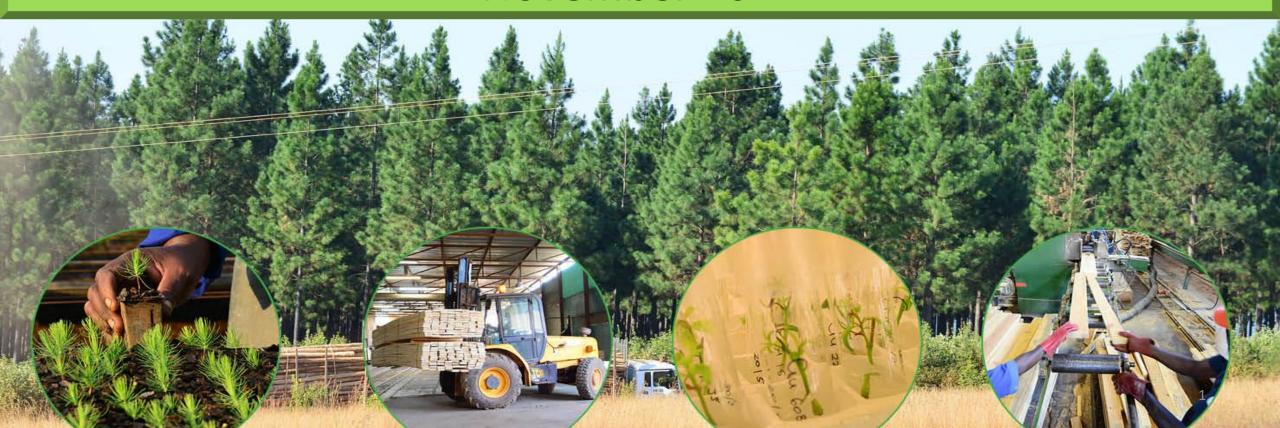
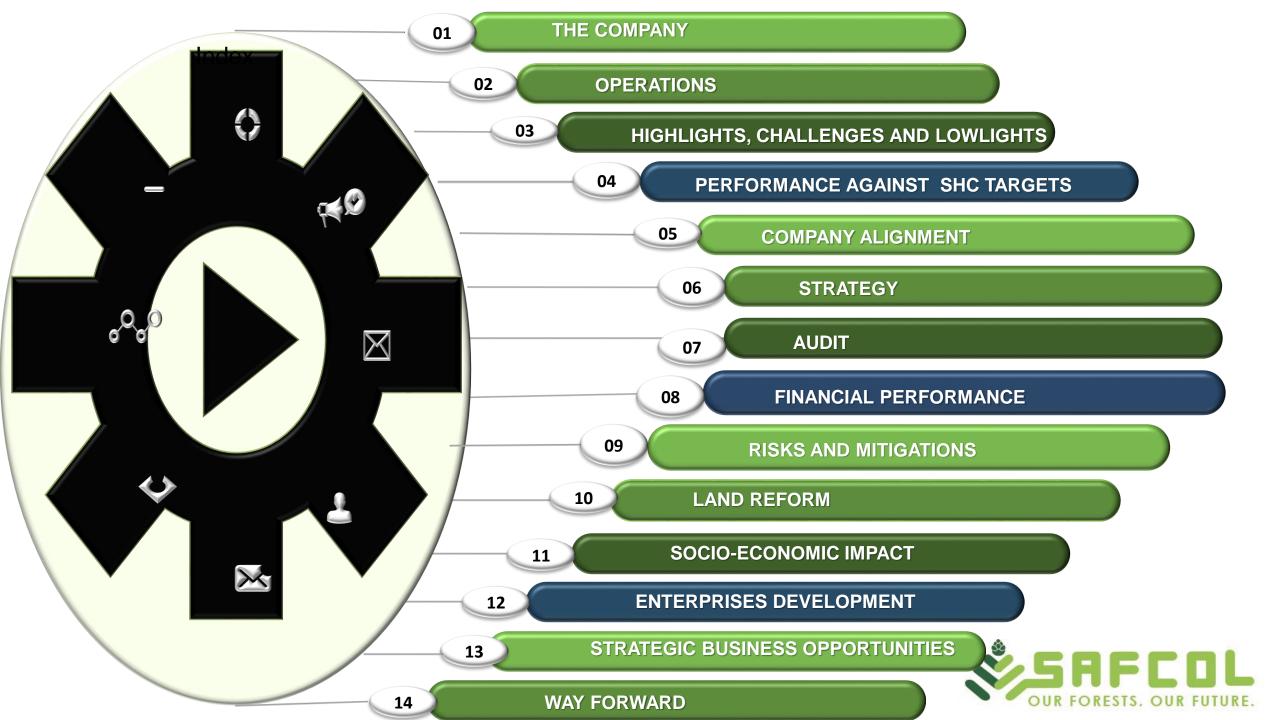


PRESENTATION TO SELECT COMMITTEE ON PUBLIC ENTERPRISES AND COMMUNICATIONS November 2021







THE COMPANY

Management of State Forests Act No. 128 of 1992

Conduct commercial forestry business

Commercial viability

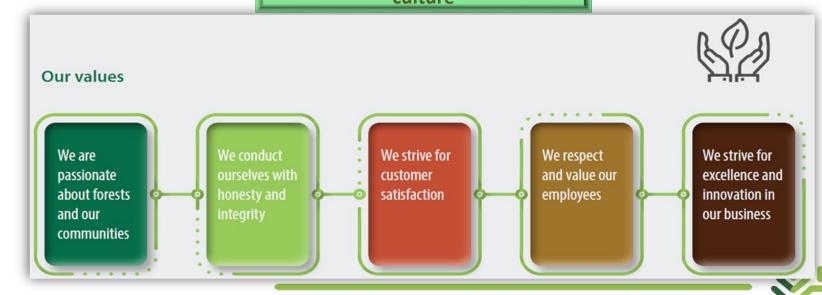
Socio-economic impact

Value creation for the Shareholder



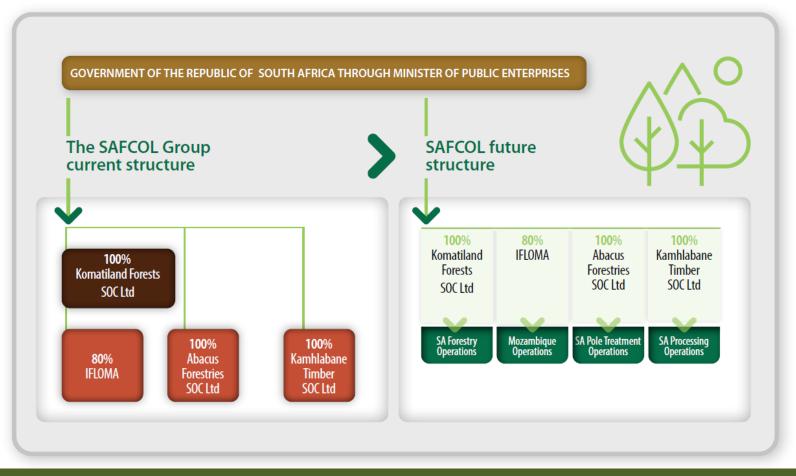
Economic development in rural areas

High performance values-based culture





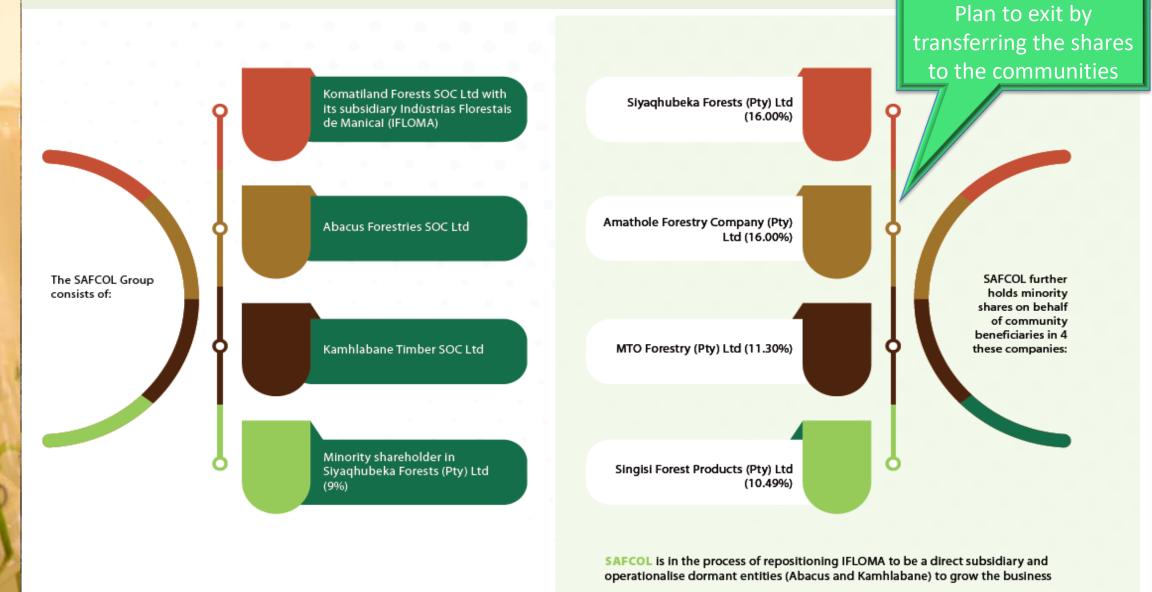
GROUP STRUCTURE



The process of incorporating IFLOMA as an entity which reports directly to SAFCOL is underway. Progress is at an advanced stage, with the repositioning of IFLOMA approved subject to the receipt of written confirmation from the Mozambican tax authority that the repositioning would not trigger any adverse tax effect in Mozambique.



COMPANY OVERVIEW





OPERATIONS



MOZAMBIQUE

Area of operation	Total area (ha)	Plantable area (ha)	Planted area (ha)	Temporarily unplanted	Still plantable (ha)	Conservation (ha)
South Africa	189 747	120 644	116 695	3 949	-	69 103
Mozambique	101 114	17 385	16 275	1 110	28 581	55 147
Total SAFCOL	290 861	138 029	132 970	5 059	28 581	124 250

IFLOMA MESSICA DISTRICTSNAPSHOT

Genus:

Pine and Eucalyptus

Plantations:

Rotanda, Bandula, Penhalonga and Mavonde plantations

Manica district and Sussundenga District in Manica province

31% of total area under management

DISTRICTSNAPSHOT Genus:

IFLOMA MUANZA

Eucalyptus

Plantations:

Galinha

Area:

Muanza District

69% of total areaunder 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

CENTRAL REGION SNAPSHOT

Predominantly Pine and Eucalyptus

SOUTH AFRICA

Plantations:

Tweefontein, Bergyliet, Brooklands, Witklip, Uitsoek

Graskop, Sabie, Hazyview, Lydenburg (Mashishing)

37% of total area under management

HIGHVELD REGION SNAPSHOT

Genus:

Pine, Eucalyptus and Wattle

Plantations:

Berlin, Belfast, Nelshoogte, Jessievale, Roburnia, Ngome

Mpumalanga Highveld around Ermelo, Belfast, Kaapschehoop, Barberton, Warburton as well as Nongoma in KwaZulu-Natal

38% of total area under management

Considering DFFE and municipalities plantations to increase plantable area



HIGHLIGHTS, CHALLENGES AND LOWLIGHTS



Highlights



12% revenue growth amidst tough conditions, e.g. Covid-19



Healthy balance sheet and cash position maintained



TUP Mozambique target exceeded



FSC® certification achieved for the year



24th consecutive



Lowlights

Challenges

attended to

being

B-BBEE level from level 3 to 4

· Timber theft and other crime · Replacement of the ERP system

· Revenue per head and EBITDA not achieved

· Cost structure and profitability at Timbadola

Modernisation of forestry operations through mechanisation and automation

· Implementation of strategic projects

· TUP South Africa not achieved



Improvement in SHC performance



Maintained SHE

performance and



Electronic performance management system launched



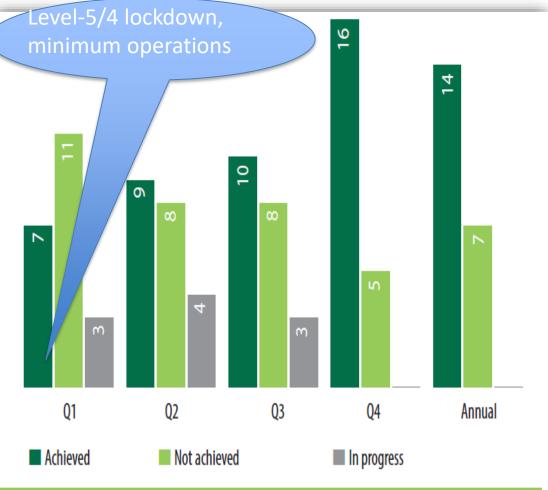
Implementation of a proactive community engagement model



Successful legal and law enforcement actions to address timber theft and other criminal activities.



PERFORMANCE AGAINST SHC TARGETS



COMPARISON OF QUARTERLY AND ANNUAL PERFORMANCE INFORMATION FOR 2020/21

- SAFCOL concluded a Shareholder's Compact for FY 2020/21 with the Minister of Public Enterprises (the Shareholder Representative) which sets out agreed performance objectives, measures and indicators in line with the Treasury Regulations issued under the Public Finance Management Act (PFMA).
- 2. The SAFCOL Group's performance was measured on 21 KPIs, 14 of which were achieved. This equates to an achievement of 67% against target, which is higher than the 56% target achieved in FY 2019/20*.
- 3. This is despite the Covid-19 level lockdowns that impacted SAFCOL's performance, particularly in the first quarter of 2020/21, and persistent rains that impacted performance in the fourth quarter of 2020/21.

* The AGSA conducts the necessary audit procedures on the performance information to provide reasonable assurance in the form of an audit conclusion. The audit conclusion on the performance against pre-determined objectives is included in the report to management, with no material findings on the reported financial information.





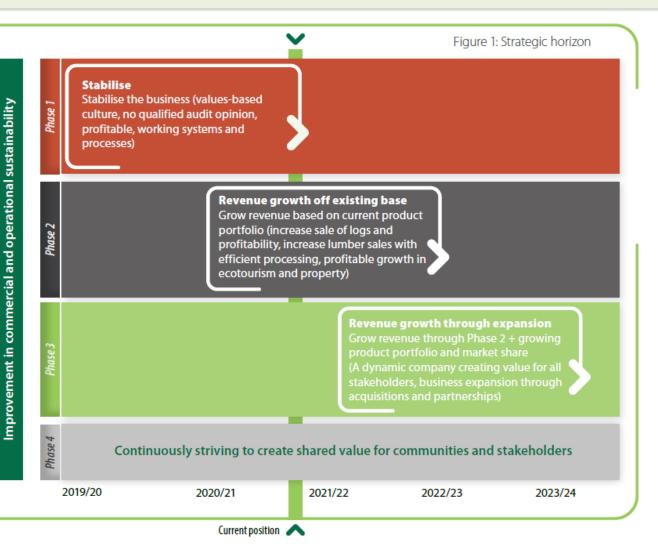
COMPANY ALIGNED

Strategic goals	Strategic objectives	Alignment with SDGs and NDPs	
Organisational enablement	 Develop and implement an appropriate operating model inclusive of development and optimisation of the business; structural and operating alignment between functions; and system specification. 	NOUSTRY, MNOVAINAND ON LAND NOUSTRY, MNOVAINAND ON LAND NOUSTRY, MNOVAINAND AND MERASTRUCTURE AND MERAST	
Operational excellence	 Adopt appropriate processing technologies to reduce cost and maximise value addition. Increase biological asset value 	NOUSTRY, MNOVALAND AND MERSTRUCTURE	
Growth and business development	 Improve business development and market intelligence capabilities to extract maximum value from products. Invest in R&D for new products and optimise product portfolio across the value chain. Increase market share through strategic acquisitions and partnerships (horizontal and vertical opportunities. 	NOUSTRY NAUVANA AND NERASTRUCTURE	
Stakeholders and economic transformation	 Create shared value initiatives with a focus on: a. Industry transformation b. Local community economic advancement 	SUSTAINABLE OF AND WELL-BEING AND WELL-BEING SUSTAINABLE OF AND COMMUNITY AND	

2. Create sustainable value for shareholder.



COMPANY STRATEGY



Our work to improve the commercial and operational sustainability, contribute to the economy and communities neighbouring our operations will be delivered in three +1 phases, namely:

- 1. Stabilisation
- 2. Revenue growth off existing base
- 3. Revenue growth through expansion; and
- 4. Continuous creation of shared value for communities and stakeholders





SCENARIO PLANNING

Background Impact

- Due to economic downturn and the Covid-19 pandemic, the company embarked on a Scenario Planning process was concluded and approved in December 2020.
- The objective of the process was to present short and medium term scenarios due to the impact of the economic downturn & the COVID-19 pandemic on SAFCOL's growth and operations.

- Assisted the organisation to be more agile and prepare for multiple business scenarios.
- 2. Key actions were identified to ensure that the company is prepared to persevere and succeed in the environment that it finds itself in.
- These have been key during the strategy review sessions and was critical in strategy implementation.

Tracking and responding to the appropriate flags in the external environment (Covid-19, market conditions and economic recovery) assisted us to perform at our "medium impact" scenario

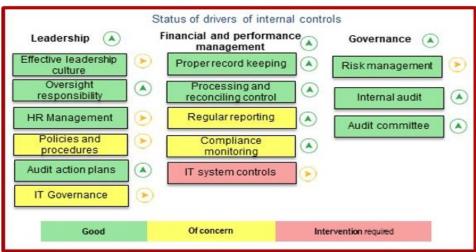




AUDIT OPINION

- 1. The AG audit opinion on the SAFCOL Group AFS improved from a Qualified opinion with findings in FY2019 to Unqualified for the past 2 years.
- 2. The drivers of internal controls have all been assessed and improved since FY 19/20. The number of findings also significantly reduced from the prior year.
- The AG could not identify any Irregular Expenditure which SAFCOL had not already disclosed.
- 4. AG assessed the overall financial viability of the group as "Good".
- 5. ICT systems controls are receiving a focused attention



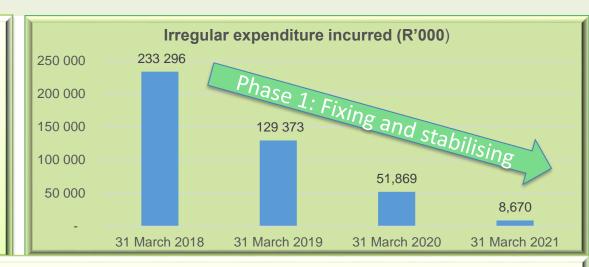




COMPLIANCE

a) Measures put in place to avoid future recurrence of malfeasance

- 1. An approved Fraud Prevention Strategy and Plan is in place and focuses on the pillars of Prevention, Detection, Investigation, and Resolution
- 2. The SCM function has been centralised and the internal controls strengthened.
- 3. Staff involved in the SCM process are required to complete PFMA Bid Committee training.
- 4. During the 2021 financial year there was a marked reduction in irregular expenditure from R52 million in FY2020 to R9 million in FY2021.
- 5. In addition to the normal Code of Conduct, the Board approved a Consequence Management Policy that came into effect on 1 Sep 2021.



b) Is wasteful and fruitless expenditure being recovered?

Yes, to date R18'000 of wasteful and fruitless expenditure has been recovered from employees.

A further determination test is in its final stages to determine where other recoveries should be made.

200	Training determination test is in its initial stages				
	Prevention	Detection	Investigation	Post Investigation Resolution	
	1. Anti-fraud programmes;	1. Tip-offs;	Security / Audit Investigations Regulations.	1. Disciplinary actions	
	2. Code of Ethics;	2. Line Management;	2. HR / Disciplinary Procedures;	2. Improved Controls	
	3. Internal control & compliance;	3. Whistle-blowing;	3. Fraud Investigation Principles;	3. Civil Recovery	
	4. Risk Identification & Assessment;	4. Fraud Audit Program;	4. Engagements with other Law Enforcement	4. Incidents Database	
	5. Creation of anti-fraud culture / behaviours;	5. Internal Audit Reporting;	Agencies (SAPS, SIU, AFU)	5. Reporting	
	6. Training & Awareness; and	6. Computer Imaging and		6. Lessons Learned (Feedback to	
	7. Communication	7. Analysis and Data Mining Tools.		prevention)	



FINANCIAL PERFORMANCE (I/S)

The FY2021 financial performance demonstrates the success of the turnaround strategy:



Revenue increased by 12%



Operating Profit of R40m.



Loss after tax reduced by 32%



ROE improved from -2.1% to -1.4%

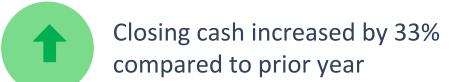
Statement of Profit or Loss and Comprehensive Income

	Group		
		2021	2020
	Note(s)		Restated *
		R '000	R '000
Revenue	25	920 817	824 318
Cost of sales	26	(840 015)	(819 882)
Gross Profit / (Loss)	•	80 802	4 436
Other operating income	27	40 240	6 167
Fair value gain on biological assets	28	852 453	903 440
Other operating expenses	30	(912 847)	(901 513)
Allowance for bad debts	30	(20 959)	(26 344)
Operating Profit/ (Loss)	•	39 689	(13 814)
Investment income	31	5 605	7 146
Finance costs	32		
Lease Finance Costs		(150 149)	(223 661)
Other Finance Costs		(32)	(1 795)
Profit/(Loss) before taxation		(104 887)	(232 124)
Taxation	34	60 065	165 789
Profit/(Loss) for the year		(44 822)	(66 335)



FINANCIAL PERFORMANCE (C/F)

Cash Flow for the Group improved in FY2021:



Cash remained above internal target of R250m.

Cash ratio at year-end was 0.8:1 (internal target is 0.5:1)

Cash reserves will be used to fund strategic projects



Cash position in R million

RISKS AND MITIGATIONS



Risk appetite and risk management frameworks are closely aligned to our strategy.

We have continued to improve our risk management efforts by developing and strengthening our risk intelligence map, risk appetite framework, risk profile, business continuity plans and our risk financing arrangements. All risks are within SAFCOL's approved risk tolerance level.



RISKS AND MITIGATIONS (cont.)

Risk	Description	Mitigation strategy
Covid-19	The persistence of the pandemic, uncertainties relating to its mutation poses continued risk.	Adapted well during FY 2020/21 due to concerted efforts to protect employees, stakeholders (including communities) and the overall business from the pandemic. We will continually review and improve our mitigation efforts.
Fires	Unfavourable weather conditions and human activities may render the plantations vulnerable to fires.	Collaboration with Forestry South Africa, Working on Fire, Fire Protection Associations and others to maintain integrated firefighting strategies.
Illegal activities (e.g. timber theft, illegal mining, land invasion)	The geographical spread of the plantations, insufficient socioeconomic growth and poverty where we operate expose us to illegal activities.	Integration with surrounding communities on beneficiation opportunities, work with law enforcement authorities, deploy physical security and explore the latest technologies to monitor our plantations.
Pests and diseases	Baboons can severely damage the bark of trees, and diseases affect our plantations and these may result in lower volumes.	Working with the Baboon Damage Working Group and other industry stakeholders on solutions for damages caused by animals and pests. The R&D focus areas include developing disease-resistant species to mitigate the risk more sustainably.
Climate change and natural disasters	Changing weather patterns affect the forests, given the 30-year life cycles of most of our trees.	Work with industry and in-house experts and academia to implement our climate change response strategy. Our R&D team aims to develop drought-resistant species to counteract the effects of climate change on our business.



RISKS AND MITIGATIONS (cont.)

Risk	Description	Mitigation strategy
Ageing infrastructure	Our ageing infrastructure may present a safety risk, result in inefficient operations and/or increased cost.	Making progress in securing strategic partnerships to expedite the upgrade of our key infrastructure, to improve productivity and enable us to deliver higher-quality products more effectively and efficiently to our customers.
Loss of access to forestable land	We lease most of our operating land from the DFFE. When the land is ultimately transferred to successful claimants, we could lose access thereto, or face uncertain lease negotiations with new landowners.	We monitor the land restitution process affecting our operations. Opportunities to collaborate with land-reform beneficiaries have gained momentum as we accelerate our efforts to transform the forestry industry.
to water	Climate change may disrupt rainfall patterns, which will affect growing stock and water tables, aquifers and watercourses from which we draw water. We are further exposed to reputation risk due to the perception that commercial forests deprive downstream users of water, particularly during dry periods.	We comply with valid Water Use Licenses for all our operating sites. Before replanting post harvesting, we assess and implement delineation requirements to establish and maintain proper buffer zones beside wetlands and watercourses. We monitor the condition of streams and watercourses, and the quality of water in all the catchments where we operate. In addition to implementing interventions as recommended by independent assessors, our data is made available to the National River Health database of the Department of Water Affairs and Sanitation. Initiatives to reduce water usage are incorporated into our climate change response action plan.



HEALTH AND SAFETY



Zero fatalities



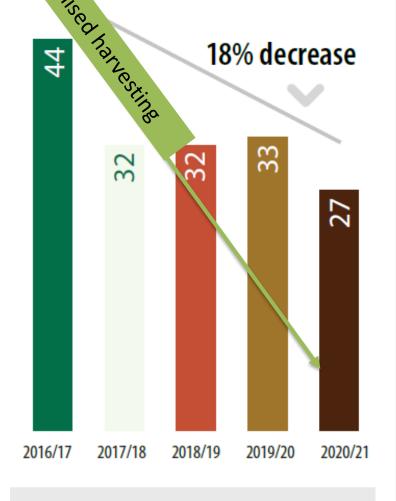
DIFR significantly below our shareholder compact target



Effective response to Covid-19 pandemic, with rapid establishment of effective processes and protocols



Maintained a culture of safety compliance and safe behaviours across organisation



DISABLING INJURIES: SAFCOL EMPLOYEES BY FINANCIAL YEAR



Compliance with regulations issued under Disaster Management Act due to Covid-19 pandemic, including –

- 1. A Covid-19 Compliance Officer and site Compliance Coordinators were appointed
- 2. A workplace readiness plan was implemented
- A detailed Covid-19 risk assessment was conducted and mitigation plans were implemented
- 4. Procurement of Covid-19 personal protective equipment was centralised and monitored for compliance purposes
- 5. Engagement with organised labour on our initiatives to keep employees safe took place
- Weekly communication took place with all our employees to keep them focused on the need for Covid-19 vigilance and compliance to protect themselves, their families and SAFCOL





LAND CLAIMS

- 1. Approximately 57% of the SAFCOL estate is affected by land claims.
- 2. SAFCOL leases State forest land on the basis of letters of delegation and interim agreements with DFFE (finalisation of a long-term lease agreement awaits input from DFFE).
- 3. The land claims affect SAFCOL's plantations in Limpopo, Mpumalanga and KZN.
- 4. Land reform/claims present opportunities to
 - a. promote greater participation in the forestry and forest products industries by land beneficiaries; and
 - b. develop industrialists in the wood processing and advanced processing sectors of the forestry industry .
- 5. SAFCOL contributes to transformation of the forestry industry through integration of communities into the forestry value chain in mutually beneficial ways.





POST-SETTLEMENT MODEL

- 1. Minority Shares:
 - a. SAFCOL's Board approved SAFCOL's position on the exiting of minority shares held in SiyaQhubeka, Amathole, Singisi and MTO.
 - b. Valuation of shares held in all four entities have been concluded.
 - c. The sale of the 9% shares held by SAFCOL on its own behalf in SiyaQhubeka has been approved and Pre-notification has been submitted to DPE.

- 2. Proactive Community Engagement and Post-Settlement Models:
 - a. SAFCOL engages with >80 adjacent communities, of which >40 are land claimants.
 - b. Models enable SAFCOL to build strong economic beneficiation relationships with these communities
 - c. Immediate and mutual benefits over and above the long-term benefits after land transfer.



CURRENT LAND CLAIMS PROJECTS

- Land claimants socio-economically empower through CSI, commercial and agro-forestry initiatives.
- 2. The following projects are currently being implemented:
 - a. Small scale farming for the **Makhubu family** (Blairmore land claimants)
 - Signed framework agreement and bee- keeping projects
 for the Entabeni land claimants
 - c. Nine farms owned by the **Entabeni land claimants** supplied with sawdust and pine bark
 - d. ECD centres and community halls constructed for land claimants.
 - e. Lease agreement signed with Mamahlola land claimants.





CURRENT LAND CLAIMS PROJECTS

	Communities			
	Entabeni land	1.	Registration of formal collaborative programme and signing of Partnership Agreement in February 2021	
	claimants and	2.	Appointment of a Programme Working Group with representatives and finalisation of Terms of Reference	
- 1	adjacent communities	3.	Identification of three strategic projects	
	Makhubu family land	1.	The Makhubu task team was established to implement strategic projects that will add value to the community	
	claimants	2.	SAFCOL's Proactive Community Engagement Model guides the task team's work	
	Mmamahlola	1.	SAFCOL, DFFE and DARDLR continued to engage with the community to collaborate on projects	
	community land claimants	2.	A Lease agreement signed in FY2021/22.	
1	Makgoba Community	1.	SAFCOL workshopped the solutions to the issues raised by community to the satisfaction of the Forestry Sector Charter Council and the community.	
		2.	Plan to sign a Collaboration Framework during FY2021/22	
	Kaapschehoop community	1.	SAFCOL collaborates with Mpumalanga Land Claims Commission on post settlement pilot project for forestry sector	
		2.	First consultation on collaborative relationship held in April 2021	
)	Ngwaritsi	1.	SAFCOL is engaging with the Mpumalanga Land Claims Commission to promote collaboration.	
팋	community	2.	CSI program in progress	
)	Tshivhase Traditional Council	1.	Implementation of aquaponics project for food production, funded by UNDP is in progress (official handover due in October 2021	
		2.	Stakeholder information sharing on SAFCOL and forestry sector conducted in June 2021	



SOCIO-ECONOMIC IMPACT

SAFCOL is committed to the transformation of the industry by ensuring that Black people, youth, people with disabilities and women participate in the economy and in the process create jobs.

In the past financial year:

- More than 16 000 community members impacted by CSI projects
- 2. Facilitated training for a total of **84 black owned** emerging and aspiring forestry companies in the completion of their theoretical pesticide control- operator (PCO) training
- 3. Seventeen (17) small scale farming projects were established and supported in the various provinces with more than 440 beneficiaries
- **4. Seventy-six (76)** black owned businesses (SMME) were part of SAFCOL's incubation programme









SOCIO-ECONOMIC IMPACT (cont.)

1. A state-of-the-art clinic built at Graskop town, Mpumalanga Province, was completed as the result of a partnership between SAFCOL, the Department of Health, Thaba Chweu Municipality and Tzaneng Treated Timbers.

2. The facility provides quality primary-healthcare services to more than 1 500 visitors monthly





ENTERPRISES AND SUPPLIER DEVELOPMENT

- 1. SAFCOL has developed an incubation programme that supports small black owned businesses to become self sustainable and profitable, as well as to ensure maximum participation in the mainstream economy through job creation.
- 2. The company has appointed 100% black owned contractors to conduct silviculture work, 60% of the contractors appointed are black women owned and 40% black male owned entities.
- 3. 1,014 jobs were created through the Silviculture contractors
- 4. Black emerging sawmillers are supported by offering multi-year contracts as well as extended payment terms
- The company has also facilitated funding for black owned companies (including sawmillers).





BUSINESS OPPORTUNITIES

1. 57% of land under claim:

- a. Partnership model with land claimants developed and communities were engaged
- b. Post settlement business model developed and implemented for first claimant community that received land (Mmamahlola) land lease agreement signed

2. 50% of tree yield improved to 95%:

- a. Grow SAFCOL revenue four fold
- b. Partnership with private sector for advanced processing (beneficiation).
- c. Attraction of FDI for processing projects (energy and biochemicals).
- d. Partnership with communities for economic prosperity and sustainable participation in the value chain
- e. Creation of thousands of jobs in the value chain.

3. Contribution to reversal of Climate Change:

a. SAFCOL operates on 189 000 hectares and 121 000 is plantable; we require more land from DFFE to make a much bigger positive impact.







INTELLECTUAL CAPITAL

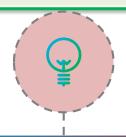
Highlights

- 1. Target R&D spend KPI of 1.5% of turnover met
- 2. Success of agroforestry research and publication in peer-reviewed journal
- 3. Cross laminated timber (CLT) project with University of Stellenbosch was concluded.
- 4. Initial cellulose nanocrystals (CNC) research project with CSIR completed and reports received.
- 5. Feasibility studies on both the above projects are underway





50:50 STRATEGY IMPLEMENTATION



Current State:FY2021/22

- 1. Revenue from logs = R821 million
- 2. Revenue from other = R296 million
- 3. Total revenue = R1 117 million
- 4. Net Profit = R46 million
- 1. Continuously manage the risk of non-achievement
- 2. Implementation of strategic projects.
- Culture of asset protection and high performance
- 4. 1 022 employees vaccinated => 57%



Strategy Implementation

- 1. Timbadola: Profit Margin 3%
- 2. Processing partnerships
- 3. Pole treatment partnership
- 4. CHP partnership
- 5. Bioenergy partnerships
- 1. Vaccination of 90% of employees
- 2. Strong project management capability.
- 3. ICT system modernization
- 4. Strengthen collaborations with communities.
- 5. Eliminate timber theft
- 6. Management of DFFE plantations





Future State: FY2023/24

- 1. Revenue from logs = R909 million
- 2. Revenue from other= R909 million
- 3. Total Revenue = R1 819 million
- 4. Net Profit = R162 million
- 1. Risk of Covid-19 mitigated
- 2. IFLOMA paying KLF loan
- 3. Mechanised harvesting operations
- 4. Automated operations
- 5. Culture of innovation and excellence

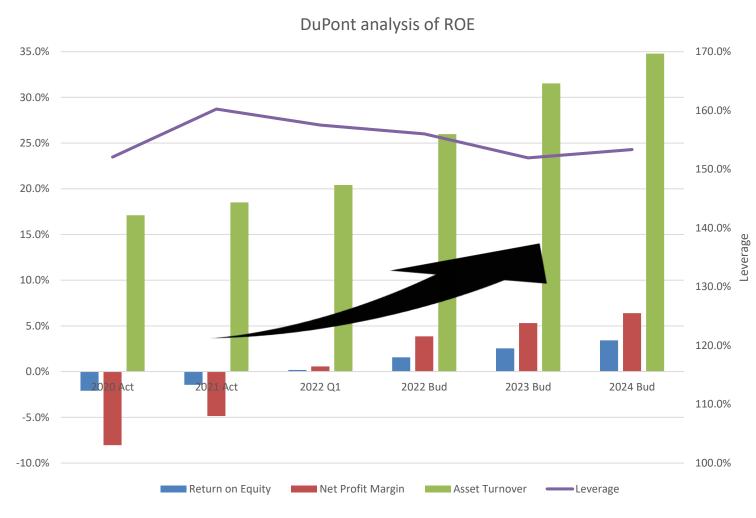




FORWARD LOOKING: ROE

Grow ROE from -1.4% (FY2021) to 3.4% (FY2024), by –

- Diversifying revenue streams to include beneficiated products and continuing to manage costs within budget so as to grow Net Profit Margin
- 2. More productive application of asset base through investment in technology to improve Asset Turnover
- 3. Taking on strategic projects with IRRs above the SAFCOL hurdle rate to add value to the shareholder return.







WAY FORWARD

- **1. 50:50 strategy:** Reduce dependence on log sales (80%) to 50% by developing diversified revenue streams from processed products (improve returns).
- 2. Horizontal Integration: Accessing more plantations from DFFE and Municipalities
- 3. Land claims: Finalisation of land claims
- **4. Product diversification:** Vertical integration into the mid- and down-stream activities through strategic partnerships: Sawmilling, Eco-tourism, Bio-energy, Pole treatment and Pellet plant
- 5. Partnerships with Communities: Create compelling value propositions for the increase of partnerships with small growers, land claimants and the wider communities
- **6. Revenue and Efficiency improvement**: The mechanisation and automation of operations to deliver efficiencies in current and intended value chain improvements including lumber processing
- 7. Exit minorities: Transfer the communities shares, in the minority associates, to the owner-communities





