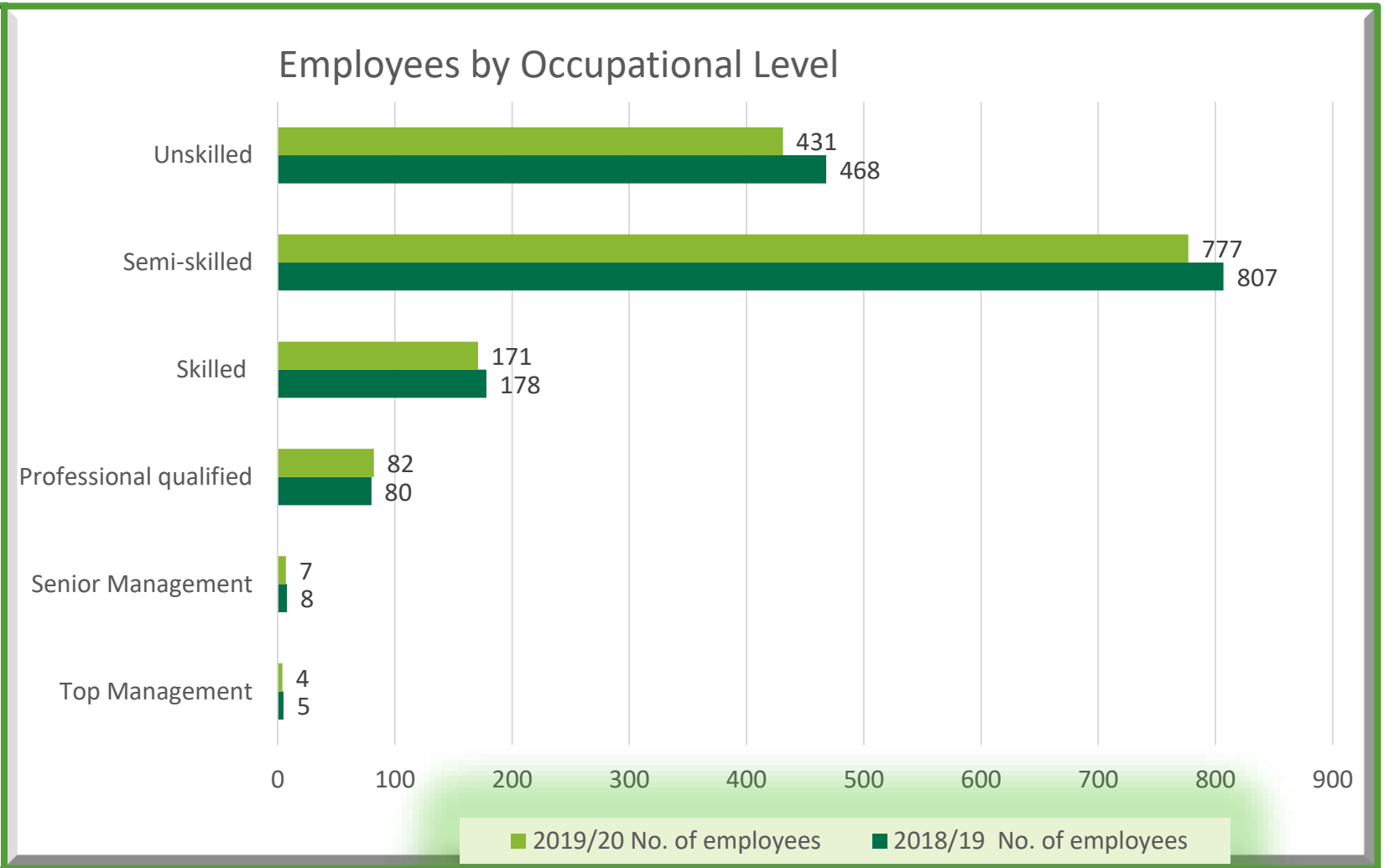
2019/20



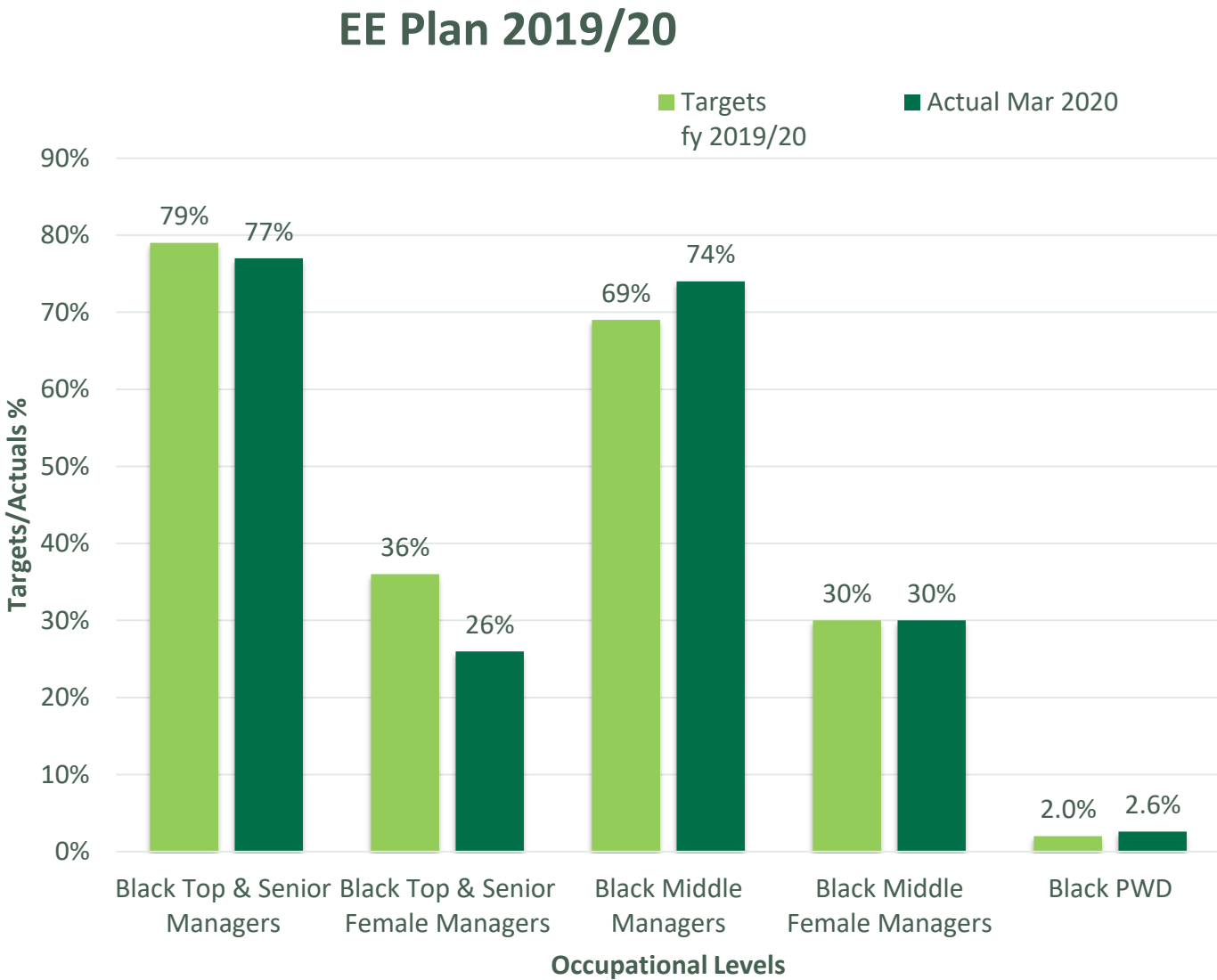
# EMPLOYEES BY OCCUPATIONAL LEVEL

## Human capital oversight and statistics

- During the 2019/20 financial year SAFCOL had 1720 approved positions. The positions ranged from Top Management (F band) to unskilled employees (A band). On 31 March 2020, employees headcount reduced to 1472 permanent employees (reduction of 74)



The company's performance report against Employment Equity targets for the financial year under review is reflected in the table.



08

## Social Capital

- Enterprise and Supplier Development(ESD)
- Corporate Social Investment (CSI)



INTEGRATED  
REPORT

2019/20



A total of **R1 215 624** was invested towards ED initiatives. The types of ED initiatives undertaken during the financial year can be summarised by the following contributions:

- Direct costs incurred in supporting Enterprises: 94.48% of total investment
- Costs incurred towards overhead costs for ED beneficiaries: 5.52% of total investment

Project	Description
<b>Mgadzeni Primary Cooperative Limited</b>	Weeding operations in the conservation compartments at Bergvliet plantation were afforded to the Mgadzeni community as part of the Company’s Forestry Enterprise Development. The Company provided the Cooperative with basic forestry training, protective clothing and business mentorship At least 30 people benefited from the job opportunities created by this initiative
<b>Sidlasonke Multipurpose Primary Cooperative</b>	The Cooperative is 100% owned by 5 Black women who saw an opportunity in the manufacturing of garments in their community. The Cooperative does not only serve as a source of income for its members, it also creates part-time jobs for the local community. SAFCOL has supported this Cooperative with industrial sewing machines and basic business skills training in partnership with SEDA, Richards Bay The Cooperative has created temporary employment for 10 people





## ENTERPRISE DEVELOPMENT (Cont.)

Project	Description
<b>Contractor Development Programmes</b>	<ul style="list-style-type: none"> <li>The programme was piloted during 2019/20 in partnership with the University of Mpumalanga to enable efficient business management and capacity building for SMMEs owned by designated groups</li> <li>A total of 20 Contractors took part in the programme and subsequently, created approximately 1000 jobs</li> </ul>
<b>Safety, Health, Environment and Quality (SHEQ) Training</b>	<ul style="list-style-type: none"> <li>The Company conducted Safety, Health, Environment and Quality training for forestry contractors. Furthermore, training was provided to catering service providers on Hazard Analysis Critical Control Points (HACCP) management systems in the preparation of food</li> <li>A total of 20 forestry Contractors and 12 catering suppliers were trained. They created approximately 1050 employment opportunities through their entities</li> </ul>
<b>Business Workshops conducted for the year 2019/20</b>	<ul style="list-style-type: none"> <li>SAFCOL's hosted workshops in Mpumalanga, Limpopo and KwaZulu Natal provinces for existing and potential suppliers to network and explore business opportunities within the forestry value chain. These also served as information-sharing on various financial and non-financial support offered by other government institutions. The workshops resulted in the implementation of Pest Control Operator (PCO) training for emerging forestry business entities in Sabie. The PCO certificate has been identified as one of the barriers-to-entry for Black-owned businesses within the forestry industry.</li> <li>A total of 357 business owners attended the workshops</li> </ul>
<b>Facilitation of access to finance</b>	<ul style="list-style-type: none"> <li>SAFCOL coordinated the facilitation of access to funding opportunities for its Silviculture and gardening Contractors through Small Enterprise Finance Agency (SEFA) and Mpumalanga Economic Growth Agency (MEGA)</li> <li>3 contractors received funding through SAFCOL intervention</li> </ul>

# CORPORATE SOCIAL INVESTMENT (CSI)

## Corporate Social Investment (CSI)

SAFCOL, through its CSI, continues to change lives and create hope for the less privileged within the communities where it operates. The CSI projects are aligned to the govern-ment's developmental mandate and objectives of the National Development Plan 2030. Within the perimeters of its commitment for 'Social Capital' and being a catalyst for rural and economic development, SAFCOL invested **R7 819 046** towards the delivery of various community projects.

Project	Description
<b>New Glory Hill Clinic</b> 	<ul style="list-style-type: none"> <li>SAFCOL invested about R2 500 000 to build a much-needed clinic for the Graskop community. This state-of- the-art building will provide quality primary health centre and relief as the services were previously rendered in an old community hall</li> <li>This project created 12 jobs for the community</li> </ul>
<b>Expanded Public Works Programme (EPWP)</b>	<ul style="list-style-type: none"> <li>The programme was implemented in consultation with the Joint Community Forum as the recruitment agents</li> <li>The project created more than 200 EPWP job opportunities for various cluster communities in Kwa-Zulu Natal, Mpumalanga and Limpopo</li> </ul>
<b>Robbinsdale and Dundonald Timber footbridges</b> 	<ul style="list-style-type: none"> <li>In line with empowering communities around our operations, SAFCOL built 2 footbridges in Robbinsdale and Dundonald</li> <li>The footbridges allow learners to get to schools and the rest of the community access to basic services, markets and general freedom of movement</li> <li>This has created 17 jobs for the local community</li> </ul>



## 09 Financials

- Financial Statements Dashboard
- Balance Sheet
- Income Statement
- Cash Flow
- Fruitless, Wasteful and Irregular Expenditure



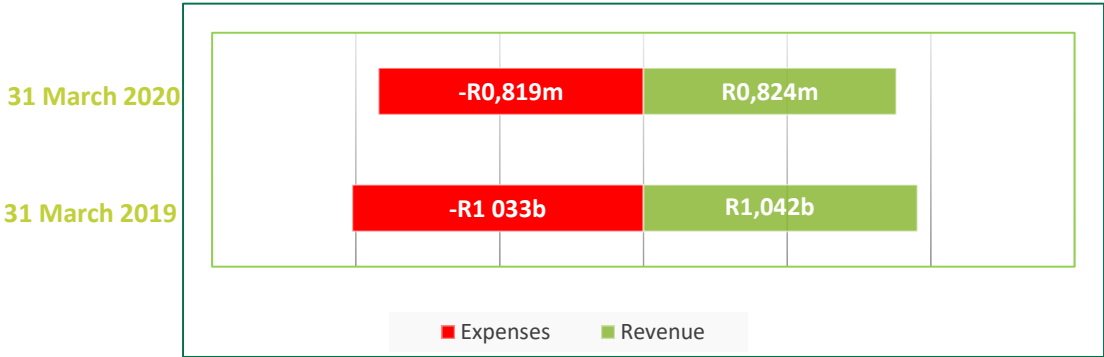
### INTEGRATED REPORT

.....  
===== **2019/20**

# FINANCIAL STATEMENTS DASHBOARD

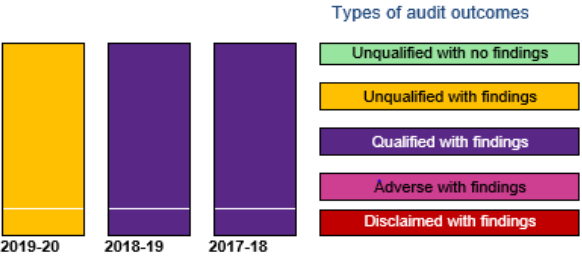


- 1. Discontinuation of forward sales.
- 2. Reduction of prices by 9% to save sawmilling industry.

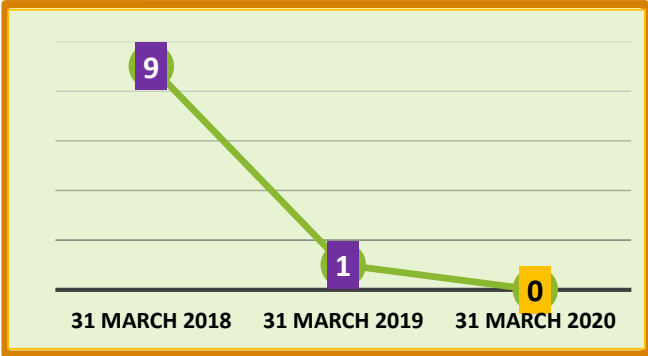


## Audit Results

Improvement in audit outcomes












## Qualification Areas



# BALANCE SHEET

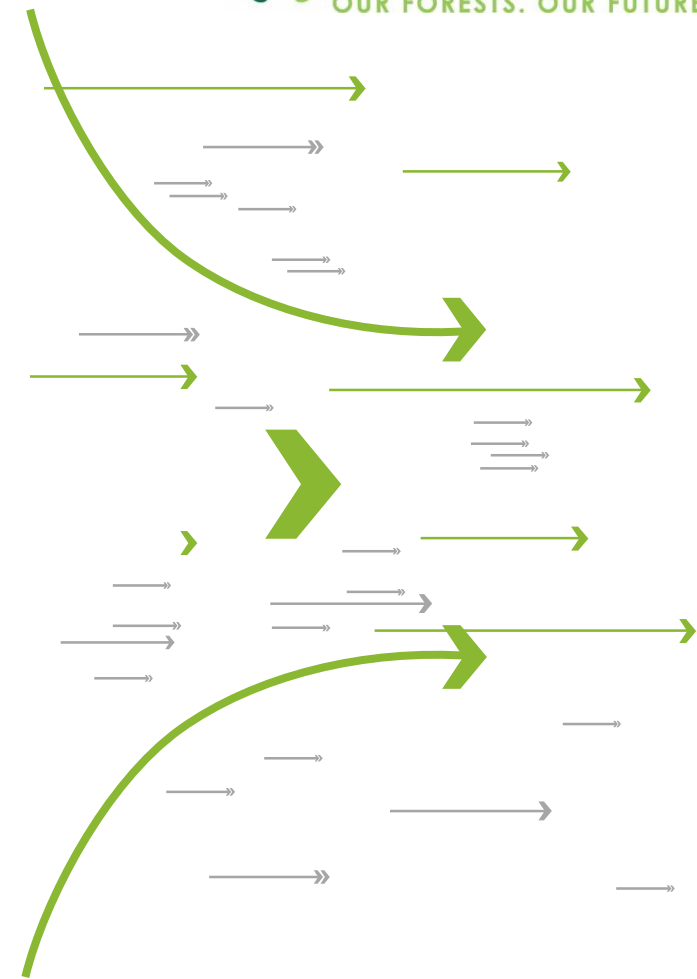
STATEMENT OF FINANCIAL POSITION	31 March 2020 (R m)	31 March 2019 (R m)	Variance %
Non-Current Assets	3 964	3 558	11%
Current Assets	1 026	1 090	-6%
Non-Current Assets Held for Sale	1	0	100%
<b>Total Assets</b>	<b>4 991</b>	<b>4 648</b>	<b>7%</b>
Equity	3 139	3 192	-2%
Non-Current Liabilities	1 428	1 047	-36%
Current Liabilities	424	409	-4%
<b>Total Equity and Liabilities</b>	<b>4 991</b>	<b>4 648</b>	<b>-7%</b>

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



# INCOME STATEMENT

SUMMARY OF KEY FINANCIAL PERFORMANCE AREAS	31 March 2020 R m	31 March 2019 R m	Variance %
Revenue	824 318	1 042 114	-21%
Cost of sales	819 881	1 033 480	21%
Fair value adjustment	903 440	823 377	10%
Other operating expenses	927 857	973 988	0.5%
Loss after tax	-66 335	-98 376	33%
EBITDA	35 354	-66 247	153%



REVENUE ACHIEVED  
R 824 318 000



21%



NET LOSS FOR THE YEAR  
R 66 335 000

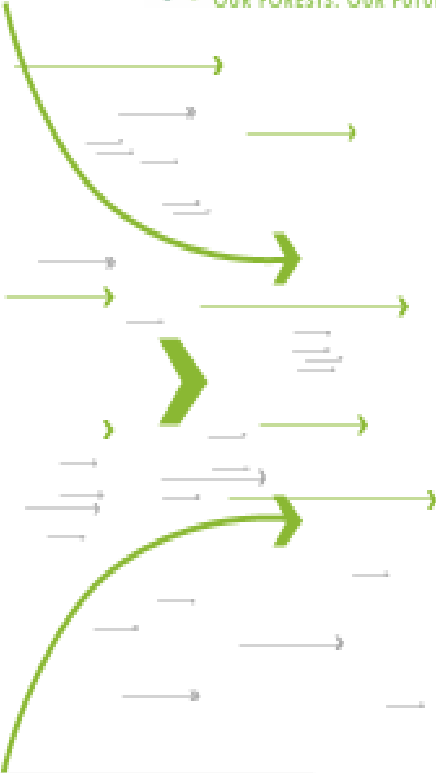





33%

# CASH FLOW STATEMENT

## CASH FLOW STATEMENT

CASH FLOW STATEMENT	31 March 2020 (R m)	31 March 2019 (R m)
Net cash inflow (outflow) from operating activities	161 193	49 931
Net cash inflow (outflow) from investing activities	-27 575	-49 709
Net cash inflow (outflow) from financing activities	-37 339	-25 991
Total cash and cash equivalents movements	96 279	-25 769
Cash at the beginning of the year	156 079	181 848
Total cash and cash equivalent	252 358	156 079



-  Business generates sufficient cash to support operations.
-  Capex requirements too high for available cash resources
-  The DEFF lease debt is a risk to long-term liquidity



CASH FROM OPERATIONS

R 161 193 000





INCREASE IN CASH RESOURCES

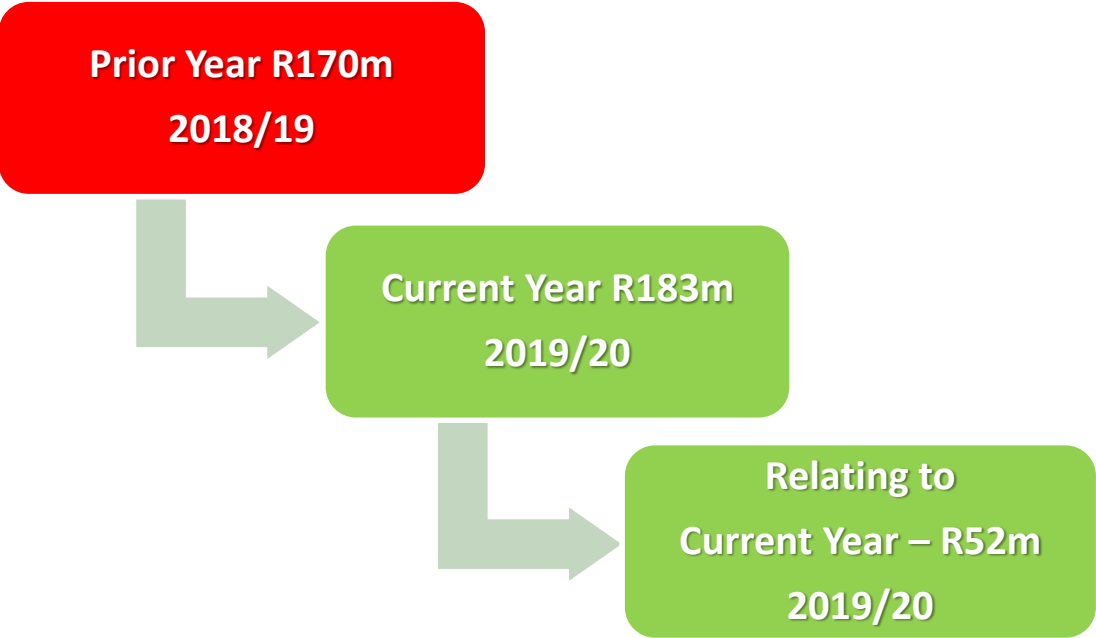
R 96 279 000





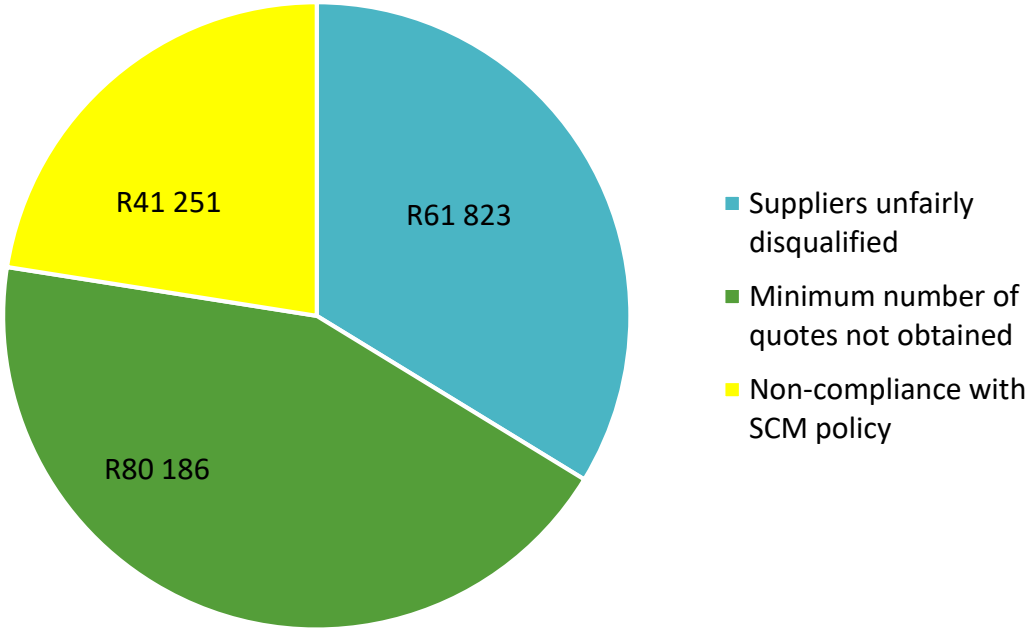
Business generates sufficient cash to support operations.

## Irregular Expenditure



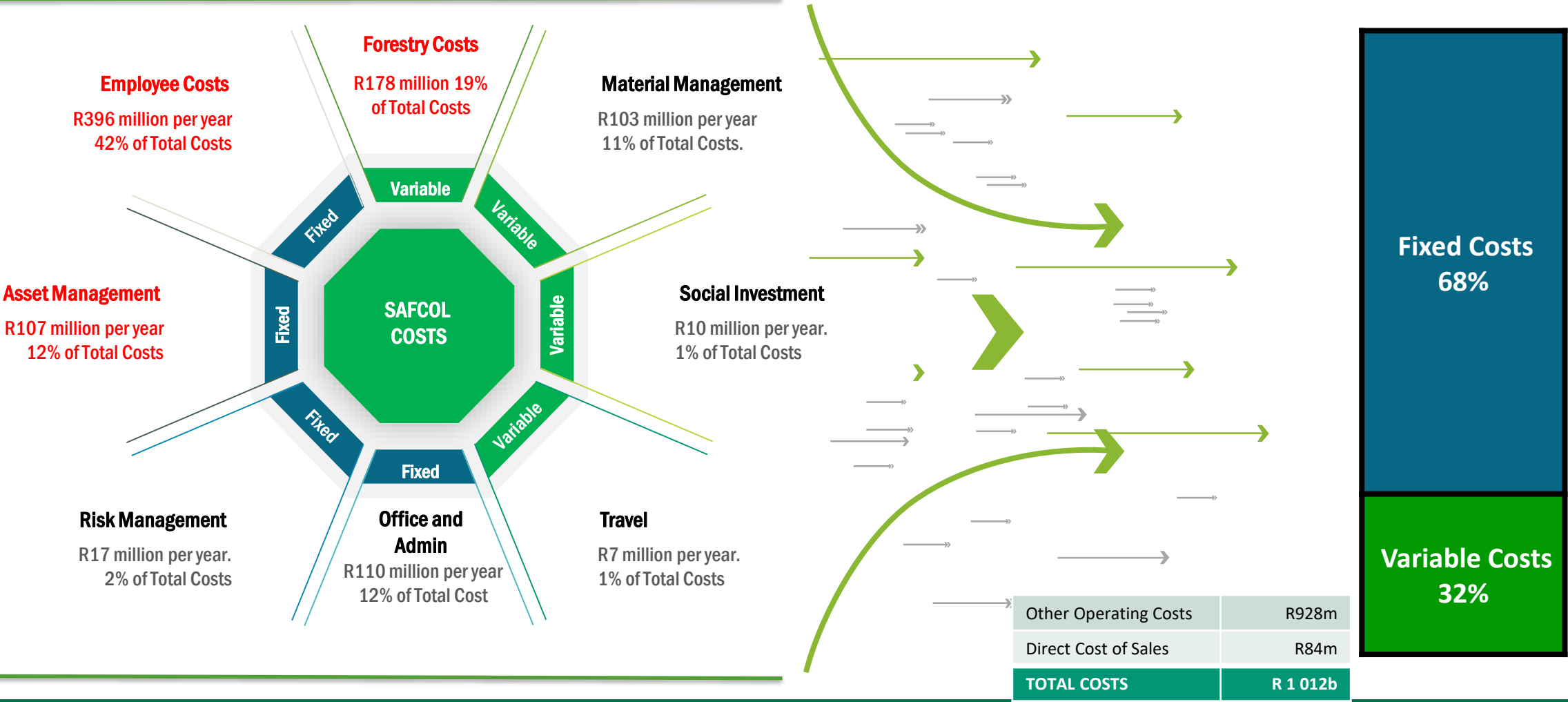
- Improved internal controls resulted in the decrease in irregular expenditure
- Early detection mechanism result in the prevention of irregular expenditure
- Awareness and implementation of consequence management enforced the internal controls.
- Leadership commitment to improve the culture in the company

## Reasons for incurring Irregular Expenditure





# FIXED COSTS PRESSURE ON PROFIT



The project to improve margin contribution continues to be a priority: Reduction of fixed costs as a percentage of total costs.



# INTEGRATED REPORT

.....  
===== 2019/20

OVERALL CONCLUDING REMARKS

## OVERALL CONCLUDING REMARKS



- The first phase of the Strategy (fixing and stabilising the business) has been implemented and the second phase (revenue growth off existing base) is in the process of implementation. A positive EBITDA was achieved during the financial year;
- SAFCOL and its subsidiaries achieved unqualified audit opinions. To maintain and improve this status, the company will focus on strengthening controls in the finance space including accurate financial reporting, improving supply chain management performance and implementing working and modern ICT systems;
- SAFCOL is committed to the transformation of the forestry sector through partnerships with communities close to the operations and previously disadvantaged individuals in the timber processing industry;
- KLF continued to maintain 100% FSC Certification for the 23<sup>rd</sup> year in succession;
- Permanent executives have been appointed to lead the company in the implementation of the strategy;
- SAFCOL is aligned and implementing government programmes, such as the implementation of socio-economic development projects (CSI, ESD, Black industrialists) and the economic reconstruction and recovery plan; and
- Employee costs reduced from R422m the prior year to R395m during 2019/20 financial year, resulting in a change of -6% .





**Thank you**