SAFCOL
OUR FORESTS. OUR FUTURE.

2021/22

INTEGRATED REPORT

SUSTAINABLE VALUE CREATION THROUGH **CUSTOMER CENTRICITY** AND **STAKEHOLDER INCLUSIVITY.**

SAFCOL is a forestry company with operations in South Africa and Mozambique. Through our operations and talented people, we safely and sustainably impact the lives of communities, customers and other stakeholders through our products, services and social upliftment programmes.

About the cover

The past financial year has seen the Company deliver results that place us on a strong footing to deliver on our vision to become a leader in sustainable forests and commercial forest products. We remained steadfast in our commitment to grow the business, maximise stakeholder value and facilitate sustainable economic transformation of the forestry industry. Our cover symbolises our focus on building strong groundwork for sustainability (seedlings) that will take us to our future horizon (the forests in the distance). Through our growth, we remain committed to delivering high-quality products and services to our customers, driving customer-centricity. Customer-centricity for us means ongoing commitment to understand our customers and deliver superior value. Just like these seedlings, SAFCOL is well positioned to nurture future growth. The company's strategy has been translated into strategic horizons, with the North Star, our 50:50 strategy, still relevant to SAFCOL's strategic future direction. We have worked to stabilise the business with strong foundations. SAFCOL is clearly set on a path of solid sustainable financial performance and holistic value creation for all stakeholders.

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ABOUT THIS REPORT

SAFCOL's integrated report is prepared based on the principles contained in the International Integrated Reporting Framework published by the International Integrated Reporting Council, some elements of the National Treasury Annual Report Guide for Public Entities and the King IV Report on Corporate Governance for South Africa, 2016 (King IV™)[1].

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Scope and boundary

The report endeavours to tell the SAFCOL value-creation story clearly and concisely. It explains who we are and where we operate, the context in which we work, our governance and business model, our strategy, our risks and opportunities, as well as our operational and financial performance. This report presents the performance of the Group for the 2021/22 financial year (1 April 2021 to 31 March 2022).

SAFCOL's progress towards integrated thinking is reflected in the performance indicators that cover financial and non-financial matters, as well as its strategy, material matters and associated risks.

This report should be read in conjunction with SAFCOL's full set of annual financial statements as this offers a comprehensive overview of the Group's financial performance. The information contained herein refers to the performance of SAFCOL, which includes the Komatiland Forests SOC Limited that is certified by the Forest Stewardship Council® (FSC®) – C013832 – Forest Management and FSC® – C007806 Chain of Custody) and its subsidiary operations of Indústrias Florestais de Manica SARL based in Mozambique.

Forward-looking statements

This report may contain certain forward-looking statements that are neither reported financial results nor based on historical facts, but constitute current expectations based on reasonable assumptions, data or methods, and are not a guarantee of future results. These forward-looking statements, by their nature, are subject to significant known, emerging or unknown risks and uncertainties. They include, without limitation, statements relating to SAFCOL's business prospects, future developments, trends and conditions in the forestry and related industries and geographical markets in which we operate. SAFCOL neither intends to nor assumes an obligation to update or revise any forward-looking statements because of either new information, future events or otherwise.

Assurance providers

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

- Risk, compliance, ethics, security and safety, health, environmental and quality functions, which include FSC® certification and the National Occupational Safety Association (NOSA®) audit
- Internal Audit function
- Independent Broad-Based Black Economic Empowerment (B-BBEE) verification agencies
- Auditor-General of South Africa
- Relevant regulators

Board responsibility and approval

The Board is accountable for the integrity and completeness of the integrated report and any supplementary information, and is supported by various Board committees. The Board approved the FY 2021/22 integrated report and annual financial statements on 29 August 2022, after having considered the completeness of the material items dealt with, the reliability of information presented and the assurance process followed. The consolidated financial statements were prepared and audited in accordance with International Financial Reporting Standards as well as the requirements of the Public Finance Management Act, No 1 of 1999 (PFMA) and the Companies Act, No 71 of 2008.

ICONS USED IN THIS REPORT

- **Natural** capital — NC
- **Intellectual** capital — IC
- **Manufactured** capital — MC
- **Human** capital — HC
- **Social and relationship** capital — RC
- **Financial** capital — FC

NAVIGATION ICONS

This icon refers to more detailed information in this report.

This icon refers to information on our website.

This icon refers to our glossary on page 149.

ORGANISATIONAL **OVERVIEW**

ABOUT **SAFCOL**

SAFCOL was established in 1992 under the Management of State Forests Act, No 128 of 1992 (MSFA).

SAFCOL comprises the following entities:

- Komatiland Forests SOC Limited (KLF), a 100% owned subsidiary of SAFCOL
- Indústrias Florestais de Manica SARL (IFLOMA) in Mozambique, an 80% owned subsidiary of KLF
- Abacus Forestries SOC Limited, a 100% owned subsidiary of SAFCOL – (non-operational)
- Kamhlabane Timber SOC Limited, a 100% owned subsidiary of SAFCOL
- SiyaQhubeka Forests (Pty) Ltd (9% direct shareholding)
- SAFCOL further holds minority interests in four entities on behalf of communities, namely:
  - Amathole Forestry Company (Pty) Ltd (16%)
  - MTO Forestry (Pty) Ltd (11.3%)
  - Singisi Forest Products (Pty) Ltd (10.49%)
  - SiyaQhubeka Forests (Pty) Ltd (16%)

In terms of section 3 of the MSFA, SAFCOL's objective is "the development in the long term of the forestry industry according to accepted commercial management practice".

SAFCOL is a 100% state-owned company (SOC), with the Government of the Republic of South Africa being the sole shareholder, with the Minister of Public Enterprises as the Shareholder representative

As a state-owned company, SAFCOL has a dual mandate of commercial viability and socio-economic development. Its mandate is to conduct a commercial forestry business and realise an effective return to its Shareholder, while contributing to economic development, mainly in rural areas.

KLF is FSC® certified. FSC® is an international non-profit organisation, that promotes environmentally appropriate, socially beneficial and economically viable management of the world's forests.

This certification supports SAFCOL's legislative mandate to ensure the development in the long term of the forestry industry according to accepted commercial management practice, that is to ensure the business' long-term sustainability at all times.

SAFCOL's vision

To become a leader in sustainable forests and commercial forest products.

SAFCOL's mission

SAFCOL is committed to:

- **Growing the business in the forestry value chain;**
- **Maximising stakeholder value through strategic partnerships;**
- **Facilitating sustainable economic transformation of the forestry industry and thereby uplifting communities; and**
- **Maintaining practices that are economically viable, environmentally acceptable and socially beneficial.**

SAFCOL's core values

SAFCOL strives to perform in a transparent and professional manner that is guided by the highest levels of integrity, while delivering high-quality products and services, as well as being accountable to its stakeholders. The following values are central to SAFCOL's operations:

Values

- We are passionate about forests and our communities
- We conduct ourselves with honesty and integrity
- We strive for customer satisfaction
- We respect and value our employees
- We strive for excellence and innovation in our business

ORGANISATIONAL **OVERVIEW** continued

SAFCOL's operations

Area of operation	Total area	Plantable area	Planted area	Temp unplanted	Still plantable	Conservation
South Africa	189 747	120 390	117 617	2 773	–	69 357
Mozambique	101 114	17 755	16 545	1 210	28 258	55 101
Total SAFCOL	290 861	138 145	134 162	3 983	28 258	124 458

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 and services.

KLF

KLF is the main operating entity and generator of revenue within SAFCOL and manages 15 prime timber plantation assets in Mpumalanga, Limpopo and KwaZulu-Natal. KLF's commercial and non-commercial operations cover a land area of 189 747 ha.

KLF manages a research and development (R&D) facility, a tree nursery, Platorand Training Centre, the Timbadola sawmill, and ecotourism facilities.

SAFCOL's state-of-the-art R&D centre outside Sabie conducts research on silviculture practices, wood-quality testing, pest and disease control, engineered wood products, yield and growth modelling and genetic improvements.

Within the Ecotourism business unit, SAFCOL manages hiking trails, picnic sites, waterfall sites, Lakenvlei Forest Lodge as well as the Forest Industry Museum in Sabie. These are in the Limpopo and Mpumalanga provinces.

The Timbadola sawmill is a softwood processing facility located in Limpopo province, near Thohoyandou town. Additional processing capacity is derived from outsourced processing initiatives.

The Tweefontein Plantation houses a nursery that supplies KLF plantations with seedlings and cuttings, thereby ensuring sustainable feedstock for plantations as well as seedling sales to the private sector.

IFLOMA's commercial and non-commercial operations cover a land area of 101 114 ha. The IFLOMA forestry operations comprise four plantations: Rotanda, Bandula, Penhalonga and Mavonde.

IFLOMA is situated in the west of the Manica province with a warehouse in Maputo and a sawmill in Messica. IFLOMA's fibre project is in Muanza District in the Sofala province. An area of 28 258 ha at the fibre project is still available for commercial planting.

Organisational restructure

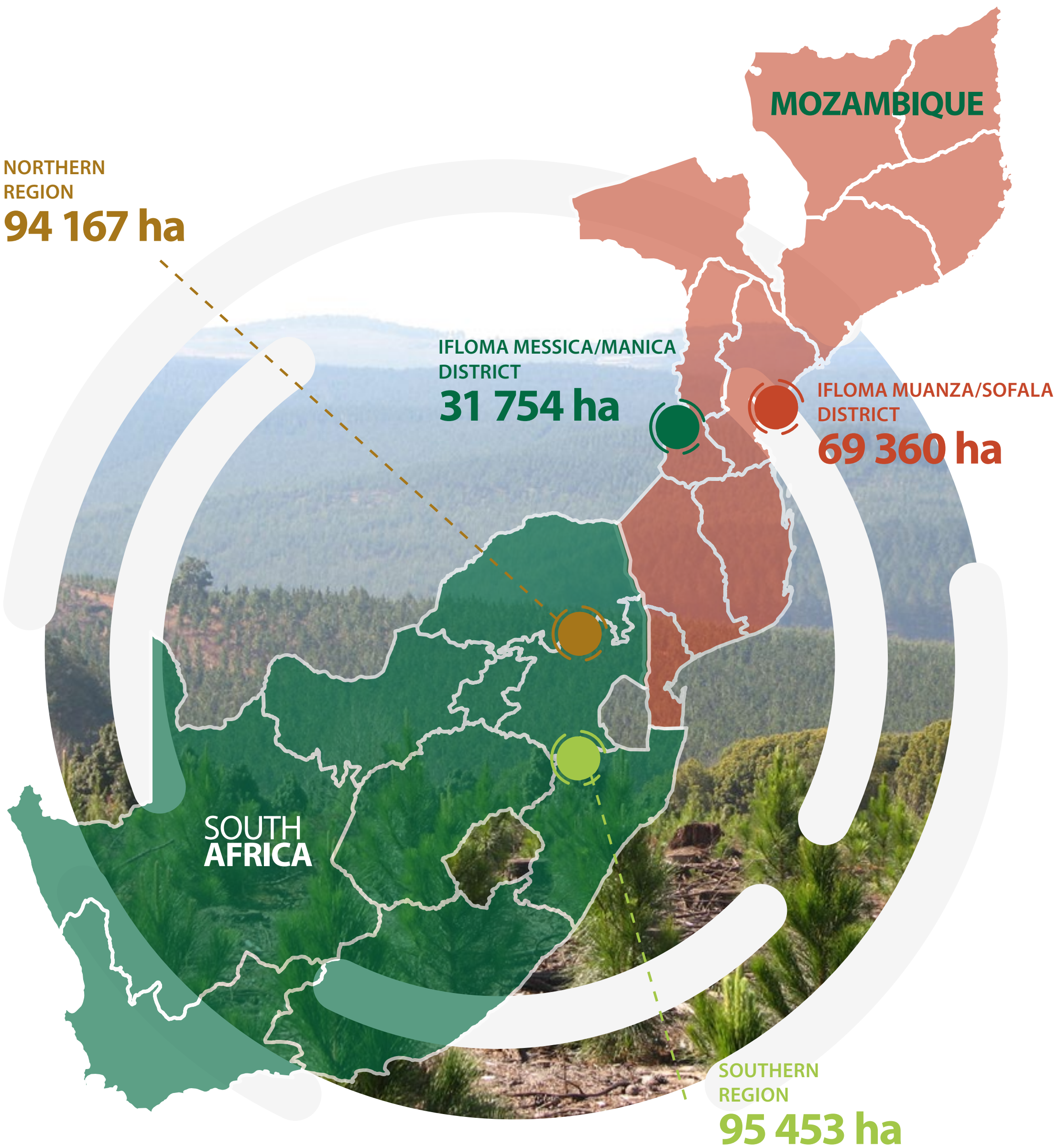
The process of incorporating IFLOMA as an entity which reports directly to SAFCOL is underway. Progress is at an advanced stage, with the repositioning of IFLOMA approved, subject to the receipt of written confirmation from the Mozambican tax authority that the repositioning will not trigger any adverse tax effect in Mozambique, and the completion of tax implication assessments under South African and Mozambican legislation. The South African assessment has been concluded and a service provider has been appointed to undertake the Mozambican assessment.


A view of Blyde plantation from God's Window

Organisational Group structure

ORGANISATIONAL
OVERVIEW continued

SAFCOL's operations showing area (ha) under management



> "The generations succeeding us must inherit the plantations in a good state…"
> Mr Tsepo Monaheng – SAFCOL Chief Executive Officer

Mozambique (total area under management 101 114 ha)

SNAPSHOT
IFLOMA MESSICA/MANICA **DISTRICT**

GENUS: Pine and Eucalyptus
PLANTATIONS: Rotanda, Bandula, Penhalonga and Mavonde plantations
AREA: Manica district and Sussundenga District in Manica province
SIZE: 31 754 ha of total area under management

SNAPSHOT
IFLOMA MUANZA/SOFALA **DISTRICT**

GENUS: Eucalyptus
PLANTATIONS: Galinha
AREA: Muanza District
SIZE: 69 360 ha of total area under management, of which 5.3% is planted now

South Africa (total area under management 189 747 ha)

SNAPSHOT
NORTHERN **REGION**

GENUS: Pine and Eucalyptus
PLANTATIONS: Entabeni, Woodbush, Blyde, Wilgeboom, Tweefontein, Bergvliet and Witklip
AREA: Sabie to Limpopo (Tzaneen, Vhembe District)
SIZE: 94 167 ha of total area under management

SNAPSHOT
SOUTHERN **REGION**

GENUS: Pine, Eucalyptus and Wattle
PLANTATIONS: Berlin, Belfast, Nelshoogte, Jessievale, Roburnia, Ngome, Brooklands and Uitsoek
AREA: Mpumalanga Highveld around Amsterdam, Warburton, Belfast, Kaapschehoop, Barberton, Lydenburg, Mbombela as well as Nongoma in KwaZulu-Natal
SIZE: 95 453 ha of total area under management

BOARD CHAIRPERSON'S REPORT

Mr Mpho Makwana
SAFCOL Board Chairperson

A results-based management approach was a key feature of the FY 2022/23 update of the strategy, with the Company entering Phase 3 of its strategic horizon.

South Africa's current and future socio-economic environment

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

In the 2018/19 report after assumption of office as the new Board collective, in the Chairperson's statement I committed on behalf of the Board how we take our role of value-creation seriously. In this 2021/22 report it is particularly gratifying for us as a collective of Executive and Non-executive Directors to present an integrated annual report that demonstrates the fruitful outcome of this strategic focus.

SAFCOL is clearly set on a path of solid sustainable financial performance and holistic value creation. We thank our Shareholder, the Minister of Public Enterprises, together with our ever-supportive Deputy Minister and the Department of Public Enterprises (DPE) for creating the space and enabling environment for the Board and the Executive team to perform our duties. The Portfolio Committees on Public Enterprises and Environment, Forestry and Fisheries have also spurred us towards being a high-performance and accountability-driven state-owned enterprise.

Emerging out of the global pandemic, South Africa has been through a testing, challenging period over the past year. Incidents of civil unrest have tested the robustness of the country's democracy; floods in KwaZulu-Natal have caused catastrophic damage; and the capacity of the judiciary and the government have been probed through the conduct of the State Capture Commission.

We are grateful that there were no adverse mentions or findings about SAFCOL in the various editions of the State Capture Report. We are committed as a Board and the management team to lead all at SAFCOL in a climate of clean and solid corporate governance. An organisation that is well governed and sets the right tone at the top engenders a high-performance and high-accountability ethos among its employees, customers, stakeholders and its entire value chain.

We live in uncertain times. As a learning organisation that ourselves invested in a scenario thinking process, we have noted with deep concern the trends emerging from the Indlulamithi 2030 Barometer. Since July 2020, the country has been going down a slippery slope into 52% Gwaragwara (2020); 59% Gwaragwara (2021); and 64% Gwaragwara in July 2022, as at the publishing of this annual report. This is a call to action to all leaders to step back and seek meaningful ways of making a modest positive contribution to the social and economic recovery of our beautiful country, South Africa.

SAFCOL's response

Our Social and Ethics Committee as well as our Safety, Health, Environment and Quality Committee have taken a close look at the SDGs together with the SAFCOL scenarios and are considering how the Board and management can create an enabling environment for accelerating delivery against the missed targets in our Shareholder's Compact.

Our Executive team is working in earnest to identify SAFCOL's fair share in the Forestry Masterplan to ensure that key deliverables are identified wherein SAFCOL can make a meaningful social-economic contribution within its ambit of influence, especially in transforming the conditions of the communities where we operate.

Growing unrest contributes to the instability of SAFCOL's operating environment. To manage this risk, the economic participation by the surrounding communities in SAFCOL's value chain has become an important pillar of SAFCOL's community engagement approach.

In the next cycle of performance compacting for the balance of FY 2022/23, the performance compacts of all our managers will look at specific deliverables to channel greater impact in this regard. Our electronic performance management system that has been in implementation over that past 18 months is beginning to yield results as is evident in our improved financial position.

Strategy implementation

The Company's strategy has been translated into strategic horizons, with the North Star, our 50:50 strategy, still relevant to SAFCOL's strategic future direction. A results-based management approach was a key feature of the FY 2022/23 update of the strategy with the Company entering Phase 3 of its strategic horizon, "Revenue growth through expansion". Phases 1 and 2 have seen the Company stabilise, maintaining yet another unqualified audit opinion, rolling out the values and implementing a culture survey. Revenue has also grown steadily off the existing base.

However, with two years remaining of the 2019 – 2024 Strategic Plan, execution needs to be enhanced as the realisation of SAFCOL's 50:50 strategy is contingent on multiple factors including:

- The timeous implementation of strategic projects and the expected benefits being derived;
- Improved stakeholder management; and
- Ensuring that SAFCOL has a positive economic impact, while minimising suboptimisation.

SAFCOL was represented at several Portfolio and Joint Committees. The Company's progression towards attaining strategic objectives was commended, especially our contribution to continuously strive to create shared value for communities and stakeholders.

Performance management

Our electronic performance management system is in the process of being effectively embedded in the organisation. This has the potential to be an effective source of organisational accountability and to strengthen our monitoring and reporting capacity.

State Capture Commission Report

In June 2022, the final instalments of the findings of the Judicial Commission of Inquiry into Allegations of State Capture, Corruption and Fraud in the Public Sector including Organs of State – also known as the State Capture Commission Report – were handed to President Cyril Ramaphosa by the inquiry's head, Chief Justice Raymond Zondo.

SAFCOL's CEO and I have attended a series of sessions hosted by the Minister of Public Enterprises and comprising the chairpersons and CEOs of the state-owned companies under the control of the Department of Public Enterprises. The purpose of these meetings has been to reflect on the State Capture Commission Report and ensure that the boards of SOCs are capture-proof.

Irregular expenditure

The continued positive trend of reducing irregular expenditure over the past years attests to a maturing control environment in the supply chain management space. SAFCOL is undertaking determination tests to present some of these items for condonation, while continuing its drive to reduce such occurrences to a minimum.

Thank you to the Shareholder and various stakeholders and governmental representatives including the Ministers and Deputy Ministers of Public Enterprises, Department of Forestry, Fisheries and the Environment (DFFE) and Department of Land Reform and Rural Development (DLRRD).

Mr Mpho Makwana
SAFCOL Board Chairperson

CHIEF EXECUTIVE OFFICER'S **OVERVIEW**

Mr Tsepo Monaheng
SAFCOL Chief Executive Officer

We exist, firstly, in order to create value for our Shareholder, but also to supply raw materials to support the South African sawmilling industry, to create jobs and to contribute to the economy.

IMPROVED **PERFORMANCE**

- Revenue grew by 33% relative to the prior year
- Operating profit increased to R387 million at year end
- EBITDA margin achieved was 11% against a target of 3.5%
- TUP target was exceeded at 2.3%
- Achieved our 24th successive FSC® certification

The year under review affirmed our strategic direction and we saw pleasing progress in a number of important areas. Challenges remain, but the Group performed well overall by achieving 86% of the Shareholder's Compact targets. Revenue grew by 33% relative to the prior year, against a target of 10%. As a result of effective cost containment, operating profit increased from R2.1 million at the end of the first quarter to R387 million at year end. EBITDA margin achieved was 11% against a target of 3.5%. The Group exceeded its planned Temporarily Unplanted Proportion (%) (TUP) by achieving 2.3%.

The overall performance of the Group improved during the financial year, which resulted in improved financial results and the achievement of our 24th successive FSC® certification. The Group continues to responsibly manage the biological asset in a sustainable manner, which is confirmed by our improved income statement, balance sheet and cash-flow statement. FC

62 32 Our operational activities proceeded well, we successfully improved safety practices, and we introduced a medical aid scheme across the Group. HC We attribute this partly to having reviewed our departmental organisational structures, and to having, for the first time in my tenure, a full complement of the executive management team in place. 70 All departments need to work together for the Company to realise the successful implementation of our strategy. Having experienced departmental heads and ensuring the departments are well structured, significantly enhances our organisational effectiveness and efficiency.

Challenges, however, remain. Timbadola and Lakenvlei are still loss making, and overall our ecotourism business has not delivered on its significant potential. Implementation remains a challenge for our strategic projects, which are aimed at diversifying our revenue streams. Four of these projects – the Timbadola sawmill reinvestment, a combined-heat-and-power (CHP) plant, enhancement of our ecotourism facilities, and a pole-treatment plant – are still in the procurement phase, and we are identifying areas in which we can accelerate their progress. 33

A new strategic phase

22 The Group's strategy is implemented through the Corporate Plan. This implementation is monitored and reported on through our 16 performance against the Shareholder's Compact targets. Our achievement this year of 86% of those targets – significantly higher than the 67% target achieved in FY 2020/21 – shows that the Group has stabilised and improved its performance overall.

We have worked hard to stabilise the business, and I believe our foundation is now strong.

The control environment has been strengthened, and irregular expenditure dropped to a very small value compared to prior years. The performance of our information and communications technology (ICT) systems continues to be a challenge for the business, and a necessary investment in modern systems is underway. IC The transformation to a values-based, high-performance culture is in progress.

With the stabilisation of the business almost achieved, Phase 2 of the strategy is being implemented. This is the growth phase, referring specifically to top-line growth, i.e. growth in the revenue we earn through our operations.

The generations succeeding us must inherit the plantations in a good state, so harvesting more of our current resource is not a sustainable way of growing revenue. The Group's focus remains on expanding the available biological asset in terms of plantations, processing lumber, and investing in modern lumber-processing technology to reduce costs and safety risks. MC Our long-term growth will also require the diversification of our revenue streams in partnership with the private sector.

SAFCOL's long-term strategy therefore outlines a path to increase revenue from diversified streams, increase our plantable land to produce enough timber to support local demand, and partner with the private sector on ecotourism and bioenergy projects.

CURRENT

- TRANSFORMATION TO A **VALUES-BASED, HIGH-PERFORMANCE** CULTURE
- INVESTING IN **MODERN LUMBER-PROCESSING TECHNOLOGY** TO REDUCE COSTS AND SAFETY RISKS
- **REVENUE GROWTH** OFF EXISTING BASE

GOING FORWARD

- INCREASE OUR PLANTABLE LAND TO PRODUCE **ENOUGH TIMBER** TO **SUPPORT LOCAL DEMAND**
- INCREASE REVENUE FROM **DIVERSIFIED STREAMS**
- PARTNER WITH THE PRIVATE SECTOR ON **ECOTOURISM AND BIOENERGY** PROJECTS

CHIEF EXECUTIVE OFFICER'S **OVERVIEW** continued

Culture

HC Progress on implementing a values-based culture is ongoing and is being closely tracked. The management team holds weekly engagements regarding strategy implementation and performance against the Shareholder's Compact targets. RC Leadership clearly communicates what is expected through regular engagements with employees and organised labour, and the performance management system assists us in monitoring performance and identifying interventions required to steer employees towards desired behaviours. Culture change is a journey, not an event, and this process will be ongoing.

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Safety

32

We were pleased to have recorded a positive safety performance. There were no fatalities for the second year in a row, and the number of disabling injuries was the lowest in six years. The tracking, monitoring and effective monthly measurement of safety and environmental performance have improved. This measurement is reported monthly and assists in business management. To further reduce the risk of disabling injuries, the Group is implementing the mechanisation of harvesting operations.

Community relationships

RC Our engagements and relationships with communities strengthened during the financial year under review. Memoranda of Understanding were signed with two communities, Mamahlola and Greater Tzaneen in Limpopo. A land lease agreement was also signed with the successful land claimant community, Mamahlola. SC Six black women-owned companies that were part of our Enterprise and Supplier Development (ESD) incubation programme were awarded silviculture contracts, and three footbridges were built for communities during the financial year.

FY 2022/23 objectives

In the year ahead we will continue to implement our strategic projects and work towards the growth of the business and enhanced value creation for our Shareholder and other stakeholders.

We exist, firstly, in order to create value for our Shareholder, but also to supply raw materials to support the South African sawmilling industry, to create jobs and to contribute to the economy. Our current available volume of logs is not sufficient to meet industry demand. We are not prepared to increase harvesting in a way that threatens the long-term sustainability of our business and the assets under our control, and so the only way to increase log volumes is to access additional plantable land. If we find the support necessary to expand plantable land, our path towards growth and a better response to local customers' timber requirements will be enabled. Engagements are underway as to how best to accomplish this.

SAFCOL continues to work towards an effective exit of its minority shareholding in Amathole, MTO, Singisi, and SiyaQhubeka. We have no direct control over these entities, but continue to incur costs with no return and there are various risks associated with the shareholding. We will also look to operationalise Kamhlabane Timber SOC Ltd, which has been a pseudo-dormant entity. The process of engaging a strategic partner in Mozambique to invest in a fibre-producing project at IFLOMA is ongoing.

Stakeholders and partners appreciation

As we reflect on SAFCOL improved performance, we would like to use this opportunity to convey our heartfelt gratitude to our stakeholders and partners for their overwhelming support throughout this financial year.

The notable improvement of SAFCOL performance was made possible by the consistent and unwavering support from our key stakeholders without whom SAFCOL could have not achieved its strategic objectives.

On behalf of the Executive team of SAFCOL I would like to thank the Shareholder, Board, Department of Forestry, Fisheries and the Environment (DFFE), Mpumalanga Department of Health, UNIDO, customers, Fire Protection Associations, communities, dedicated employees and all partners who contributed to the success of SAFCOL; we are on a journey to build a successful and sustainable future SAFCOL.

Mr Tsepo Monaheng
SAFCOL Chief Executive Officer

Wet timber stacked on the kiln trolleys for drying at the Timbadola sawmill

PERFORMANCE AGAINST **SHAREHOLDER'S COMPACT**

HIGHLIGHTS

- SAFCOL achieved 86% of the Shareholder's Compact (target of 80%)
- Zero fatalities were recorded for the second consecutive year and we achieved the best safety performance on record
- Healthy balance sheet and cash position maintained
- FSC® certification achieved for the 24th consecutive year
- Achieved and exceeded key operational targets (planting, pruning, thinning and clear-fell)
- Long-term lease agreement with Department of Forestry, Fisheries and the Environment and one Communal Property Association (successful land claim) signed and payments made in full compliance
- IFLOMA achieved its TU target and remained profitable

About the Shareholder's Compact

The Shareholder's Compact represents the agreement between the Minister of Public Enterprises (the DPE is the Shareholding Ministry) and the SAFCOL Board. It is a reflection of the expectations of each party, expressed in terms of outcomes and outputs that need to be achieved.

The agreement allows the Minister to measure, monitor and evaluate the Group's financial and operational performance. There is clear alignment between the achievement of strategic objectives, key performance indicators (KPIs) as specified in the Shareholder's Compact, and remuneration policies and philosophies to ensure payment of incentives to Executive Directors, Prescribed Officers and senior managers are aligned to the Shareholder's Compact target.

The Shareholder's Compact results from the need to have a clear understanding of the relationship between government and the public entities as an extension of delivering public service through business-based entities.

The Shareholder's Compact is developed annually in terms of section 29.1 of the Treasury Regulations and takes into account the previous year's performance. This takes place through engagements between DPE representatives and SAFCOL representatives who represent our Board's interests. Multiple alignment sessions are held until an agreement is reached.

The set targets are agreed on to ensure that SAFCOL executes its mandate while remaining financially and operationally sustainable, as well as contributing to the country's economic growth and stability and the transformation objectives. Once mutually agreed on, any review of targets must be completed before 1 July of the financial year for which the Shareholder's Compact is applicable.

SAFCOL is required to report quarterly on the KPIs as per the signed Shareholder's Compact. This facilitates effective performance monitoring and corrective action required to be implemented by both the DPE and SAFCOL (the Accounting and Executive Authority).

Overall performance against the Shareholder's Compact for FY 2021/22

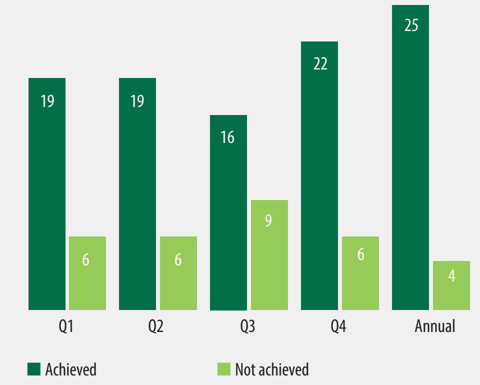
SAFCOL concluded a Shareholder's Compact for FY 2021/22 with the Minister of Public Enterprises, which sets out agreed performance objectives, measures and indicators in line with the Treasury Regulations issued under the Public Finance Management Act (PFMA). SAFCOL submitted progress reports to the DPE on all the KPIs.

In FY 2021/22 the DPE proposed the inclusion of a new element of Strategic Intent: Governance Excellence. This was done to ensure that SAFCOL maintains a high standard of good corporate governance which will ensures, among other things, establishing the governance systems and procedures to support a sustainable business operation.

The SAFCOL Group performance was measured against 29 KPIs for the FY 2021/22. Against these KPIs, 25 KPIs were achieved and four were not achieved. This represents an 86% achievement of the Shareholder's Compact as at the end of the financial year, which is significantly higher than the 67% target achieved in the FY 2020/21.

Overall performance against Shareholder's Compact

Comparison of quarterly and annual performance information



"A results-based management approach was a key feature of the FY 2022/23 update of the strategy, with the Company entering Phase 3 of its strategic horizon."

Mr Mpho Makwana – SAFCOL Board Chairperson

Actual performance against the year-end target is indicated in the tables below, as follows:

- Actual performance for the year met or exceeded the target
- Actual performance for the year did not meet the target

Financial sustainability

Key performance indicators, planned targets and actual achievements

Element of strategic intent	Key performance area (KPA)	Key performance indicator (KPI)	Unit of measure	Planned target FY 2021/22	Actual achievement FY 2021/22	Status	Deviation from planned target to actual achievement for FY 2021/22	Comments on performance
FC **Financial sustainability**	Liquidity	1) Current ratio	Ratio	2:1	**1.9:1**		(0.1)	• The ratio of 2:1 was not achieved for the year due to changes made to the biological asset model at year end. This significantly lowered the current portion of biological assets in the balance sheet.
		2) Trade receivables days	Days	≤60	**36**		24	• Trade receivable days was achieved for the year.
	Revenue generation	3) EBITDA margin	%	3.5%	**10.9%**		7.4%	• SAFCOL exceeded the target for EBITDA margin.
	Efficiency	4) Revenue/ employee	Rand	R450 000	**R496 860**		R46 860	• Revenue per employee was exceeded due to increased revenue achieved.
	Solvency	5) Debt ratio	%	≤30%	**41%**		(11%)	• The target is not achieved due to the deferred tax amount that is included under liabilities.

PERFORMANCE AGAINST **SHAREHOLDER'S COMPACT** continued

Operational excellence

Key performance indicators, planned targets and actual achievements

	Element of strategic intent	Key performance area (KPA)	Key performance indicator (KPI)	Unit of measure	Planned target FY 2021/22	Actual achievement FY 2021/22	Status	Deviation from planned target to actual achievement for FY 2021/22	Comments on performance
38	**Operational excellence**	Innovation and research	6) Total expenditure on research and development (R&D) as a percentage of revenue	%	1.8%	**1.8%**	●	0%	• Target achieved as a result of implementation of R&D initiatives.
			7) Agro/social forestry research: The project Ground Nut community effort	N/A	Introduce three new groundnut species to be utilised by the community	**Three new groundnut species to be utilised by the community introduced**	●	N/A	• Target has been achieved and the new species were introduced to the community.
			8) Cross Laminated Timber (CLT) project as a new downstream product	N/A	Approved prefeasibility study	**Prefeasibility study approved**	●	N/A	• The CLT feasibility was completed early and served at the Exco in the third quarter.
			Temporarily Unplanted Proportion (TUP) %						
33		Productivity and efficiency	9) TUP South Africa	%	3%	**2.3%**	●	0.7%	• The achievement of the target was largely attributable to late rains and the focused efforts to reduce the temporarily unplanted area.
			10) TUP Mozambique – Manica operations	%	6.5%	**4.7%**	●	1.8%	• Concerted efforts were made to replant the harvested compartments at Penhalonga and Rotanda.
33		Strategic projects and execution	11) Timbadola reinvestment project	N/A	Approved execution plan	**Execution plan not approved**	●	N/A	• The target was not achieved due to the refocus in the implementation strategy based on the feasibility. • Business case and a position paper recommending a feasible implementation option. • The new strategy no longer considers a strategic partner that was meant to deliver funding and a technical solution together with the execution plan. The Company will instead seek funding.
			12) IFLOMA fibre project	N/A	Approved PFMA application	**PFMA application approved**	●	N/A	• The annual target of "approved PFMA application" was met after approval by the IFLOMA and Komatiland Forests boards.

Socio-economic impact

Key performance indicators, planned targets and actual achievements

	Element of strategic intent	Key performance area (KPA)	Key performance indicator (KPI)	Unit of measure	Planned target FY 2021/22	Actual achievement FY 2021/22	Status	Deviation from planned target to actual achievement for FY 2021/22	Comments on performance
HC	**Socio-economic impact**	Environmental compliance	13) KLF South African operations fully certified to FSC® standard and submission of annual FSC® report*	%	100%	**100%**	●	0	• Target achieved for 24 consecutive years.
32		Safety	14) Fatalities index	Number	0	**0**	●	0	• SAFCOL achieved a fatality-free year for the second consecutive year and third time in an 11-year period.
			15) Disabling Injury Frequency Rate (DIFR)	Ratio	1.80	**0.97**	●	0.83	• Operations management is supported by SHEQ in continually promoting increased awareness and compliance with health and safety practices. Corrective measures were implemented where needed.
47		Skills development	16) Training spend	%	3%	**4.1%**	●	1.1%	• Mandatory training was implemented throughout the year, to ensure achievement of the target and improve the skills of employees.
			17) Apprenticeship trainees	Number	15	**15**	●	0	• SAFCOL trained 15 apprentices in line with the target.
			18) Sector-specific learnerships (e.g. wood technologist, processors, foresters)	Number	100	**106**	●	6	• The training centre continuously prioritised mandatory occupational health and safety programmes to ensure adherence to regulatory requirements.
53		Corporate social investment	19) Total spend on Corporate Social Investment (CSI) initiatives	Rand	R5 million	**R5 102 967.77**	●	R102 967.77	• The implementation of planned CSI projects led to the achievement of the target.
51		B-BBEE/ preferential procurement	20) Spend on BEE compliant companies as a % of TMPS	%	80%	**82%**	●	2%	• Concerted efforts were made to source suppliers that were BEE compliant, resulting in an improvement from the previous financial year and achievement of the target.
			21) B-BBEE status level	Certification level	4	**4**	●	0	• SAFCOL maintained a Level 4 B-BBEE status.
			22) Procurement spend on 51% black-owned entities as a % of TMPS	%	45%	**68%**	●	23%	• Management introduced measures to ensure that this target was achieved by ensuring that RFQs and bids attracted as many black-owned entities as possible when procuring goods and services.
			23) Procurement spend on 30% black women-owned entities as a % of TMPS	%	15%	**27%**	●	12%	• Management introduced measures to ensure that this target was achieved by ensuring that RFQs and bids attracted as many black women-owned entities as possible when procuring goods and services.

* *SGS our certification body issues the report.*

PERFORMANCE AGAINST
SHAREHOLDER'S COMPACT continued

Socio-economic impact continued

Key performance indicators, planned targets and actual achievements continued

Element of strategic intent	Key performance area (KPA)	Key performance indicator (KPI)	Unit of measure	Planned target FY 2021/22	Actual achievement FY 2021/22	Status	Deviation from planned target to actual achievement for FY 2021/22	Comments on performance
Socio-economic impact continued	B-BBEE/ preferential procurement continued	24) Procurement spend on black youth-owned entities as a % of TMPS	%	8%	**11%**	●	3%	• Management introduced measures to ensure that this target was achieved by ensuring that RFQs and bids attracted as many black youth-owned entities as possible when procuring goods and services.
		25) Procurement spend on people with disabilities (PWD) owned entities (PWD) as a % of TMPS	%	2%	**2%**	●	0%	• Management implemented initiatives to ensure the target was achieved.
53	Local content	26) Total local content as a % of TMPS	%	75%	**5%**	●	(70%)	• Significant portion of procurement spend was on services-related suppliers, which did not meet the definition of local content.
53	Enterprise and Supplier Development (ESD)	27) Annual value of all Enterprise Development and Supplier Development contributions made by SAFCOL as % of TMPS	Rand	R28 million	**R75 142 854.90**	●	R47 142 854.90	• The inclusion of invoices paid to ESD suppliers had a positive impact on achievement of the Shareholder's Compact.

Governance excellence

Key performance indicators, planned targets and actual achievements

Element of strategic intent	Key performance area (KPA)	Key performance indicator (KPI)	Unit of measure	Planned target FY 2021/22	Actual achievement FY 2021/22	Status	Deviation from planned target to actual achievement for FY 2021/22	Comments on performance
64 **Governance excellence**	Anti-corruption	28) Percentage Forensic Report recommendations implemented within three months of being issued	%	80%	**100%**	●	20%	To ensure that recommendations for improvement in existing controls that combat fraud and corruption are implemented in a timely manner, 100% recommendations that were due for implementation were resolved and closed.
	Governance assurance	29) AG audit outcome	N/A	Unqualified audit opinion	**Unqualified audit opinion**	●		The target was achieved due to concerted efforts in improving governance, risk management and internal control systems.

Challenges

- Non-achievement of the ecotourism revenue targets due to COVID-19's impact on tourism
- Revenue from processing was not achieved due to Timbadola sawmill breakdowns and power outages
- Timber theft and other crime due to deteriorating economic conditions and increased criminal activities in areas of operation
- The facilitation and inclusion of transformed sawmillers
- High weighted average cost of capital (WACC) adversely impacted project feasibility

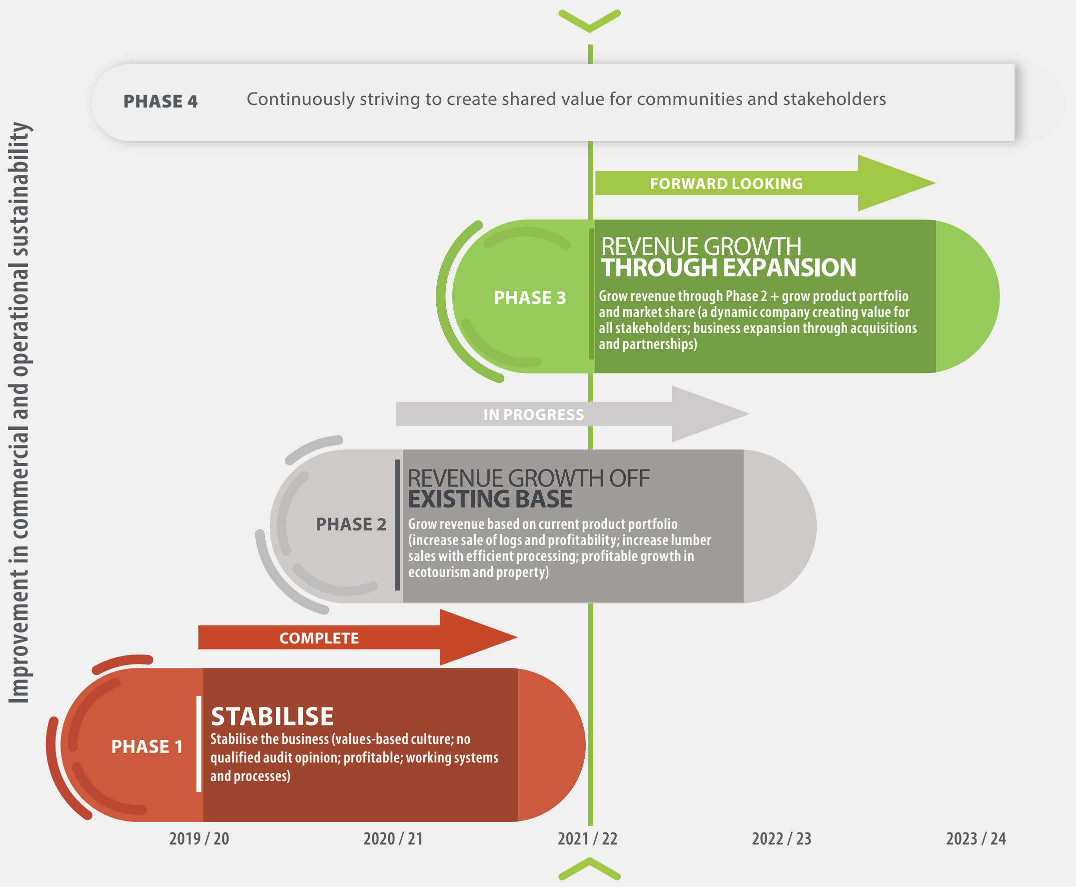
STRATEGY

STRATEGY
continued

SAFCOL's strategy is developed by the Executive and reviewed and approved by the Board. The strategy is reviewed and assessed annually to ensure that it remains responsive to the changing environmental and economic landscape, and repositions the Group in relation to its future strategic direction.

In the year under review the Group moved into Phase 2 of its long-term strategic horizon, namely the growth phase, with certain preparatory activities related to Phase 3 (growing market share and diversifying revenue streams) and a continued focus on Phase 4 (striving to create shared value for communities and stakeholders) occurring simultaneously.

Strategic horizon



SAFCOL's 50:50 strategy

In an environment of increasing fiscal constraint – high costs and low revenue growth – SAFCOL's strategy has identified that further value addition and creation downstream in the value chain are key for the growth and diversification of the organisation's markets and revenue streams, ensuring that downstream value creation occurs and assets are optimised for revenue generation.

SAFCOL's 50:50 strategy therefore aims at a 50% revenue contribution from logs and 50% from lumber and other diversified revenue. SAFCOL currently processes less than 20% of its saw logs, with lumber (and other diversified) sales contributing about 25% to its revenue.

Additional processing required to achieve the objectives of the 50:50 strategy will require capital expenditure and is likely to be achieved through strategic partnerships and innovative funding models.

Focus areas

- Reviewed progress in delivering on the strategic horizon of the 50:50 strategy, with a focus on performance to date, strategic priorities and the execution of strategic initiatives and projects
- Updated the COVID-19 pandemic scenario planning on the impacts of the pandemic and SAFCOL's response as part of the South African Economic Reconstruction and Recovery Plan (ERRP)
- Reviewed and validated the situational analysis conducted in relation to SAFCOL in the current approved strategy
- Reviewed and repackaged SAFCOL's strategic direction considering the findings of the situational analysis
- Progressed the Group towards a results-based management approach in framing its performance information at the level of impact and outcomes (results) in this Strategic Plan, and strategic objectives and outputs in the Corporate Plan
- Developed the outcome-level plan, including outcome indicators and five-year targets for measuring the achievement of results in relation to the 50:50 strategy, thus providing the longer-range planning framework for the setting of strategic objectives and output-level targets in the Corporate Plan

Strategic context

SAFCOL adheres to and complies with a range of legislation, regulations and policies relevant to its operations and its role in the broader transformation and development of the economy, summarised in the table below.

Category	Legislation and other mandates
Statutory mandates	• Constitution of the Republic of South Africa (Act No. 108 of 1996) • Management of State Forests Act (No. 128 of 1992) • National Forests Act (No. 84 of 1998)
Governance frameworks	• Public Finance Management Act (No.1 of 1999) (PFMA) • Companies Act (Act No. 71 of 2008) • Memorandum of Incorporation (MOI) • Statement of Intent • Significance and Materiality Framework (SMF) • Shareholder's Compact • King IV Code of Corporate Governance for South Africa, 2016 • Protocol on Corporate Governance in the Public Sector, 2002 • SOC Remuneration Guidelines • Delegation of Authority Framework
Global and national policy frameworks and guidelines	• United Nations' Sustainable Development Goals (SDGs) (2015) • National Development Plan (NDP), Vision 2030 • Medium Term Strategic Framework (MTSF), 2019 – 2024 • Masterplan for the Commercial Forestry Sector in South Africa, 2020 – 2025 • Economic Reconstruction and Recovery Plan (ERRP), 2020 • Forestry Sector Code and Scorecard, 2018 • Africa Continental Free Trade Agreement (AfCFTA) • 26th United Nations Climate Change Conference of the Parties (COP26)

STRATEGY
continued

Global and national policy environment

SAFCOL is wholly owned by the South African Government and its overall governance is broadly determined by government policies, strategies and plans that are relevant to the mandate of the Group. SAFCOL's contribution to the key policy priorities is summarised in the table below:

Policy priorities	SAFCOL contribution
SDGs	As a global corporate citizen with a mandate of socio-economic development, SAFCOL has a role to play in the achievement of the SDGs, specifically SDG 15 – "To protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss". This SDG relates directly to the Group's statutory mandate and operations.
NDP, vision 2030	SAFCOL contributes to several NDP chapters, including: • An economy that will create more jobs – chapters 3, 4, 5 and 6 • Infrastructure improvement – chapters 4 and 8 • Transition to a low carbon economy – chapter 5 • An inclusive and integrated rural economy – chapter 6
MTSF 2019 – 2024	SAFCOL contributes to the following MTSF priorities: **Priority 1:** A capable, ethical and developmental state prioritising the attainment of an unqualified audit outcome with no findings. **Priority 2:** Economic transformation and job creation, with a specific focus on industrialisation, localisation and exports. **Priority 5:** Spatial integration, human settlements and local government, with an emphasis on rural development and environmental management programmes. **Priority 7:** A better Africa and world, with opportunities for regional integration, leveraging the AfCFTA for expansion through exports. SAFCOL further contributes to the cross-cutting issues related to youth, women and people with disabilities.
FSC®	The FSC® is a global not-for-profit organisation that sets the standards for what is a responsibly managed forest – environmentally, financially and socially. SAFCOL, through its operating subsidiary KLF, has maintained 100% FSC® certification for the past 24 years and will continue to ensure that the certification is maintained.
ERRP 2020	South Africa has developed an ERRP, as a response to the economic challenges brought on by the COVID-19 pandemic, to save lives and stimulate an equitable and inclusive growth path for the country over the medium term. In line with the phases of the ERRP, SAFCOL intends to contribute to the job creation and inclusive growth aspirations of the plan by securing strategic partnerships and adopting suitable funding models for the development and implementation of key strategic projects, including: **PHASE 1:** • Timbadola redevelopment and upgrade • Combined-heat-and-power plant • Optimising the ecotourism asset **PHASE 2:** • Bioenergy and biomass developments • Establish a pellet plant • Cross-laminated timber (CLT) manufacturing • Cellulose nanocrystals (CNC) manufacturing

Policy priority focus: SDGs and the NDP

In 2012 the National Planning Commission (NPC) published the National Development Plan (NDP) Vision 2030, which sets forth a long-term view of the government's plan to eliminate poverty and reduce inequality by 2030. South Africa seeks to realise these goals by drawing on the energies of its people, growing an inclusive economy, building capabilities, enhancing the capacity of the state, and promoting leadership and partnerships throughout society.

SAFCOL, as a state-owned entity and a responsible corporate citizen, has a key role to plan in supporting and driving the achievement of the goals of the NDP. Below, we explored the means by which SAFCOL can actively contribute to the NDP, concentrating on 11 priority areas:

An economy that will create more jobs

SAFCOL employs approximately 1 700 people directly and approximately 2 781 through contracting services. Furthermore, through its Transformation unit, SAFCOL actively engages in the development of community-based enterprises, with a special focus on the empowerment of people of colour, women, youth, and people living with disabilities (PWD), which leads to employment in the rural economies within which SAFCOL operates.

Improving the quality of education, training and innovation

SAFCOL supports the upskilling of its staff, their dependants and local communities through a number of targeted interventions, including study assistance for employees, bursaries, learnerships, apprenticeships, internships, work-integrated-learning placements, and short skills programmes. These programmes are offered free of charge to SAFCOL's Social Compact communities.

Reversing the spatial effects of apartheid

SAFCOL supports the redress of the injustices of the past, including the redistribution and restitution of land, as contemplated in the Restitution of Land Rights Act, No 22 of 1994. To this end, SAFCOL has dedicated staff working closely with the Department of Forestries, Fisheries and the Environment, the Department of Agriculture, Rural Development and Land Reform, the Regional Land Claims Commissioners, land claimants, and the broader community so as to settle claims on SAFCOL-managed land.

Transition to a low-carbon economy

SAFCOL, as a Group built on a biological asset, is well aware of the risks posed by the climate emergency, to which end SAFCOL has quantified its carbon footprint and set science-based targets for emissions reduction. SAFCOL is actively adapting its operations to mitigate the impact of climate change, as well as supporting adjacent communities that are most vulnerable to its adverse effects. Further steps include measuring changes in our carbon position to determine our carbon sequestration capability in future.

Quality healthcare for all

SAFCOL acknowledges the importance of health, both for its own employees and adjacent communities, to which end SAFCOL has built three dedicated occupational health facilities for staff, and built and upgraded numerous community health clinics within its footprint area.

Reforming the public service

SAFCOL recognises the importance of a public service which is dedicated to social justice, social cohesion, and nation building. Furthermore, SAFCOL acknowledges the Basic Values and Principles governing public administration as set forth in Chapter 10 of the Constitution of South Africa, to which end SAFCOL has its own dedicated policy on ethics in the workplace.

Fighting corruption

SAFCOL supports the fight against corruption to which end it has instituted a number of measures, including an Internal Audit unit, Forensics, Delegation of Authority, Separation of Duties, Ethics Office and the establishment of a dedicated whistleblowing hotline.

Transforming society and uniting the country

SAFCOL recognises the need for social cohesion and nation building (NPC 2012), and thus through the Transformation unit supports community and social development with multiple Enterprise and Supplier Development (ESD) and CSI initiatives, including health clinics, community halls, victim care centres, Early Childhood Development (ECD) centres, community-based businesses, education and training, etc.

An inclusive and integrated rural economy

SAFCOL supports the government's drive for radical economic transformation and the integration of the rural economy. To this end SAFCOL actively develops community-based businesses within its value chain through a dedicated ESD programme and a proactive community engagement model, which seek to establish and support black-owned businesses from the rural communities within its operational footprint and along the forestry value chain.

Social protection

SAFCOL supports the government's call for social protection, for access to healthcare, nutrition, education, etc. To this end, SAFCOL has undertaken a number of initiatives besides those explored above, including Dignity Drives to help keep girls in school, building of schools and classrooms, providing Wi-Fi and computer laboratories in schools and establishing community gardens and agroforestry for food security.

Building safer communities

SAFCOL supports the need for safer communities, to which end SAFCOL has established a number of victim care centres at local police stations where victims of crime can receive counselling and support.

RISKS AND **OPPORTUNITIES**

HIGHLIGHTS

- Risk appetite framework implemented and aligned with King IV recommendations, the Group's strategy and the Shareholder's Compact
- All risk management within our risk appetite, except one which was dealt with by the Board in accordance with the risk appetite framework and which is being managed to within the approved risk appetite limit

SAFCOL's Risk Management function supports the governance process that oversees the execution of strategy and optimised operations.

SAFCOL's Board is mandated to oversee that management operates a commercially sustainable business on state forestland while enabling socio-economic transformation in the forestry sector.

The Board's fiduciary duties include that it must ensure that SAFCOL's sustainability reality (external, transactional and internal contexts) is accurately translated into its strategy and that the strategy is aligned to SAFCOL's risk appetite framework.

It is management's responsibility to ensure that the strategy is executed in accordance with operational plans and that risks are managed as these plans are executed.

The Chief Audit Executive and other assurance providers provide the Board with assurance that the activities executed by management are in accordance with the operational plans, approved strategy and good governance principles. The Board then reports to the Shareholder on the achievement of SAFCOL's mandate and strategy.

The Board's governance duty includes oversight of the risk management process, which enables SAFCOL to manage its risks while translating between sustainability, scenario planning, strategy, risk appetite, operations and functions, combined assurance, governance and oversight, and external reporting.

Focus areas

The FY 2021/22 Annual Risk Management Plan was fully executed.

Strategic risks were reviewed regularly to ensure that the risks were mitigated and all risks that were outside the risk appetite limit were either mitigated to within the risk appetite or dealt with by the Board in line with the risk appetite framework.

Compliance with relevant legislation (including COVID-19 regulations) was monitored regularly and assurance was provided.

Business continuity plans were reviewed, and testing was conducted at operations to ensure continuity of operations.

Planing and rework in drymill process at Timbadola sawmill

Risk management framework

RISKS AND OPPORTUNITIES continued

SAFCOL's most material risks and opportunities

	Risk	Description	Mitigation strategy	SDGs
	COVID-19	The persistence of the pandemic, uncertainties relating to its mutation and the effectiveness of vaccines posed a continued risk.	We adapted well during FY 2021/22 due to concerted efforts to protect our employees and the overall business from the pandemic. There was little impact on the business, and our compliance with COVID-19 regulations was of a high standard.	3
	Fire	Unfavourable weather conditions and human activities may render our plantations vulnerable to fires.	We continued to work with Forestry South Africa, Working on Fire, fire protection associations and others to maintain integrated firefighting strategies (including scientific fuel-reduction strategies during the rainy season).	12, 15
RC	Illegal activities (e.g. timber theft, illegal mining, land invasion)	The geographical spread of our plantations, insufficient socio-economic growth and poverty where we operate expose us to illegal activities.	There was a significant increase in this risk. We integrated with surrounding communities on beneficiation opportunities, worked with law enforcement authorities, deployed physical security and explored the latest technologies to monitor our plantations as part of our holistic crime mitigation approach. We have commenced with development of an integrated security framework and elevated the need for interdepartmental collaboration across government departments and all role players in the forestry sector to mitigate this risk.	16, 17
IC	Pests and diseases	Baboons can severely damage the bark of trees, and diseases affect our plantations and may result in lower volumes.	We continued to work with the Baboon Damage Working Group and other industry stakeholders on solutions for damages caused by animals and pests. Our R&D focus areas include developing disease-resistant species to mitigate the risk more sustainably.	15
IC NC	Climate change and natural disasters	Changing weather patterns affect our forests, given the 30-year life cycles of most of our trees. As a carbon sequester, we don't contribute materially to climate change, but droughts, storms and flooding impact our assets.	The first year of the climate change response plan has been successfully executed and the carbon baseline has been established. We worked with industry and in-house experts and academia to implement our climate change response strategy. Our R&D team aimed to develop drought-resistant species to counteract the effects of climate change on our business. Our plantation managers continuously updated location-specific strategies and protocols to mitigate the impact of climate change and natural disasters.	13
MC	Ageing infrastructure	Our ageing infrastructure may present a safety risk, result in inefficient operations and/or lead to increased costs.	We have made progress in securing strategic partnerships to expedite the upgrade of our key infrastructure to improve productivity and enable us to deliver high-quality products more effectively and efficiently to our customers.	9
RC SC	Loss of access to forestable land	We lease most of our operating land from the Department of Forestry, Fisheries and the Environment (DFFE), of which ~57% is affected by land claims. When the land is ultimately transferred to successful claimants, we could lose access thereto or face uncertain lease negotiations with the new landowners.	The long-term land lease agreement with DFFE has been formalised and signed by the parties. We continued to monitor the land restitution process affecting our operations. Opportunities to collaborate with land reform beneficiaries have gained momentum as we accelerated our efforts to transform the forestry industry, and the first land lease agreement with a Communal Property Association has been signed while proactive negotiations with other communities are ongoing. We focus on our position as partner of choice to land reform beneficiaries to support community forestry initiatives and develop black industrialists in the sector. We explored various economic empowerment initiatives to integrate neighbouring communities into the forestry value chain.	16, 17
NC	Loss of access 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 licences for all our operating sites. Before replanting after 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.	6
RC	Land reform	We strongly believe that our efforts to assist land beneficiaries to increase their economic participation in the forestry sector in general and in our value chain specifically are rendering sustainable results.	We engage with more than 80 adjacent communities, of which more than 40 are land claimants. Our post-settlement and proactive community engagement models enable us to build strong relationships with these communities. We aim for immediate and mutual benefits over and above the long-term benefits expected of land transfer. Although we have made significant progress, we are streamlining our processes and improving our engagement with stakeholders such as DPE, DFFE, DALRRD, and the national and regional Land Claim Commissions to expedite land reform.	11, 17

Risk focus: Continuous access to forestable land

SAFCOL plays a catalytic role in the realisation of the state's afforestation and rural socio-economic transformation objectives by involving land beneficiaries in the value chain. This is accomplished through collaboration on projects that will enable claimants to derive value from their land as leased from them by SAFCOL.

SAFCOL's land reform approach has helped to transition its current community and land-related activities into sustainable and mutually beneficial socio-economic partnerships in the forestry value chain. SAFCOL has established commercial partnerships with land beneficiaries and is working on further projects, including silviculture projects and a mobile sawmill, and has initiated non-forestry projects on unplanted land, subject to legal and FSC® requirements.

Despite the COVID-19 pandemic, in FY 2021/22 SAFCOL continued to hold online engagements with relevant stakeholders, including land claimants, and implemented models to optimally involve communities across SAFCOL's value chain. This continued engagement assisted SAFCOL significantly to manage land risk matters and related activities.

SAFCOL also implemented land risk management strategies, held quarterly meetings to review progress and decided on integration initiatives across various business areas in the Group.

A multifunctional security task team and crime forum was established to facilitate alignment of crime mitigation measures across the Group, and to address escalated criminal activities and the resultant risk exposure. Continued improvement in this area will be a key focus area for FY 2022/23.

BUSINESS MODEL

WHAT WE DO

- Research and development into genetics; tree, wood and log properties; processing and performance characteristics
- Nursery seedlings and cuttings
- Planting/establishment: Preparations for planting the seedlings or cuttings
- Tending and protection: Weed control; fire management; environmental management; pests and diseases

MECHANISATION AND AUTOMATION

- Value-adding activities: thinning and pruning
- Harvesting operations
- Logistics and transporting logs to clients

THE SAFCOL VALUE CHAIN

- Logs on roadside loading and transport
- Delivery to mill: short/long hauling from log ban
- Log sorting according to diameters
- De-barking. Bark used to generate steam or sold to compost manufacturers

THE 50:50 STRATEGY

- Sawing in wet mill according to cutting patterns and log diameters
- Wet boards (lumber) stacked per diameter for kiln drying
- Kilns drying
- Dry lumber de-staked in dry mill, end trimmed and graded. Final product bundled per dimensions and grade
- Off-cuts burned in boiler or sold to communities as fire wood
- Chips sold to pulp/biofuel industry
- Final lumber product stored, sold and dispatched to end users

CAPITALS

- Financial capital – For more details see page 62.
- Manufactured capital – For more details see page 42.
- Human capital – For more details see page 44.
- Intellectual capital – For more details see page 38.
- Relationship capital – For more details see page 54.
- Natural capital – For more details see page 36.
- Social capital – For more details see page 52.

	Financial capital	Manufactured capital	Human capital	Intellectual capital	Relationship capital	Natural capital	Social capital
INPUTS	• Debt of R2.2 billion • Equity and liabilities of R5.3 billion	Investment in plant maintenance and upkeep	• Employee total: 1 772 with the inclusion of IFLOMA • Investment in employees and communities through a number of learning and development interventions • Training spend: R17 million	• R&D spend of 1.8% of turnover • A culture of innovation and improvement	Ongoing stakeholder relations	South Africa: • Total area under plantation management = 120 390 ha • Total area under environmental management = 68 790 ha • Total unplanted area = 1 210 ha Mozambique: • Total area under plantation management = 17 385 ha (to be increased, as per the planting strategy) • Total area under environmental management = 83 728 ha • Total unplanted area = 1 110 ha	• ESD spend of R75 million • Procurement spend for 30% black women-owned entities at 27% of TMPS in FY 2020/21 • Procurement spend for youth-owned entities at 11% of TMPS • Procurement spend for PWD entities at 2% of TMPS
RISK ALIGNMENT	We pursue profitable growth to compete in the market, supported by management of risks related to our income, expenditure, working capital, financial position, investments, customer mix and debt levels. Financial risks that may result in us not achieving our strategic financial targets are outside of our risk appetite.	We prioritise innovative, superior and sustainable products and services to meet our strategy, enabled by cost-effective, integrated business models, processes, systems and supply chains. We have no appetite for risks that may prevent us from achieving our operational targets.	As a key strategic enabler, we proactively manage our access to skills and capabilities, as well as the satisfaction, wellness and conduct of our employees. Risks that may severely reduce our employee value proposition and access to competence and capacity needed to execute our strategy exceed our risk appetite.	We pursue improved technology and products to meet evolving customer needs through our R&D efforts. Risks that may negatively affect our intellectual property are outside of our risk appetite.	We strive to build strong relationships with customers, governments and communities, supported by compliance with legal and regulatory requirements, and management of possible impacts from our business on stakeholders. We do not consider risks that may detract from these efforts to be within our risk appetite.	We actively manage our reliance on natural resources and our impact on communities, human health and the environment. Risks that severely threaten these aspects exceed our risk appetite.	We strive to commit social investment in line with communities' needs and in support of our brand and reputation. We do not consider risks that may detract from these efforts to be within our risk appetite.
OUTPUTS	• Revenue: R1.2 billion • EBITDA: R133 million	• Section 54 PFMA application developed and submitted to DPE and subsequently approved • Design specifications and business case developed for replacement solution for Timbadola upgrade • Bid was published to solicit strategic partner for the treatment of poles	• 2 060 training interventions provided to SAFCOL employees and contractors • 89 bursaries awarded, 43 internal and 46 external (12 were employee dependants) • 26 interns placed • Recruited and placed 106 forestry-specific sector learnerships • 15 apprenticeships filled	• Pine hybrid trials get measured and analysed annually to assure new possible hybrids • Initial cross-laminated timber (CLT) and cellulose nanocrystal (CNC) research projects completed and reports received • University of Stellenbosch, University of Pretoria and the Council for Scientific and Industrial Research (CSIR) were involved in research on behalf of SAFCOL	Continued strong partnerships with key stakeholders	Maintained FSC® certification in South Africa, with only five minor corrective action requests raised against Komatiland Forests	B-BBEE Level 4 for the FY 2020/21
OUTCOMES	• Revenue growth, profitability and cash generation • Contribution to GDP	Investment in new productive resources and technology: • Timbadola upgrade • Potential investment in Timbadola (co-generation) • Investment in plant maintenance These investments contribute to high value-added manufacturing capacity in the country.	Employees and communities are better skilled and better placed for sustainable, value-adding employment.	• R&D investment in product development • Potential new products: – Timber-frame structures – Poles for infrastructure – Engineered wood products • The maintenance of a culture of innovation and improvement	SAFCOL is able to deliver on its mandate and strategic vision due to collaboration with key stakeholders	• Sustainable management of forests. This includes a holistic approach to the management of forests, including financial, environmental and social dimensions. • SAFCOL also manages non-plantation areas in terms of its environmental responsibilities	• Equitable land claims model • B-BBEE initiatives: – Ecotourism – Transport – Value chain • B-BBEE and community development initiatives: – ESD programme • Socio-economic development

HEALTH AND SAFETY

ASSOCIATED SDG

HIGHLIGHTS

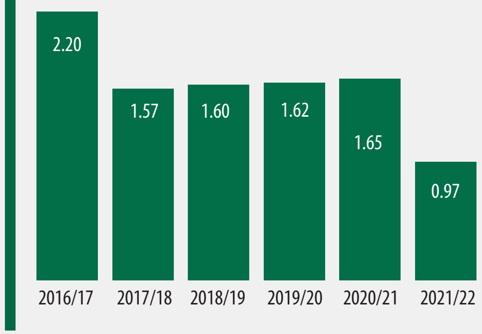
- Zero fatalities for the second consecutive year
- Lowest Disabling Injury Frequency Rate (DIFR) on record (0.97), far exceeding Shareholder's Compact target
- NOSA external compliance audit score of 87.06%
- Average internal compliance audit scores of 96.1%
- 100% of internal and external audit findings verified as closed within 90 days

SAFCOL's health and safety performance for the year under review has been exceptional.

For the second consecutive year, SAFCOL achieved a fatality-free year in 2021/22, and for the fifth consecutive year maintained a DIFR significantly below its Shareholder's Compact target.

Over the past five years SAFCOL has recorded a steady reduction in the number of employees sustaining disabling injuries in the workplace, as shown in the graph below. The 2021/22 DIFR is the lowest on record.

DIFR: SAFCOL employees by financial year



Focus areas

In FY 2021/22, SAFCOL made several investments to augment its health and safety framework, the most significant of which was made in terms of human capital, through assertive leadership, mentoring and skills transfer to the health and safety team. Despite constraints, the continuation of a high-visibility, in-field approach has paid dividends.

Ongoing investment in mechanised systems is expected to reduce the requirement for manual chainsaw harvesting operations, which is the highest injury risk activity and the highest contributor to our injury rate.

Although resources were limited, methods were found to continue the development and entrenchment of a behavioural safety culture in SAFCOL, predominantly through weekly communications to the entire Group and its contractors on topics of pertinent concern.

Additional focus on timely and accurate incident reporting and effective investigation has contributed significantly to the reduction of injuries in the workplace.

Implementation of improved internal health and safety auditing protocols and methodologies, combined with mentoring and skills improvement of safety officers, enabled improved compliance levels across all business units. A compliance score of 87.1% was achieved at the external NOSA audit, supported by an average compliance score of 96.1% in the two internal audits, with 100% closure of all findings within 90 days.

COVID-19 response

Although the gazetted restrictions around COVID-19 were progressively relaxed through the course of the year, the health and safety team continued to effectively monitor, report and enforce compliance with SAFCOL protocols as reflected in the low number of cases identified.

COVID-19 awareness is considered to be high amongst the entire workforce, and voluntary vaccination is actively encouraged.

Challenges

- Health and safety activities took place successfully under constrained financial conditions.
- Forestry operations experienced increased injury risk due to exceptionally high rainfall and other unexpected weather events. These risks were actively managed by the health and safety section of the SHEQ Department, in consultation with operational line managers, and the potential increase in slip and fall injuries did not materialise.

OPERATIONAL PERFORMANCE

OPERATIONAL **PERFORMANCE** continued

> **"We have worked hard to stabilise the business, and I believe our foundation is now strong. The overall performance of the Group improved during the financial year, which resulted in improved financial results and the achievement of our 24th successive FSC® certification."**
>
> **Mr Tsepo Monaheng – SAFCOL Chief Executive Officer**

HIGHLIGHTS

- Achieved and exceeded key operational targets (pruning, thinning and planting)
- Maintained FSC® forest management certification for 24th consecutive year
- Log sales revenue passed the R1 billion mark
- Lumber average selling price above budget
- New planer procured and commissioned at Timbadola, and another planer replaced
- Retained the FSC® Chain of Custody certification with no corrective action requests or observations
- Progress was made in equipment capacity building
- IFLOMA achieved its TU target and remained profitable
- Commenced with replacement of some of the ageing equipment within budgetary constraints

Forest operations

Overall, KLF Forest operations in South Africa achieved and exceeded most of its key operational targets which include pruning, thinning and planting targets. Furthermore, the TUP Shareholder's Compact target was achieved and exceeded. KLF Forest operations in South Africa also achieved log sales revenue passing the R1 billion mark.

Processing operations

The average selling price (ASP) of lumber was above budget due to the production of high-value lumber products. The demand for lumber remained high, however, the breakdowns at the Timbadola sawmill due to ageing equipment and power outages from load shedding led to SAFCOL's inability to take full advantage of the market demand. As a result, the budgeted revenue for the financial year under review was not achieved.

IFLOMA operations

The Shareholder's Compact targets were achieved, except for the newly established Galinha Fibre Project planting target, which was not met due to a lack of seedlings. IFLOMA continues to manage its operation profitably within the constrained budget.

Messica IFLOMA has been able to break even in this financial year and its performance has shown a positive trend. The target for plantable commercial forest area was achieved as a result of GPS work that was done. The TUP target of 6.5% was achieved with an actual of 4.7% at the end of FY 2021/22. This is a result of replanting that took place on harvested compartments at Penhalonga and Rotanda plantations.

Ecotourism operations

Ecotourism underperformed financially due to the impact of COVID-19 travel restrictions on the tourism industry.

Efforts to improve the visitors' experience at the ecotourism sites are ongoing. Procurement of a strategic partner to turn around the performance of Lakenvlei Forest Lodge and ensure overall operational excellence is in progress.

Log sales

Logs sales through an annual auction process resulted in an oversubscription of the available sustainable volume. The demand for logs remained high throughout the financial year. Higher-than-target log production was achieved, resulting in higher log sales compared to budget.

Lumber sales

The market demand for lumber products was high during the year. However, lumber sales were below budget due to capacity constraints as a result of breakdowns due to ageing equipment and power outages.

Challenges

- Unpredictable weather conditions affected efficient delivery of logs to customers
- Non-achievement of Timbadola sawmill revenue targets due to breakdowns and power outages
- Non-achievement of ecotourism revenue targets due to the impact of COVID-19 on tourism
- Demand for logs remained high and oversubscribed due to limited sustainable volume
- At IFLOMA, challenging road infrastructure and ageing equipment negatively impacts the efficient delivery of logs and sawn timber from the forests to the sawmill

Optimising board edger in the wetmill

Value extraction plant at the Timbadola sawmill

NATURAL **CAPITAL**

ASSOCIATED **SDGs**

ASSOCIATED **CAPITALS**

HIGHLIGHTS

- No significant environmental incidents were recorded in the year under review
- The Climate Change Response function within the SHEQ Department was fully operationalised and Year 1 activities in the approved action plan were implemented
- 24 consecutive years of FSC® certification were achieved in June 2021
- A baseline carbon footprint/balance calculation was completed, enabling the establishment of meaningful objectives to reduce SAFCOL's carbon emissions and increase sequestration capacity

SAFCOL focuses closely on the sustainable management of its forestry business, which is demonstrated through its FSC® certification. This not only relates to how its biological asset is managed, but also in the way it manages its long-term, continuous access to forestable land, while supporting the State's land rights restitution programme. In an integrated manner, this is supported through due focus on cash conservation, responsible investment in technology and growing the business in a manner that supports broader, sustainable development of the forestry and related industries in the rural economies where we operate.

SAFCOL views its plantations as a biological asset and subscribes to the principles and criteria of the FSC®. Through the operating subsidiary KLF, we celebrated 24 consecutive years of forest management certification in the 2021/22 financial year.

The sustainability of SAFCOL's plantations is assured by responsible management, application of best practice, and compliance with the principles and criteria of FSC® certification. SAFCOL monitors its environmental impacts through scheduled processes, using independent specialists where appropriate, and mitigate where necessary. This is not just best practice, but also an FSC® requirement.

SAFCOL has a responsibility to care for the ecosystems by protecting the environment in which it operates, and is fully committed to the continual improvement of environmental performance across all business activities. SAFCOL also recognises the impact of climate change, both broadly within the global and South African contexts, and specifically as it impacts on the domestic forestry industry and SAFCOL operations and on the communities within which it operates.

Almost a third of the land managed by KLF is designated and managed as a conservation area. Requirements include the control of alien and invasive species, minimising the use of chemical pesticides, prevention of soil erosion and protection of grasslands and indigenous forests. The impacts of operations on the environment are continuously monitored through in-house and independent surveys, covering aspects such as wetlands, streams and watercourses; rare, threatened and endangered species; heritage sites; areas of high conservation value; and protection of biodiversity. Where undesirable impacts are identified, management interventions are implemented to prevent further damage and, where required, to rehabilitate any degraded areas.

Sound environmental management is the responsibility of every manager and employee at SAFCOL, with guidance, advice, support, and enablement from the environmental practitioners in the SHEQ Department. The department also has a full-time specialist to manage the Group's climate change response strategy and action plan.

Focus areas

Once 12 months of resource usage data had been collected, SAFCOL conducted a carbon footprint analysis to determine its contribution to climate change in terms of Scope 1 and Scope 2 greenhouse gas (GHG) emissions. It was determined that Scope 2 emissions (purchased electricity) comprised by far the greatest source of GHG in SAFCOL, accounting for 68% of all GHG emissions, followed by hydrocarbon usage (diesel and petrol).

SAFCOL also quantified the volume of carbon stored in its biological asset (i.e. carbon stock volume). Going forward, this figure will be used to determine carbon stock change and therefore carbon sequestered over the given financial year.

SAFCOL was instrumental in the establishment of a dedicated forest industry Climate Resilience Working Group, chaired by Forestry South Africa (FSA), to address climate change related matters which affect the broader industry.

SAFCOL continues to implement its climate change response programme, raising awareness around the impact of climate change both on the business and on adjacent communities. Some awareness projects include planting of Spekboom gardens with explanatory signage at all business units, and rolling out Toolbox Talk communications across the Group. A comprehensive set of Best Practice Guidelines has been developed setting out specific and practical actions all employees can take in their respective workplaces.

The SHEQ and Transformation departments collaborated on projects to plant fruit trees at community facilities to raise climate change awareness. Food security is threatened by the impacts of climate change, and fruit trees were selected as a mitigation of this impact in social-compact communities.

SAFCOL continues with its resource conservation programme which collects data on resource usage across the Group, identifies and monitors trends, as a means of driving responsible resource usage and reducing waste and GHG emissions. The finalisation of the baseline carbon footprint analysis enables the setting of meaningful and targeted objectives, including a 10% reduction in electricity usage supported by a themed campaign to encourage electricity savings.

Challenges

- South Africa experienced higher than normal rainfall in the FY 2021/22 season, with moderate environmental impact. Fortunately, the Group did not sustain any significant damage from the extreme weather conditions experienced.

Lakenvlei Forest Lodge (between Dullstroom and Belfast) reception and restaurant

INTELLECTUAL **CAPITAL**

ASSOCIATED **SDGs**

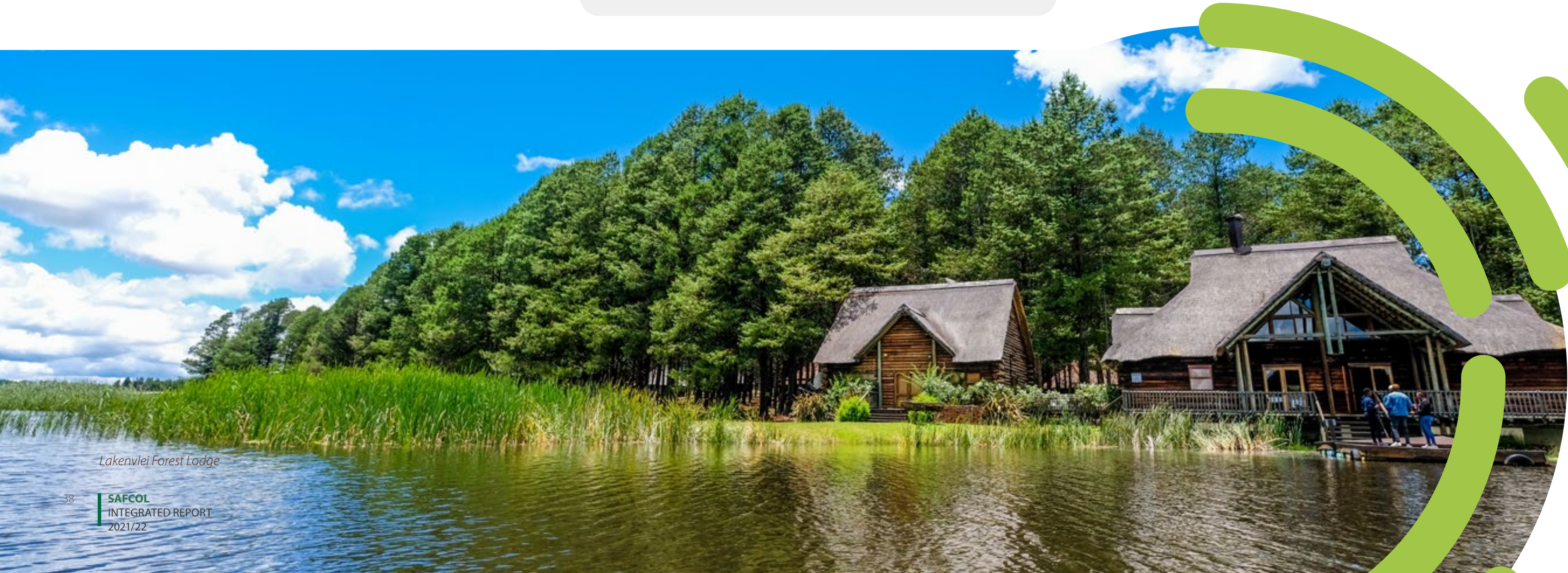
ASSOCIATED **CAPITALS**

Two broad areas of focus apply to SAFCOL's stock of intellectual capital: ICT expertise and systems, and the R&D activities that the Group conducts both in-house and in partnership with academic and commercial institutions.

Research and development (R&D)

HIGHLIGHTS

- Success of Agroforestry research and publications in peer-reviewed journals. This includes an article co-authored by SAFCOL researchers that made use of the groundnut project in Tzaneen as a case study titled "Perceptions on Constraints to Agroforestry Competiveness: A Case Study of Agrosilviculture Community Growers in Limpopo and Mpumalanga provinces, South Africa" in a Special Issue of Circular Economy and Sustainability (Springer): Sustainability in an Agro-Based Bio Economy: Prospects and Challenges in a post-COVID era, https://doi.org/10.1007/s43615-021-00039-8
- University of Stellenbosch cross-laminated timber (CLT) project concluded, and an MOU signed between York Timbers and SAFCOL on the further development of CLT in South Africa
- Initial cellulose nanocrystal (CNC) research project completed, and reports received
- Groundnut project with the JDM Keet Community finalised and three new varieties introduced for commercial planting



Lakenvlei Forest Lodge

The R&D Department plays a pivotal role in driving innovation and sustainability of the Group. Since 1993, much of the research activity in SAFCOL has been in tree improvement, with the aim of maintaining and improving the quality of pine and eucalyptus planting stock. Key in the provision of this planting stock was the Tweefontein nursery which supplied a total of 7.2 million plants to SAFCOL's plantations. The seedling and cuttings material for this planting stock was sustainably sourced from our seed orchards. Due to the growing cycle we have, results from the tree breeding effort were not immediate but this has now resulted in an increase in the MAI (Mean Annual Increment). The current crop of foresters can now clear fell compartments a few years earlier but with the same quality of wood for our markets. In tandem with the need to expand SAFCOL'S plantable area, a reduction in the rotation age means better utilisation of resources and increased revenue for the Company.

A strategic focus of the department has been risk mitigation. Through membership in the TPCP (Tree Protection Co-operative Programme) based at the University of Pretoria, we could screen our nursery planting stock for diseases like *Fusarium circinatum*, a serious disease on pine trees, thus reducing the chance of transplant mortality and the consequent added blanking/establishment costs. Baboon damage continues to be a major challenge to the sustainability of our operations and through membership in the Baboon Damage Working Group, an industry group chaired by FSA, we are evaluating the impact of this damage and developing sustainable solutions to manage this risk. Gains from the department's breeding effort and partnerships with entities like Camcore at NC State University have helped increase the range of species and hybrids, thus helping the Group deal with climate change impacts like frost, drought and hail.

Investment in R&D and related capacity and resources is necessary to increase productivity and commercial sustainability, improve livelihoods and ensure global competitiveness. The aforementioned objectives would not have been possible without the total R&D spent of R16 257 760 for the FY 2021/22. This was in line with the KPI target of 1.8% of the previous year's revenue as stated in the Shareholder's Compact and has allowed other cutting-edge solutions to be developed. These include:

- The tissue culture lab within the Tree Biotechnology programme which will help in the multiplication and conservation of our genetic resources;
- The engineered wood products that are being developed like CLT, and 2021 marked the end of a three-year project with the University of Stellenbosch towards the development of CLT; and
- The production of cellulose nanocrystals (CNC) from saw dust, a collaborative effort with the CSIR, which will grow SAFCOL's efforts towards a circular and sustainable economy.

INTELLECTUAL **CAPITAL** continued

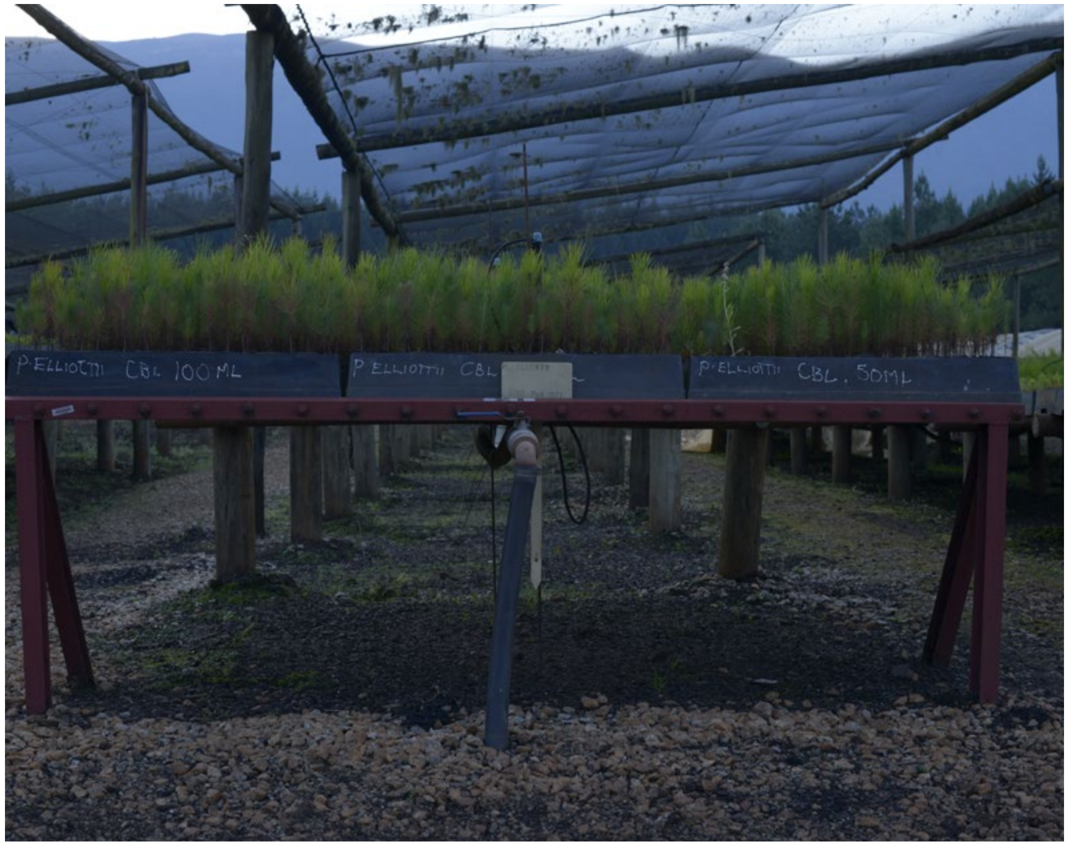
The latter two projects were identified to deal with downstream processing and are in alignment with the Company's 50:50 strategy especially as it relates to Phase 3 – "Revenue growth through expansion". Besides the increase in revenue, ultimately these projects will help minimise the impact on the climate and environment.

A highlight for the year was the groundnut project at JDM Keet in Tzaneen which entailed the integration of groundnuts with *Eucalyptus grandis*. This project was a collaborative effort between SAFCOL and the Agricultural Research Council (ARC). The agroforestry programme was recognised as being relevant to a number of SAFCOL's strategic objectives as well as government's initiatives and policies like the Forestry Masterplan and the National Development Plan (NDP) Vision 2030, amongst others. The current National Forest Sector Research and Development Strategy highlights the importance of research in supporting informed decision making needed to meet many of the challenges facing the South African forestry sector. For our department, research impact can be demonstrated through output that we make to society, the socio-economy and academia. It is critical to ensure that the benefits of research and resultant technologies are disseminated widely to all users. Three groundnut varieties were tested and introduced to the JDM Keet community growers. In terms of academia, contributions focusing on the groundnut project included the following: one peer reviewed article was published, (ii) one peer reviewed book chapter was published, (iii) two peer reviewed conference full papers were accepted and are in press, and (iv) three poster presentations were made.

Focus areas

In FY 2021/22, the R&D Department:

- Completed all the targets identified in the Shareholder's Compact as well as the development and review of the R&D strategy for the year 2022/23. This strategic plan outlines five-year research objectives and goals aligned to the SAFCOL Strategy, with related activities and outcomes.
- Twelve research trials were established and assessments carried out across 40 ha of SAFCOL landholdings.



Pine seedlings in the Tweefontein Nursery, at Sabie

ICT

ICT is a strategic lever for supporting business innovation with new capabilities and improved business agility across SAFCOL operations. ICT empowers business with the necessary tools for digital enablement, facilitating more effective use of technology, greater collaboration and knowledge sharing across the organisation. The ability to access data from anywhere, quickly extract value from data for reporting purposes and providing analysis for faster decision making will help the Group realise its strategic objectives.

In FY 2021/22 a new CIO was appointed to ensure that ICT plays a pivotal role in enabling the SAFCOL strategy and driving digital transformation across the organisation, providing fit-for-purpose, secure and resilient solutions and services while ensuring that all ICT risks are managed within SAFCOL's approved risk appetite framework.

The ICT function is working to digitally transform the business and progressively improve the level of ICT maturity in the organisation. Key priorities include the implementation of an optimised enterprise resource planning solution and the mitigation of ICT risks; utilisation of a hybrid (on-premise and cloud) environment to ensure improved business continuity; and the replacement of old infrastructure to avoid the risk of loss of data. ICT resources will also focus on new innovative ways and consciously look at opportunities to automate more SAFCOL business processes.

The groundnut establishment at JDM Keet, Tzaneen

MANUFACTURED **CAPITAL**

ASSOCIATED **SDG**

ASSOCIATED **CAPITALS**

HIGHLIGHTS

- SAFCOL continues to invest to ensure that our operations and plantations meet all required safety and risk standards
- The implementation of the plan to replace old plant, equipment, vehicles and communications systems was prioritised during the financial year

Investment in SAFCOL's forestry operations focused on ensuring its base of equipment remains safe, robust and fit for purpose. At Timbadola, investment was made in the replacement of old equipment to increase productivity and efficiency, and in a medium-sized planer to improve the value of end products.

An important initiative in FY 2021/22 involved the implementation of digital radio communications. Digital radios are more effective and robust and have the potential to be used in advanced projects such as sensor networks and an Internet of Things.

SAFCOL performed general maintenance on its ecotourism facilities, ensuring they meet hospitality standards.

SAFCOL's critical infrastructure includes 15 000 km of roads which permits access to its various operations. In FY 2021/22 SAFCOL invested in the upkeep of these roads.

Forward looking

To improve operational efficiency and reduce risks to our employees, SAFCOL is expanding mechanised operations across the Group footprint where possible. In FY 2021/22 the SAFCOL Board approved the project business case, we managed to secure finance for the project, and the implementation process has begun.

In line with the 50:50 strategy, SAFCOL is expanding its processing capacity through the following initiatives:

i) Outsourced processing capacity

Due to the market demand for lumber, an additional processing capacity is being derived from outsourced processing initiatives referred to as custom-cut contracts. The procurement process has been initiated.

ii) Mobile sawmill

The mobile sawmill will be located within SAFCOL plantations, and it will process pine logs to produce wet of saw product. The wet of saw product will contribute to additional revenue generation from processing initiatives. The first mobile sawmill will be located at Redhill site (Jessievale Plantation) and the procurement process has begun.

iii) Lumber warehouse

SAFCOL plans to establish a warehouse at Makhado in Limpopo closer to the Timbadola sawmill. This will assist the sawmill in selling lumber products directly to customers such that the lumber can attain higher prices to improve revenue generation.

iv) Pole treatment plant

A process to identify a strategic partner for the pole treatment plant is in progress. The plant will process eucalyptus into transmission poles and the potential market includes Eskom and other African countries.

Challenges

Ageing equipment reduces efficiency and incurs greater maintenance costs, and the replacement of this equipment remains a priority.

Eucalyptus logs loaded on a timber truck

HUMAN CAPITAL

ASSOCIATED **SDGs**

ASSOCIATED **CAPITALS**

HIGHLIGHTS

- Achievement of 100% of the Human Capital (HC) Shareholder's Compact targets in support of the Company's socio-economic mandate
- Placement of 106 sector-specific learnerships and 15 apprenticeships targeting youth in rural communities
- Placement of 26 internships for work-integrated learning in line with sector skills priorities
- Successfully concluded SAFCOL skills analysis through skills audit to ensure the entity has the requisite skills and talent to drive current and future strategic objectives
- Twenty-one bursars completed their qualifications and are placed on the Youth Employment Service (YES) initiative aiming to alleviate youth unemployment
- Increased PWD intake from the previous years to facilitate and decelerate development and placement of previously disadvantaged groups
- Achieved zero days lost due to industrial action for the sixth consecutive year
- Successfully introduced and implemented the SAFCOL medical aid scheme and associated subsidy for all SAFCOL permanent employees
- Implemented talent management and succession planning initiatives to ensure the Company has sufficient talent pools for scarce and critical roles and a bench-strength leadership pipeline for continuity and sustainability
- Introduced and rolled out 360-degree feedback at management level as part of the continuous re-engineering of the SAFCOL culture

Harvesting operations at Entabeni Plantation

Human capital metrics report

1 385 filled positions as at 31 March and

327 vacancies

R16 468 853 invested in training for internal/external beneficiaries

2 060 training interventions provided including learnerships, internships, apprenticeships, bursaries, short skills programmes for contractors and employees

1 772 SAFCOL employees (including IFLOMA)

Consolidated turnover rate of

0.51% SAFCOL

0.14% IFLOMA

26% female

black **81%**

SAFCOL is entrusted to create an enabling and engaging environment for all employees across all levels within the business. It accomplishes this by driving a high-performance and values-based culture through a compelling employee value proposition (EVP). SAFCOL also contributes to addressing skills shortages through skills development initiatives targeting mostly the previously disadvantaged population both within the Company and in adjacent communities.

HUMAN **CAPITAL** continued

HC strategic enablers

Employee benefit enhancement

- Implementation of medical aid subsidy
- Enhancement of EVP and employee wellness offerings

Organisational enablement

- Structural refinement and realignment
- Inculcate high performance culture
- Implement integrated talent management interventions
- Conduct skills audit and full-time equivalent study
- Facilitate competence and capacity development
- Support change management initiatives
- Maintain workplace democracy

Employee development

- Deployment of employee development interventions across all levels
- Collaboration with institutes of higher learning and industry

In FY 2021/22, the human capital strategic enablers were enhanced through the adoption and implementation of an electronic (e-talent) system to ensure the Group is responsive to market changes and people requirements.

The SAFCOL leadership drives employee engagement by inviting employees to be innovative in creating solutions in order to enable employees to thrive in the new ways of working. Employee assessments proved to be a key mechanism in terms of building an inclusive organisation that co-creates solutions with its people.

Employee value proposition

SAFCOL takes pride in its talent. This is embedded in the human capital philosophy and in SAFCOL's belief system: "Our People, Our Talent, Our Future".

SAFCOL believes that engaged and motivated employees who have a deep sense of belonging and connection to the Company's purpose and vision will make meaningful contributions to the attainment of strategic objectives and goals.

In this respect, SAFCOL's success is embedded in its EVP. By caring for and supporting the Company's employees and allowing them to grow through employee development support programmes, the Company ensures that they have rewarding and meaningful careers, and thus contribute effectively to the Company's success.

SAFCOL is aware that there are other social and economic factors that can impact on employee productivity and has put in place initiatives to assist its employees meet their financial, physical, health and emotional needs through a comprehensive wellness strategy. This allows our employees to experience – at no cost – various employee assistance programme services, with extended wellness services to our employees' immediate family members.

As part of SAFCOL wellness offerings, the Company made occupational healthcare and company clinics available to its employees and their immediate family members and provided a medical aid scheme subsidy for qualifying employees in order to ensure a safe work environment, alongside appropriate and equitable salaries and profit sharing through incentive schemes as part of employee benefits.

Skills development

Skills development initiatives aim to ensure that socio-economic issues are addressed for youth, women and PWDs within communities, and that a culture of life-long learning within the Company is fostered through continuous education and training.

Due to the geographical location of SAFCOL's operations, there were some difficulties in placing the economically active population within skills development programmes in FY 2021/22.

Focus areas

- Placed 106 forestry sector-specific learnerships and appointed 15 apprenticeships
- The Company continues to invest in employees and communities' skills development, a target of 3% training spend was achieved
- Twenty-six interns were placed for workplace experiential learning in line with sector skills priorities
- Twenty-one bursars completed their qualifications and were placed on the Youth Employment Service (YES) initiative
- Forty-four internal, 33 external and 12 employee dependant bursaries are in the pipeline
- 2 060 beneficiaries were trained through a forestry-specific short skills programmes, of whom 1 870 were contractors
- R1.4 million discretionary funding received from the Fibre Processing and Manufacturing (FP&M) SETA
- Partnerships were forged with higher education and training (HET) and further education and training (FET) institutions in implementing skills development initiatives

Deputy Minister of Public Enterprises visit to operations

HUMAN CAPITAL continued

Talent management

The Company's talent management strategy is closely aligned with the Group strategy, and aims to respond to the changing business circumstances, while considering the market, customers and communities to be at the centre of all business activities and for business continuity and sustainability. Talent management is also used as a retainment initiative that supports the employment equity programme for SAFCOL as well as an affirmative action enabler, at the same time positioning the company in the market as the best Company to work for.

SAFCOL is automating some of its processes, and this includes adequately equipping talent and developing fit-for-purpose talent pipelines that will drive the Company's strategic goal of mechanisation in line with increased efficiency and safety.

Focus areas

To ensure there is adequate supply and quality of leaders and talent across all levels and functions within the organisation, SAFCOL:

- Conducted a leadership successor assessment, the results of which informed development interventions
- Upskilled all leadership successors on emotional intelligence to enable them to make difficult decisions, resolve conflict effectively, and adapt to changing business goals and circumstances as future leaders
- Conducted PFMA training to ensure future leaders are equipped to manage business risk effectively
- Identified scarce and critical skills and/or roles across all business units. Focused individual developmental interventions to bridge identified gaps are in progress.
- Used the graduate internship programme as a feeder to serve SAFCOL's talent pools where possible
- Funded a range of other leadership and employee development programmes
- Developed and adopted a team-based approach at key strategic positions to reduce dependency on individuals

Reward and remuneration

SAFCOL, like many other companies in South Africa, and particularly in the forestry sector, competes for the skills required for sustainability, value creation and the achievement of desired business results.

Attracting and retaining the most competent and talented employees is a top priority for SAFCOL, and competitive reward and remuneration policies are critical in this regard.

Focus areas

- Awarded employees with a 4% across-the-board annual inflationary adjustment despite challenging business conditions
- With the implementation of the EVP programme, SAFCOL managed to approve and implement the medical aid scheme for its permanent employees, an important core benefit that not only addresses the employee's wellbeing, but also covers respective employees immediate family members' healthcare and medical needs
- Approved a medical aid subsidy structure at 67% company contribution for production employees and 50% for admin and management
- Successfully awarded a production incentive bonus for production employees through the current self-funding incentive scheme that pays for the achievement of production target twice a year
- Enhanced its EVP to include a short-term disability benefit to be implemented in the second quarter of FY 2022/23
- Successfully revised the reward and remuneration policies in order to enhance applicability and governance, incorporate latest reward trends, and attract and retain SAFCOL talent

Timer processing operations at Timbadola sawmill

Salary adjustments

Through applicable processes, SAFCOL approved the following inflationary salary adjustments in FY 2021/22:

- Executive Directors and Prescribed Officers – 4% as approved by the honourable Minister of Public Enterprises
- Administration and management employees – an across-the-board 4% inflationary salary adjustment
- Bargaining unit employees – 4% and a once-off R1 000 per employee in October 2021
- Non-executive Directors – 4% Board and committee fee adjustment

Culture

SAFCOL's culture and associated programmes are vital to driving strategic business objectives and delivery, and are underpinned by company values, behavioural indicators, and the leadership charter.

SAFCOL's culture encourages a high-performance and values-based approach across all levels of the organisation underpinned by a robust performance management system, performance-enablement process, appropriate business strategy and fit-for-purpose structures. It encourages positive relations with all relevant stakeholders, flexibility, and agility.

Focus areas

In FY 2021/22, key culture interventions deployed included the following:

- Business objectives were strengthened and aligned through the cascading of corporate and business unit strategies
- Individual performance contracts were aligned with business unit strategic objectives
- Roles and responsibilities were clarified
- Continuous performance engagements and monitoring took place
- People-related governance and compliance were strengthened
- Positive consequence management initiatives were rolled out to progressively correct behaviours
- 360-degree feedback was introduced at management level to enhance the SAFCOL ways of working and instil a values-based culture
- Our leadership charter enhanced leadership skills across all levels

Primary log breakdown (framesaw) in the wetmill department at Timbadola

HUMAN CAPITAL continued

Employee relations

SAFCOL has sustained stable and constructive employee relations and partnerships with organised labour as well as non-unionised employees. This responsibility is carried out by line management in close partnership with the Human Capital division at plantation level.

Regular robust leadership engagement forums at all levels within the Company have led to well-engaged and motivated employees. The engagements have assisted SAFCOL in averting industrial action since 2012.

Focus areas

- Line of business was equipped on the dispute resolution processes at the CCMA
- A refresher workshop was rolled out to managers and shop stewards on the management of discipline at the workplace
- Production workers were workshopped on anger management

Value extraction plant at the Timbadola sawmill

Wellness

SAFCOL's employee wellness programme aims to assist employees to navigate both work and personal life and its challenges with ease.

Focus areas

- A health and wellness day was held for all SAFCOL employees in partnership with the Department of Health in Mpumalanga and Limpopo as well as the Makhado municipality
- Financial literacy and budgeting training was provided for all employees
- Employees were taken through the annual medical surveillance programme

The impact of the wellness programme is summarised below

WELLNESS
OCCUPATIONAL HEALTH
reduced absenteeism, sick leave and absent without leave through the effective management of chronic and infectious diseases

WELLNESS
MEDICAL SURVEILANCE
reduced employee exposure to occupational hazards and early detection of reversable illnesses

WELLNESS
HYGIENE SURVEYS
have led to improved living standards of our employees

WELLNESS
EAP
has led to improved employee morale and reduced misconduct, failure to observe safety rules from social, psychological and economical issues

Employment equity

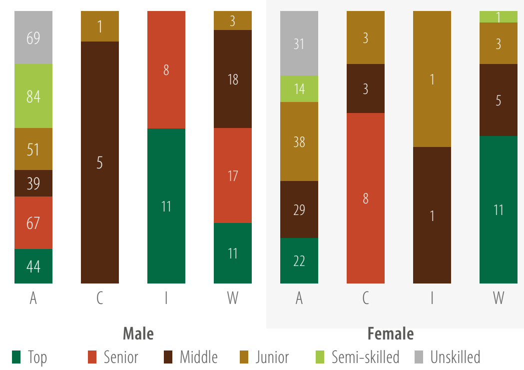
SAFCOL has a five-year employment equity strategy and is on track with the implementation of this strategy to support its B-BBEE and EE strategic initiatives. The implementation of the talent management programme has contributed to the retention of designated employees in alignment with the employment equity programme.

Focus areas

- An EE forum was appointed in line with the Employment Equity Act, No 55 of 1998
- A focused attraction and retention strategy was implemented
- African women at middle management exceeded the 23% target by 3%
- All the barriers to affirmative action identified on the employment equity plan were timeously closed

SAFCOL employment equity statistics

Actual EE status as at March 2022 (%)



SOCIAL AND RELATIONSHIP **CAPITAL**

ASSOCIATED **SDGs**

ASSOCIATED **CAPITALS**

HIGHLIGHTS

- Seven black women-owned suppliers who were previously enrolled in the short learning programme with the University of Mpumalanga were able to obtain silviculture contracts and to create and sustain 1 693 jobs.
- Forestry tools were handed over to eight black-owned silviculture contractors to enhance productivity and compliance to the Best Operating Procedures (BOPs).
- To reduce the failure rate of SMMEs doing business with SAFCOL, the ESD business unit facilitated internal training and mentoring conducted by SAFCOL management.
- Established and supported a bee keeping and honey harvesting project in Thohoyandou.
- Construction of social infrastructure projects for local communities.
- Established and supported 13 agroforestry projects.

Adding value to our stock of social capital involves Responsible for ESD, CSI and community socio-economic revitalisation.

In FY 2021/22 SAFCOL performed well in terms of all of these components, and delivered a positive performance in terms of improving the livelihoods of communities adjacent to its operations. As a result, it earned positive feedback from the DPE and external auditors.

Through rural development and economic transformation initiatives, business opportunities are offered to small, medium and micro-enterprises (SMMEs) and communities to address socio-economic challenges including unemployment, poverty and inequality.

Social compacts are signed with cluster communities adjacent to SAFCOL's operations as well as land claimant communities. Joint Community Forums (JCFs) are formed to discuss development agendas for each cluster community. Meetings are held quarterly to discuss the developmental agenda and operational requirements, and projects are jointly monitored and evaluated by SAFCOL and communities.

Challenges

- Community infighting
- Budget constraints
- Effect of COVID-19 on supported small businesses

SAFCOL seeks to address food insecurity through the establishment of small-scale vegetable farming

Enterprise and supplier development (ESD)

SAFCOL's ESD programme continuously strives to serve as an economic empowerment enabler within the forestry sector, with an emphasis on rural economic development.

The ESD programmes are aimed at developing and providing non-financial support to SMMEs that are mainly Exempted Micro Enterprises (EMEs) and Qualifying Small Enterprises (QSEs) within the forestry value chain. These are tailored programmes that enable SMMEs to participate in the mainstream economy and contribute to our suppliers' competitiveness and business sustainability.

Focus areas

- Internal capacity-building programmes were conducted for silviculture contractors and companies owned by PWDs
- Forestry tools and COVID-19 PPE was provided to silviculture and gardening contractors
- An external mentoring programme was conducted for silviculture contractors and the bee-keeping cooperative
- Compliance training on safety and supervisor training took place

Agroforestry projects

Agriculture plays a critical role in reducing poverty and creating job opportunities for local communities. The COVID-19 pandemic brought a new appreciation for the pivotal role that South Africa's agriculture sector plays in the provision of healthy, sufficient and affordable food and creating inclusive economic growth for rural communities.

Focus areas

- Thirteen small-scale farmers were supported with seedlings, fertilisers and garden tools
- 106 job opportunities were created and sustained
- Thirty indigenous trees and 20 fruit trees were planted at various households, communities and government institutions

CSI

Through its CSI projects, SAFCOL changes the lives of rural communities and creates hope for the less privileged living in rural areas. CSI projects are aligned to the National Development Plan and act as catalysts for rural and economic development.

Focus areas

- A social compact was signed with the landowners in Mamahlola CPA to strengthen the mutual relationship in line with SAFCOL's strategic partnership objective
- Three footbridges were constructed at Gert Sibande District municipality
- The Mapheleni and Makhambane hall was renovated
- Ablution facilities for Oncweleni Hall and Bogogo Siyabanakekela Centre were constructed
- External works (including paving and a retaining wall) for Maguada Hall were completed
- Furniture was supplied to Rea Shuma and Mooiplaas ECD centres
- A guardhouse was constructed for the Glory Hill Clinic
- The Msogwaba disability empowerment centre and Shandza skills development centre were built
- SAFCOL Executives conducted stakeholder engagement and oversight activities to address stakeholder challenges

SOCIAL AND RELATIONSHIP CAPITAL continued

Stakeholder universe

The journey to grow the business requires the Group to build a shared vision with all stakeholders. Customer relationships require strengthening at all contact points and the relationship levels centred on meeting customer expectations. Service provider relationships require close financial management to avoid fruitless and wasteful expenditure. Community relationships need to advance a compelling value proposition, especially with regard to potential new owners, for SAFCOL to safeguard future business operations.

Stakeholder engagements

Stakeholder group	Strategic intent/ objective	Stakeholder	Communication message or area of interest	Key engagement issue	Outcome
Government of the Republic of South Africa and agencies	Increase market share through strategic acquisitions and partnerships (horizontal and vertical opportunities)	Department of Human Settlements: Advisor to the Minister of Human Settlements	Alternative housing solutions and related products	Follow-up meeting with the CEO of South African Housing and Infrastructure Fund (SAHIF)	Alignment on the socio-economic impact and alternative housing solutions, including an opportunity to serve the local market and expand offerings to the export market Engagements are ongoing between SAFCOL and SAHIF
	Creating shared value initiatives with a focus on industry transformation and local community economic development	National Forestry Advisory Council (NFAC)	Transformation Job creation Community engagement Timber theft Baboon damage	Field visit to Wilgeboom plantation	Shared learnings on sustainable forestry and identified the need for a more comprehensive plan for baboon damage Highlights on good practices with community involvement to curb illegal activities and to create additional jobs
	Commitment to generate value for the Shareholder (dividends)	Parliament	Presentation of the budget vote speech by the Minister of Public Enterprises	Budget vote speech and post budget vote media briefing	The Minister highlighted that SAFCOL was a well-managed entity
			Oversight visit by Members of Parliament to SAFCOL operations	SAFCOL operations Community involvement Economic development of the communities adjacent to SAFCOL operations	The Members of Parliament were impressed with SAFCOL's operations, especially with the relationship that the entity holds with the communities adjacent to its operations
	Governance excellence	DFFE, Department of Agriculture, Land Reform and Rural Development (DALRDD)	Land risks related to the Category B&C project for SAFCOL to take over the management of the plantations	Evaluation of land risks and condition of the assets related to the category Bs and Cs project	Land risk evaluation conducted Due diligence of the plantations conducted
		DFFE	Collaboration between DFFE and SAFCOL to promote execution of SAFCOL's legislative mandate	DFFE lease agreement Monthly lease payments Existing minority shares Climate change collaboration Handover of nature reserve at Entabeni to the Tshivhase Royal Council	Alignment and agreement on how to proceed on key issues
		Auditor-General South Africa	2021/22 Audit strategy	SAFCOL engagement and audit strategy	Alignment on the 2021/22 audit strategy
	Operational excellence	South African Police Service (SAPS) Commissioner and Deputy Commissioners	Effective crime prevention	Introduction of the SAFCOL team to the Deputy Commissioner Alignment on assisting SAFCOL with crimes in its plantations Prosecution of SAFCOL cases	Better working relations and faster response to criminal activities, and Individual criminal cases discussed

Case study: Footbridges

Most communities in the rural areas of Mpumalanga province are sub-divided by water streams and dams. This inhibits access to schools, hospitals, shops, and other services.

In the absence of formal infrastructure, the community constructed temporary footbridges which were unsafe. This has resulted in learners not being able to attend school during rainy seasons fearing for their lives.

Following a request from the JCF, three footbridges were constructed at Chief Albert Luthuli local municipality. These safe and convenient bridges now connect the community to schools and other services.

SOCIAL AND RELATIONSHIP CAPITAL continued

Stakeholder group	Strategic intent/ objective	Stakeholder	Communication message or area of interest	Key engagement issue	Outcome
Department of Public Enterprises (DPE)	Commitment to generate value for the Shareholder (dividends)	Deputy Minister and DPE officials	Site visit by the DM and officials to the Timbadola sawmill	Engagements on the operations of the mill and a better understanding of its offerings, challenges and operations	The delegation was satisfied with the site visit and indicated that the upgrade of Timbadola is critical to SAFCOL's operations and increasing market share They also emphasised the importance of executing the project timeously
	Governance excellence	SAFCOL and DPE Officials	Quarterly reporting meetings Alignment on expectations between DPE, Board members and DPE entities' reporting on he risk and integrity management framework (RIMF)	Business performance against Shareholder's Compact targets RIMF	Shareholder representative kept abreast of the performance of the business and presentation by DPE to share expectations for entities to align
		Minister of Public Enterprises, state-owed enterprises, CEOs, and chairs	State Capture Report	State Capture Report	State-owned entities implement State Capture Report recommendations
Parliament	Governance excellence	Portfolio Committee on Public Enterprises	Briefing by SAFCOL on the annual report and financial statements for 2020/21	Company performance for FY 2020/21	The committee was happy with SAFCOL having achieved an unqualified audit opinion and improved in performance and governance
		Portfolio Committee on Environment, Forestry and Fisheries	Briefing by SAFCOL on their forestry developmental mandate	Forestry community development and sector transformation	The committee commended SAFCOL on the presentation and for the good work on the current forestry developments in supporting communities through its CSI and enterprise development initiatives
		Select Committee on Public Enterprises and Communication	Briefing by SAFCOL on engagement with successful land claimants on the post-settlement model and future sustainability of the Company	Post-settlement model and future sustainability of SAFCOL	SAFCOL's efforts to implement the post-settlement model and future plans to grow the Company were well received by the committee
		Portfolio Committee on Environment, Forestry and Fisheries	Briefing by South African Forestry Company Limited management of leases from DFFE, land claims, payments to CPAs and community development	Update on the current lease agreements with DFFE, land claims, payments to CPAs and community developments	Update on the finalisation of the lease agreement Pending land claims that affect SAFCOL's business Lease agreements with land claimants Payments made to CPAs and community development projects

SAFCOL hosted a customer day to create a platform to engage with our top customers and demonstrate our commitment to becoming a more customer-centric organisation.

Stakeholder group	Strategic intent/ objective	Stakeholder	Communication message or area of interest	Key engagement issue	Outcome
Customers	Creating shared value initiatives with a focus on industry transformation and local community economic development	SAPPI CEO and Vice President	Introduction of the Vice President of SAPPI to the CEO and COO of SAFCOL	Create stronger relationships for better business relations between SAPPI and SAFCOL	Opportunities for collaborations on CSI projects for greater impact in the communities adjacent to our operations
		SAFCOL COMRIC	Signing of the MoU	Combating crime affecting SAFCOL's operations	SAFCOL and COMRIC signed an MoU focusing on collaboration to combat economic crime affecting SAFCOL's operations.
		Top 20 SAFCOL customers	Working together Challenges	Introduction of SAFCOL leadership Presentation of the process to buy SAFCOL product Understanding SAFCOL customers Understanding areas of improvement and how SAFCOL can better understand their customers	Fuel challenges explained Competitiveness of the industry in terms of price increase, hidden costs, and true costs Impact of increase on the industry Long-term contracts Appointment of accounts managers Overstated and duplicate volumes Timber theft Roadside timber not sorted according to specific clients Better client profiling
Media	Growth and business development	Newsroom Afrika SABC News Sowetan Highveld Chronicles Rise FM Fever Tree Media (Forestry SA) SABC Radio (i.e. Ikwekwezi, Ligwalagwala Thobela and Phalaphala FM)	To expose mainstream media to SAFCOL operations, CSI projects and profile ecotourism as an alternative for local tourism for South Africans The value of forestry within rural communities SAFCOL's contribution to the tourism economy	SAFCOL business and ecotourism offerings	Positive profiling for SAFCOL and building strategic relationships with national radio stations that will facilitate strategic media coverage
Organised labour	Optimisation of the appropriate operating model	Union leadership	Quarterly Legotla meeting	The negative impact of the economic downturn, COVID-19, and the national lockdown on the business Salary increase and wage negotiations	Organised labour and management were aligned on the impact of the economic downturn and the impact that the national lockdown had on business continuity

SOCIAL AND RELATIONSHIP **CAPITAL** continued

Stakeholder group	Strategic intent/ objective	Stakeholder	Communication message or area of interest	Key engagement issue	Outcome
Forestry industry	Increase biological asset value	Forestry South Africa (FSA)	FSA Executive Committee meeting	Key engagement on forestry industry-related matters	Greater collaboration to ensure a sustainable South African forestry industry
	Governance excellence			Operations of FSA as representing body for the forestry sector, e.g. performance of sector, challenges and their resolution and business development	Association members happy with FSA's work and approved plans for next financial year
	Governance excellence	FSA Timber Industry Pesticide Working Group (TIPWG) FSA Commercial Crime Forum FSA Environmental Management Committee	Pesticide research and usage Combating crime in forestry business	Compliance with FSC® pesticide policies and information sharing	SAFCOL's interests represented
	Operational excellence	All SAFCOL employees	COVID-19 safety awareness Vaccination rollout campaign	COVID-19 safety guidelines and compliance	Ongoing awareness in line with the developments of the pandemic to ensure employees' safety
		Employee health benefits enhancement	Employee wellness day and SAFCOL medical aid scheme launch and rollout plan	Health Fair campaign Introduction of the new SAFCOL medical aid launch and rollout plan	Engaged employees
		Employee engagements with SAFCOL leadership	Introduction of SAFCOL leadership	Operations One-on-one sessions with production workers Safety in the workplace	Engaged employees
	Operational excellence	FSA	FSA annual regional meeting	Presentation of FSA reports, consideration of resolutions, and elections of regional office bearers for 2022/23	Reports noted, resolutions adopted, and new office bearers elected
	Socio-economic impact	FSA Environmental Management Committee	Compliance with FSC® requirements	Update of FSC® SDG	Minor relevance to SAFCOL (aimed at Group schemes)

Case study: Msogwaba Disability Centre

PWDs are the most marginalised group in society and this is largely perpetuated by physical and emotional barriers, lack of assistive devices and the scarcity of PWD-focused human development projects and activities.

Msogwaba Disability Centre is a non-profit organisation which focuses on empowering PWDs within the Mbombela Local Municipality. The centre was established in 2019 with the aim to empower individuals with new skills and capabilities. SAFCOL has also invested over R690 000 to build a timber-framed structure to give shelter to approximately 80 PWDs.

The Msogwaba Disability Centre aims to advance the quality of life of people with disabilities and grow their full potential through meaningful human development activities.

Stakeholder group	Strategic intent/ objective	Stakeholder	Communication message or area of interest	Key engagement issue	Outcome
Land claimants and communities	Creating shared value initiatives with a focus on industry transformation and local community economic development	Land claimants task teams	Projects, partnerships and business case update	Update on status of projects and engagement of potential strategic partners Feasibility study and assessment of proposed collaborative initiatives and projects	The update on the status was welcomed by the forum Strategic partners identified for the various projects
	Socio-economic impact	Joint Community Forum meetings	Approved CSI and ESD projects for the current financial year Matters affecting the operations and communities	Progress on CSI and ESD projects	The community was content with the projects planned for the current financial year
		Batlhabine Traditional Authority	Request to accommodate furniture manufacturing learnership programmes	Inform the traditional council of the learnership opportunity for the local community	The authority agreed to accommodate the learners in the community
		Mamahlola Communal Property Association (CPA) DALRRD	Mamahalola Lease Agreement	Signing of the lease agreement	Both parties officially signed the land lease agreement
		DFFE DALRRD	Ngwaritsi land claim	Feasibility study and assessment of proposed collaborative initiatives and projects	SAFCOL will continue with implementation of its CSI programme and proactive community engagement model
		14 cluster communities	Stakeholder management Socio-economic development	Induction of new members Progress on projects Matters affecting the operations and communities	Information shared. Strengthened relations with the local traditional leadership and CPA members
	Socio-economic impact	Mamahlola CPA Greater Tzaneen Cluster	The signing of Social Compacts Land beneficiaries' participation in economic activities on their land	Executives engaged with community representatives and signed social compacts Collaborating with successful land claimants in the SAFCOL value chain	Strengthened relations with the local traditional leadership and CPA members Partnering with successful land claimants in SAFCOL value chain Agreed on collaborative initiatives
		Amathole Forestry Company	Board meeting, representing the interest of minority shares beneficiaries.	All items on the Board agenda	Fiduciary duties discharged
		SGS South Africa	Compliance with FSC® requirements	Update KLF details for annual administration fee review and self-declaration	Updates submitted

Case study: Shandzha Skills Development Centre

Skills are key to the economy growing, businesses expanding and job creation. By making training and skills development available to people, we can help them to upskill themselves and stand a better chance of escaping poverty.

The timber-framed Shanzha Community Skills Development Centre has been a top priority of Mphephu-Lutanandwa JCF Cluster at Makhado Municipality. The community and their leader, Chief Shavhani, took a bold step by making a formal request to SAFCOL to build a skills development centre for the benefit of both young and old by providing skills to the community around Makhado Municipality.

The community leaders plan to have the centre registered with SETA, Department of Education and SAQA to offer accredited courses. The facility will also be used by the JCF, Community Property Associations and traditional authorities for training and workshops in proximity to the community.

The centre is capable of offering training not only to the immediate locals but to the entire Vhembe District. The local schools will also be accommodated in the centre for various workshops and training.

SOCIAL AND RELATIONSHIP **CAPITAL** continued

Stakeholder group	Strategic intent/ objective	Stakeholder	Communication message or area of interest	Key engagement issue	Outcome
Land claimants and communities continued	Socio-economic impact	Ngome Poultry Farm	Stakeholder management CSI and ESD projects Land rehabilitation for planting	Management engagement with the staff at Ngome Plantation Introduction of SAFCOL leadership to the local traditional leadership and monitoring of SAFCOL projects in the area	Strengthened relations with the local traditional leadership in Ngome
		UNIDO	Discuss UNIDO phase 3 of the project: Supporting livelihoods through skills training and capacity building in the SADC region	Implementation of UNIDO's phase 3 of the project: Community development and the green economy	SAFCOL and UNIDO signed agreement to partner on phase 3 of the project
		Ngwaritsi Community	Discussed the settlement of the claim and the implementation of the proactive community engagement Model (PCEM) and alignment and sharing of information	Implementation of PCEM	Relationship established and historical information shared and principle agreement to collaborate going forward
External stakeholders	Governance excellence	RPAS Project	Opportunities for collaboration between SAFCOL and Gert Sibande District Municipality	Remotely Piloted Aircraft System (RPAS) Pilot Project	Agreed principles of collaboration on usage of drones at plantations
		COMRIC	Support the combatting of economic sabotage of critical infrastructure close to or on SAFCOL-operated land	Weekly meetings to exchange information and establish and maintain collaborative engagement	SAFCOL interests represented
		The Ethics Institute	Verification of best practice ethics principles	Independent service provider's recommendations on outcomes of ethics survey	Best practice requirements verified for implementation in SAFCOL going forward
		CURA	Progress on risk management solution	Risk management report for 2021/22 reporting	SAFCOL expectations outlined in terms of the timelines of the project
International stakeholders and strategic partners	Growth and business development	Embassy of the Republic of Korea	Forestry sector in South Africa and the Republic of Korea	Developments in the forestry sector	Knowledge sharing, investments, and possible partnerships

The Company's progression towards attaining strategic objectives was commended, especially our contribution to continuously strive to create shared value for communities and stakeholders.
Mr Mpho Makwana – SAFCOL Board Chairperson

Various stakeholders during the Deputy Minister of Public Enterprises visit to operations

FINANCIAL CAPITAL

CHIEF FINANCIAL OFFICER'S REPORT

ASSOCIATED **SDG**

ASSOCIATED **CAPITALS**

HIGHLIGHTS

- Revenue growth of 33% up to R1.2 billion
- Improved our working capital management
- Net profit margin, which improved from -5% to 7%
- Costs efficiently contained within 12% of budget
- Profit after tax for the year of R83.6 million
- Return on equity improved from -1.4% to 2.7%
- Funding secured for mechanised harvesting project
- Cash reserves increased by R72.8 million (22%)
- Irregular expenditure incurred in the year reduced to less than R1.0 million
- Unqualified audit opinion for the third year in a row

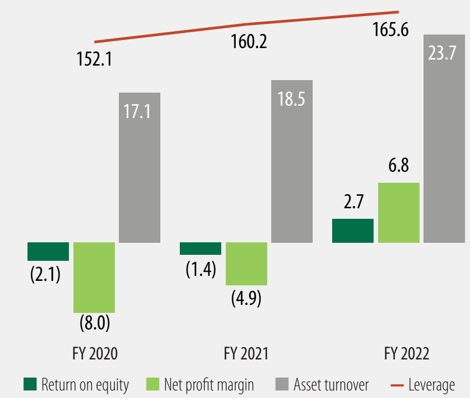
At a glance

This financial year saw South Africa not only navigating the third and the fourth waves of COVID-19, but also the resultant global supply chain challenges. These and other factors started stimulating crude oil prices, amongst other things, giving rise to a 32% increase in the diesel price over the financial year, adversely impacting our operating costs. Despite the above and other domestic challenges like the unrest in KZN in July 2021 and now the impact of war elsewhere in the world, we delivered a strong performance against this backdrop during the year under review. This attests to the dynamic and cohesive leadership and strategic foresight in the Group and the resilience that has been built so far.

Creating value

We use a simple DuPont analysis to monitor some of the key drivers contributing to the return on equity (ROE). This allows us to focus on specific levers to drive increased value creation for the Shareholder and the broader stakeholder base. As can be seen from the graph below, our ROE continued its positive trajectory over the past few years and is now in positive territory at just under 3%, which is comparing better with our peers.

Return of equity (%)



Operating efficiency

We measure our operating efficiency through the net profit margin, which improved from -5% to 7%, mainly due to the following:

- Revenue growth of 33% up to R1.2 billion. Concurrently, we managed to keep our debtors' days at 36 (prior year: 56) which is well below our target and this further improved our working capital management. We continue to build on our customer-centric approach in the light of a strong demand for our products.
- Costs were efficiently contained within 12% of budget. Linked to this good cost management, our creditors' days improved to 45 (prior year: 58).
- These results affirm that on our strategic horizon, we have moved from stabilising the Group to revenue growth through the existing base. The next phase will address revenue growth through expansion, as envisioned in our 50:50 strategy.

Mr D'Shorne Human
SAFCOL Chief Financial Officer

Asset management efficiency

Despite the steady improvement over the last few years, the efficiency of our assets to create value, as measured by asset turnover, is an element that is lagging our peers. This is mainly due to the aged asset base and delays in implementing capital expenditure replacements. However, during this financial year we secured funding for a three-year mechanised harvesting programme to start reinvesting in our fleet.

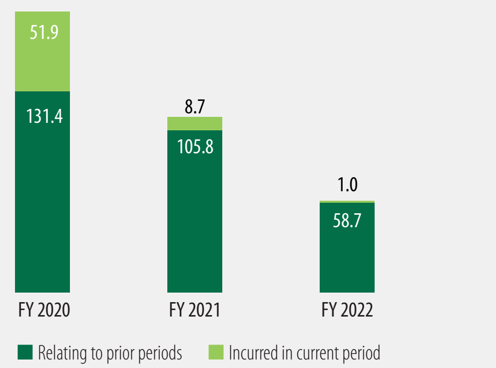
Leverage

The equity multiplier gauged by our leverage has remained relatively stable over the years. It is largely impacted by items such as the revaluation of our biological asset which increased by R214.4 million (6%) this year and right-of-use asset that increased by 29% to R404.8 million. Cash and cash equivalents also increased by R72.8 million (22%) during the financial year, while the majority of the changes in liabilities relate to finance leases.

Fruitless, wasteful and irregular expenditure

We continued improving the control over fruitless, wasteful and irregular expenditure. During the financial year less than R1.0 million new irregular expenditure was incurred, compared to R8.7 million in the prior year. The graph below illustrates the strong improvement trend.

Irregular expenditure (R million)



We will continue to explore a gradual shift from fixed to variable costs in order to improve agility and build resilience.

The above represents enhancements to the procurement policies, teams and a maturing control environment in this highly regulated function. Efforts to optimise the supply chain management activities while maintaining good governance, will continue.

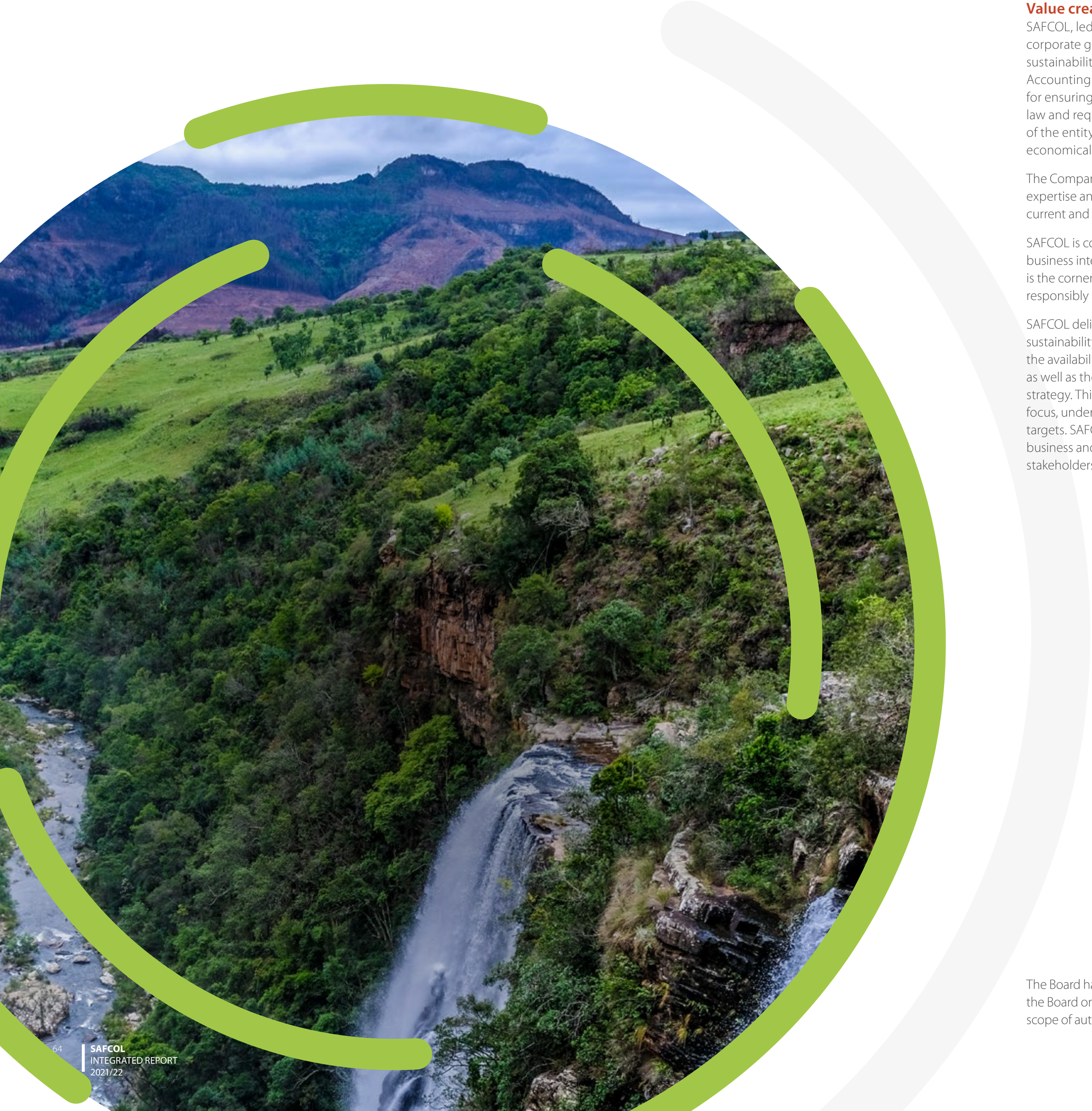
Looking ahead

It seems like the year ahead may be more challenging than hoped. This is on the back of some continued global macroeconomic pressures, as well as internal catch-up on activities that were curtailed during the lockdown period. We will continue to explore a gradual shift from fixed to variable costs in order to improve agility and build resilience. The latter will further be embedded with progress made on our 50:50 strategy to diversify revenue streams and explore strategic projects yielding higher margin inflows.

Challenges

- Delays in implementation of higher margin revenue streams
- Asset management efficiency is lagging peers
- Timbadola sawmill remains loss-making

GOVERNANCE **IN ACTION**



Value creation through robust governance

SAFCOL, led by the Board, understands that adhering to good corporate governance principles and guidelines is key to the sustainability of the entity and its activities. The Board is the Accounting Authority in terms of the PFMA, 1999 and is responsible for ensuring that its business is conducted in accordance with the law and requisite standards, and that the affairs and resources of the entity are safeguarded and properly accounted for, used economically, efficiently and effectively.

The Company acknowledges that an effective Board must have the expertise and competence to promptly and appropriately address current and emerging issues to ensure the delivery of its strategy.

SAFCOL is committed to the highest standards of governance, business integrity, ethics and professionalism. Corporate governance is the cornerstone of our business and ensures that we work responsibly as required by the King IV Report.

SAFCOL delivers on its belief and ensures the relevance and sustainability of its business by monitoring the macro environment, the availability of appropriate capital inputs and its impact on these, as well as the needs of its stakeholders. All of these inform SAFCOL's strategy. This strategy enables SAFCOL to maintain operational focus, underpinned by good governance, and deliver on its financial targets. SAFCOL's governance processes ensure that it is a sustainable business and that it creates and preserves value for the Group and its stakeholders.

Ethical and effective leadership

SAFCOL ETHICS
WE DO THE RIGHT THINGS, RIGHT

The Board strives to provide ethical and effective leadership to ensure that SAFCOL acts in a responsible manner that will enhance stakeholder value and secure its sustainability. The directors understand that they should individually and collectively exercise their fiduciary duties ethically and in good faith and assume collective responsibility for steering the Company and setting its strategic direction.

Governing in a time of COVID-19

COVID-19
Risk and Compliance

As COVID-19 remained at the top of the world's agenda, the Board provided the stewardship required for SAFCOL to navigate the associated uncertainties. The difficulties of running a business during a pandemic tested people everywhere, however, the Board led from the front, making decisions to protect SAFCOL's assets and to enable the Company to be more flexible and responsive. Apart from health adaptations, SAFCOL put in place governance measures such as new policies and practices to manage the health, welfare and livelihoods of employees and customers as we navigate the new normal. The Board continues to monitor the pandemic's economic effects and is comfortable that SAFCOL is well positioned to withstand these.

Governance structure

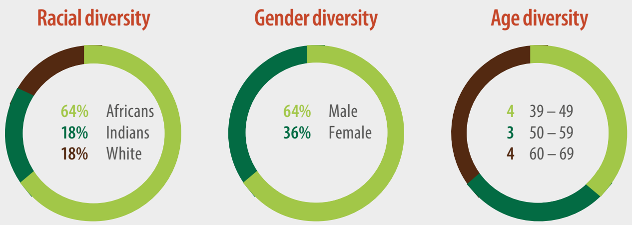
The Board considered the efficiency of each committee's terms relating to trends in governance and best practice. Following a review, the Board is satisfied that the committees effectively discharged their responsibilities.

The Board has several Board committees to whom it delegates its authority, with the mandate to deal with governance issues and report back to the Board on a quarterly basis. Each committee operates under terms of reference which set out its roles and responsibilities, composition and scope of authority. These are reviewed on an annual basis.

GOVERNANCE IN ACTION continued

BOARD OF DIRECTORS

- Audit and Risk Committee
- Finance, Investment and Transactions Committee
- Safety, Health, Environment and Quality Committee
- Social and Ethics Committee
- Human Resources and Remuneration Committee
- Corresponding colour bar denotes Chairperson of committee



Board composition that is fit for purpose

Our Board comprises a suitable balance of knowledge, skills, experience, diversity and independence to carry out its governance role and responsibilities objectively and effectively. The Board and the CEO are appointed by the Shareholder Minister.

1. Mr Mpho Makwana

Chairperson

Born: June 1970

BAdmin Honours (Public Administration), BAdmin, Executive Development, Postgraduate Diploma in Retail Studies

Skills: Leadership, corporate strategy, public administration, energy, banking and financial services, sales and marketing,transformation, public policy, steel industry, and manufacturing and pharmaceutical

Attendance: 9/9

Other directorships: Arcelormittal South Africa Limited, Boardroom Alliance (Pty) Ltd – Trading as Heidrick & Struggles (Pty) Ltd, Canon Collins Education and Legal Assistance Trust, Epitome Investments (Pty) Ltd, Gosebo 'A phogole Trust, Invicta Holdings Limited, Lionpride Investment Holdings, Nedbank Group Limited, Nedbank Limited, Nelson Mandela Children's Fund, New Nishati Investments (Pty) Ltd, The IR Management Group (Pty) Ltd, Platinum Metals Group

2. Mr Tsepo Monaheng

Chief Executive Officer

Born: September 1963

MBA (General, IT and Marketing), BSc (Electronic Engineering) and BSc Ed (Physics and Mathematics)

Skills: Business leadership, international business and technical leadership, electronic and telecommunications engineering, programme management, project management, business development, strategy development, aerospace and defence industries

Attendance: 9/9

3. Mr D'Shorne Human

Chief Financial Officer

Born: December 1979

Chartered Accountant (SA), Fellow Chartered Management Accountant (UK), Chartered Global Management Accountant (USA), MSc (Strategic Business Management), BCom Honours (Accounting Sciences)

Skills: Financial strategy, International Financial Reporting Standards, tax legislation, DuPont analysis, project valuation, treasury management, executive finance leadership, mentoring and coaching, critical thinking, collaboration and effective and efficient communication

Attendance: 9/9

4. Mr Frans Baleni

Born: January 1960

BA (Social Development Studies), Diploma: Political Science and Trade Unionism, Certificate in BOT from IMD, Lausanne Switzerland, Certificate in Project and Infrastructure Finance, London Business School, London UK

Skills: Commercial, risk, governance and compliance, health and safety, government relations, education and training, collective bargaining processes, stakeholder management

Attendance: 8/9

Other directorships: F11 Management Consulting, Mining Indaba Advisory Board, Kalagadi Manganese, Novo Energy, Business Venture Investments, Tswelopele Beneficiation Operation, K2018425737 (South Africa), F11 Resources, University of Johannesburg, TFS Africa, Powerspnp Projects, Akhona Mining Services, Public Investment Corporation, Sibanye Stilwater Social Advisory Panel

5. Mr Neeshan Balton

Born: January 1962

MSc (Public Policy and Management), Bachelor of Education (B Ed), Bachelor of Arts (Education)

Skills: Leadership, public policy, financial management, research, politics, education

Attendance: 9/9

Other directorships: Nishtara Lodge, Matla and Associates, K Two B consulting

6. Ms Buhle Hanise

Born: October 1982

CA(SA), B Com, B Com Honours, Postgraduate Certificate in Accounting

Skills: Accounting, audit, turnaround and business rescue, risk management

Attendance: 7/9

Other directorships: Outsurance Group and Subsidiaries, Mabunise Solutions, African Women Chartered Accountants, AWCA Investment Holdings (RF), Transaction Capital, Summit Africa Private Equity Fund

7. Ms Lahlane Malema

Born: December 1971

Legal Practitioner (BProc, LLB)

Skills: Corporate governance, legal, compliance, corporate secretariat, stakeholder management, education and training and leadership

Attendance: 7/9

Other directorships: Social Housing Regulatory Authority, Ekurhuleni Municipality Appeals Authority, Weskoppies Psychiatric Hospital, Momentum Foundation Community Trust

8. Adv. Lentswe Mokgatle

Born: February 1955

Admitted Advocate, LLB

Skills: Legal, strategy, project planning and management, negotiation, community development, arts, culture, networking, environment and sustainable development, research, economics, change management, policy analysis, risk management, organisational development, stakeholder management

Attendance: 8/9

Other directorships: Sci-bono, Chancellor House Holdings, Boloko Holdings, GGDA, 70s Group, Modikwe Group

9. Mr Yershen Pillay

Born: July 1983

Postgraduate Diploma in General Management, Bachelor of Social Science (Political Science and Economics), Certificate in Cybersecurity, MBA (Master of Business Administration)

Skills: Strategy, communications, change management, research, governance, transport and logistics management, development finance

Attendance: 7/9

Other directorships: ACSA, K3 Logistics, PM Moringa, AK Electrical, KYP Global

10. Ms Joanne Yawitch

Born: June 1957

MSc (Agricultural Development), MA (Development Studies), BA Honours, BA

Skills: Agriculture, development studies, leadership, public policy, climate change/environment sustainability, land tenure and reform

Attendance: 8/9

Other directorships: NBI, UPBEATPROPS 150, Boris Yawitch Trust

11. Ms Zimkhitha Zatu

Born: September 1983

CA(SA), Msc. Corporate Finance, Higher Diploma in Accountancy, Bachelor of Commerce

Skills: Accounting, financial management, audit and risk management, corporate finance, corporate governance

Attendance: 9/9

Other directorships: Rail 2 Rail (Pty) Ltd, Mathupha Capital (Pty) Ltd, Mathupha Capital Namibia, Grindrod Ltd, NFVF, Zaam Investments (Pty) Ltd, Mazamo Construction and Industries (Pty) Ltd, Outlier Consulting CC (Dormant), Big O Trading 1171 CC, Rumbi Investments (Dormant), Sun International Ltd, Thapola Nanipe Primary Co-Operative Limited, Berlin Energy, Matjoli Infrastructure, Khita Tshedza, WeGrow Farms (Pty) Ltd, Jala Corridor Concessions

BOARD OF DIRECTORS continued

The Board is assisted by a competent and suitably qualified Company Secretariat function, led by Mr Hulisani Murovhi*. He and his representatives have an arm's length relationship with the Board. The Company Secretariat function fulfils its duties in line with the Board Charter and best governance practices, in particular:

- inducting directors;
- providing the Board with guidance regarding its fiduciary responsibilities;
- providing guidance to the Board on matters of ethics and good governance; and
- acting as the primary point of contact between the Shareholder and the Board.

* *Mr Hulisani Murovhi regrettably passed away shortly after the period under review.*

Executing on the Board's mandate

The Board meets on a quarterly basis in line with SAFCOL's reporting cycle. Each Board meeting follows an agenda that has been set and agreed to by the Chairperson, CEO and Company Secretary with documents for discussion loaded on a Board pack platform for previewing. Meeting discussions are usually around the current performance, risks and opportunities, governance updates and regulatory matters for consideration, as well as in-depth discussions around execution of the strategy and the Shareholder's mandate. During the year there were six planned Board meetings, and three ad hoc Board meetings.

Board performance

The Board evaluation was conducted during August 2022 by an independent service provider. The results of the Board evaluation was that the SAFCOL Board continues to be well run, and well led. The Board members are performance orientated, competent and highly effective. The Chairperson provided excellent guidance and leadership to the SAFCOL Board.

The current Board has been in place for three years and it has managed to direct Management to build a challenging strategy whilst taking corrective action on past irregularities, weaknesses and adverse stakeholder opinions. The strategy, continues to be supported by an aligned culture, risk management approach and capabilities from an executive team.

The Board continued to act as a cohesive unit that has set an example on value-based governance in the way members interact, make decisions and lead management. Management is also held accountable but given the support to run the business. The biggest test for the Board going forward is to ensure that the momentum achieved over the past three years on the challenging strategy developed, is maintained and supported by an aligned culture, risk management approach and capabilities that are essential for success.

Board activities

Below is a summary of the Board's focus areas for the year.

Quarter 1

1. 4th Quarter Consolidated Performance Report
2. Board Charter and Annual Workplan: 2021/22
3. Land Policy
4. DFFE Land Lease Payment Plan
5. Valuation of SQF Shares
6. Position Paper on exiting minority shares
7. 4th Quarter Land Risk Report
8. Management and Administrative Employees Annual Inflationary Increase Proposal: 2021/22 pay scales
9. Annual Increases: Executive Directors and Prescribed Officers – 2021/2022
10. Balanced Scorecard Performance Review – 2021/22 for all Committees
11. Progress Update: Strategic Projects
12. Expansion of Mechanised Harvesting
13. SHEQC Strategy
14. Reposition of IFLOMA
15. Unaudited Annual Financial Statements of SAFCOL and its subsidiaries: 2021/21

Quarter 2

1. Additional Wage Mandate
2. 1st Quarter Consolidated Performance Report
3. Phase 1 Lifestyle Audit Report
4. Request to oppose an appeal by Tzaneng Treated Poles Timbers
5. Valuation of Minority Shares: MTO & Singisi
6. DuPont Analysis of ROE
7. 1st Quarter Group Cash Flow Forecast Report
8. 1st Quarter Land Risk Report
9. Report: State Capture Commission
10. Ethics Policy
11. Updated SCM Policy
12. Consequences Management Policy and Management Reports
13. Audited Annual Financial Statements of SAFCOL and its subsidiaries: 2021/21
14. Dividend Declaration FY 2021
15. Direct and indirect financial assistance by the Company to related and interrelated companies
16. Business Case: IFLOMA Fibre Project
17. Board Performance Evaluation Report: 2020/21
18. NED's Remuneration for FY 2020/21
19. NED's Inflationary Cost of Living Fees Adjustment: FY 2021/22
20. Exco and Prescribed Officers' Remuneration: FY 2020/21

Quarter 3

1. 2nd Quarter Consolidated Performance Report
2. ICT Governance Framework
3. Privacy Policy
4. Information Security Policy
5. Disposal of Shares: Siyaqubeka Forests
6. Minority Valuation: Amathole Forestry Company
7. SAFCOL and KLF Memorandum of Incorporation
8. Shareholder's Compact FY 2022/23
9. 2nd Quarter Land Risk Report
10. Contract of Employment Renewal: CEO
11. Genus Conversion at Berlin Plantation
12. Update: DuPont Analysis
13. Investment Matrix
14. 2nd Quarter Progress Update: Strategic Projects

Quarter 4

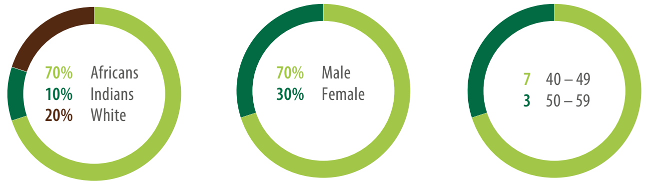
1. 3rd Quarter Consolidated Performance Report
2. Shareholder's Compact: FY 2022/23
3. Strategic and Corporate Plan: FY 2022/23
4. Delegation of Authority Framework
5. Annual Meeting Plan: FY 2022/23
6. 3rd Quarter Land Risk Report
7. Administration and Management Annual Salary Increases: FY 2022/23
8. Wage Mandate: FY 2022/23
9. Human Capital Policies
10. Funding: Mechanisation Project
11. Proposed Joint Venture: York Timbers
12. Timbadola Investment Upgrade
13. Project Investment Matrix
14. DFFE Land Lease Agreement

GOVERNANCE
IN ACTION continued

EXECUTIVE **LEADERSHIP**

The Group Executive Leadership facilitates the effective control of the Group's operational activities in terms of the authority delegated to it by the Board through the CEO. The Executive Leadership is responsible for recommendations to the Board on the Group's policies and strategy as well as being responsible for monitoring implementation.

Racial diversity **Gender diversity** **Age diversity**



1. Mr Tsepo Monaheng

Chief Executive Officer

Born: September 1963

Electronic Engineer

MBA (General, IT and Marketing), BSc (Electronic Engineering), BScEd (Physics and Mathematics)

Skills: Business leadership, international business, technical leadership, electronic and telecommunications engineering, programme management, project management, business development, strategy development, aerospace and defence industries

2. Mr D'Shorne Human

Chief Financial Officer

Born: December 1979

Chartered Accountant (SA), Fellow Chartered Management Accountant (UK), Chartered Global Management Accountant (USA), MSc (Strategic Business Management), BCom Honours (Accounting Sciences)

Skills: Financial strategy, International Financial Reporting Standards, tax legislation, DuPont analysis, project valuation, treasury management, executive finance leadership, mentoring and coaching, critical thinking, collaboration and effective and efficient communication

3. Mr Sibalo Dlamini

Chief Operating Officer

Born: March 1966

Registered Professional Chemical Engineer (Pr Eng)

Masters in Engineering Management, BSc Chemical Engineering, BSc Chemistry and Biology, Leadership Development Program, Registered Professional Engineer with the Engineering Council of South Africa (ECSA)

Skills: Engineering management including operations and maintenance, project management, contract management (FIDIC), process design, Supply Chain Management practices in line with applicable legislation

4. Ms Masebolelo Gaeganelwe

Chief Information Officer

Born: March 1973

Certified P3O Practitioner, Certified Director (IoDSA Cert. Dir.) Masters (Informatics), BSc Honours (Information Systems), BSc (Mathematics and Computer Science)

Skills: ICT leadership and management, Portfolio, Programme and Project Office (P3O) management, business analysis, ICT research and consulting, certified Mimecast Technical Professional, Microsoft Certified Systems Engineer

5. Mr Vishal Harichund

Executive: Strategy and Commercial

Born: October 1974

Chemical Engineer, Strategy Consultant

Master of Business Leadership, BSc Engineering (Chemical), Executive Development Programme (EDP), Master in Strategy Execution – Balanced Scorecard (Certified Training), Advanced Programs in Customer Centricity and Digital Transformation

Skills: Strategy consulting and development, strategic planning, Africa market entry and growth planning, balanced scorecard, business development and sales, marketing and communications, business transformation, chemical engineering design, development of digital twins, customer leadership and sales impact, project management, customer relationship management, market and competitor intelligence, IT software management

6. Ms Christelle Marais

Chief Risk Officer

Born: July 1971

Certified Director (IoDSA Cert. Dir.), Certified Risk Management Professional (IRMSA CRM Prof), MBA, Bluris

Skills: Corporate governance, risk management, resilience (business continuity management), organisational ethics, compliance, risk financing and insurance, health and safety, environmental management and climate change, quality management, professional coaching and mentoring

7. Ms Dimakatso Motseko

Executive: Human Capital

Born: March 1973

Registered Psychometrist

Master of Business Leadership, BSocSci Honours (Industrial Psychology), BSocSci (Industrial Psychology), Advanced Programme in Organisational Development

Skills: Leadership development, strategy development, organisational design principles and development, employee performance improvement, HR policy, process and systems design, change management, workforce planning and development, HC due diligence, employee value propositions, employee relations and diversity, talent acquisition, learning and development, job evaluations, climate and culture surveys, succession planning and talent management, psychometrics assessments, stakeholder management

8. Mr Siyabonga Mpontshana

Executive: Legal Services

Born: March 1978

Admitted Attorney

LLM (Commercial Law), LLB, Admitted Attorney

Skills: Business leadership, commercial law, public law, corporate governance, due diligence assessment, establishment of business relationships and business structures

9. Mr Hulisani Murovhi

Company Secretary

Born: June 1976

Master of Law (LLM), Bachelor of Law (LLB), Masters in Public and Development Management, Programme in Strategic Management and Corporate Governance, Higher Diploma in Tax Law, Diploma in Corporate Law, Baccalaureus Procurationis

Skills: Professional secretariat service, maintenance of minutes books and other statutory registers, meetings administration, maintenance of corporate governance, stakeholder and shareholder liaison, provision of legal and governance opinions, advisory to the Board and management, effective and efficient reporting, keep abreast on all pertinent existing and new legislation, protocol or standards, report and monitor the key strategic decisions taken by the Board, facilitate the induction of new Board members, arranging AGMs, ensure and facilitate the annual evaluation of the performance of the Board, regular review of related Company policies and governance prescripts

10. Mr Ntsatsi Rapoo

Chief Audit Executive

Born: July 1976

Certified Internal Auditor

BCom (Accounting Sciences), Certified Internal Auditor (CIA)

Skills: Governance, enterprise risk management, internal audit, forensic audit, ICT audit

BOARD COMMITTEE **REPORTS**

We remain focused and committed to the continued and improved delivery of our mandate, and the creation of value among our broad stakeholders.

Mr Mpho Makwana – SAFCOL Board Chairperson

Contents

BOARD COMMITTEE **REPORTS** continued

AUDIT AND RISK **COMMITTEE**

Number of meetings in FY 2021/22	Planned meetings	Ad hoc/ Special meetings
6	6	0

Meeting attendance

Board member	Meeting attendance
ZP Zatu (Chairperson)	6/6
B Hanise	5/6
LH Malema	5/6
Y Pillay	4/6
JR Yawitch	5/6

Composition

Five Non-executive Directors including the Chairperson

Members in FY 2020/21*
- ZP Zatu (Chairperson)
- B Hanise
- LH Malema
- Y Pillay
- JR Yawitch

** Executive Directors (CEO, CFO) and other key Executives participate in meetings by invitation.*

Responsibilities

- Oversight of integrity in the preparation of the financial statements in compliance with all applicable laws and regulations.
- Oversight regarding the integrity of the financial reporting system.
- Oversight of the organisation's combined assurance model that guarantees achievement of absolute assurance.
- Monitoring, assessing, and overseeing the management of financial and other risks.
- Assist the Board in carrying out its functions relating to safe-guarding SAFCOL's assets, practising adequate risk management, and ensuring the effectiveness of the Company's internal controls.
- Support the Board in carrying out its role relating to ICT by ensuring the ethical and responsible use of ICT, compliance with relevant laws, ensuring an appropriate control environment and managing material ICT risks.
- Oversight of compliance with applicable laws and consider adherence to non-binding rules, codes and standards.

Key focus areas and achievements

- An unqualified audit opinion has been obtained for the third successive year, with a marked reduction in audit findings.
- Profitability improved as the Group posted an operating profit of R387 million. Despite the ongoing impact of the COVID-19 pandemic (although limited in the Group's context), revenues improved in the current year. The improvement together with cost containment measures contributed to the overall improvement in operating profit.
- Against 28 measurable KPIs, 25 KPIs were achieved.
- The amount of irregular expenditure (mainly stemming from previous financial years) has significantly reduced from R114 million in the prior year to R60 million, of which less than R1 million was incurred during FY 2021/22.
- SAFCOL has also implemented 100% of all recommendations from forensic investigations, placing the Company in an improved position insofar as the prevention as well as overall management of fraud and corruption risk are concerned.
- Key appointments of the Chief Financial Officer (CFO), Chief Information Officer (CIO) and Senior Manager: Forensics were completed in the year. These appointments were key in bringing stability within the ICT, Finance and SCM functions.
- A review and capacitation of the ICT structure was completed to ensure that it is fit for purpose for the imminent upgrade of the Enterprise Resource Planning (ERP) system and all other systems for business optimisation.
- The approved ICT strategic plan includes strengthening the fundamental operating capabilities and cybersecurity.

Key focus areas and achievements continued

- Challenges with old infrastructure and systems that have not been upgraded were being addressed through the assessment of the server infrastructure and the review of the applications portfolio, which were completed in the year under review. Insights from these assessments have informed the roadmap that identified strategic initiatives which will cover the upgrade or replacement of ageing infrastructure and end-of-life systems, and new innovative, and reliable technology and platforms. These projects will enhance SAFCOL's ability to maintain critical business operations, improve productivity, and deliver more and better services to employees and customers.
- The business case for the replacement of the ERP system was approved. The focus in the following year would be on concluding the supply chain management processes to select the solution and implementation partner.
- The risk appetite framework was successfully piloted and refined in the past year. All risks were managed in compliance with the framework and further embedding of good risk management practices in line with the framework is in progress.
- Reviewed and adopted the risk appetite framework; risk management plan; privacy policy; information security policy; accounts payable policy; anti-fraud and corruption policy; ICT governance framework.
- Reviewed and recommended the Strategic and Corporate Plan for FY 2022/23; annual risk management plan; insurance strategy and the valuation of shares held on behalf of the minorities.
- SAFCOL's Internal Audit has continued to fulfil its primary role and purpose of providing independent and objective assurance and advice to management and the Board, in order to improve the organisation's operations and to assist the organisation to accomplish its objectives.
- This was achieved by full coverage of the Internal Audit plan, and its responsiveness to management's requests for assurance when needed for decision making. The Internal Audit plan was informed by the company-wide risk assessment as well as the approved Group strategy. The three-year rolling plan is updated annually, before approval by the Audit and Risk Committee.
- The overall control environment within SAFCOL for the year under review is considered to be "partially effective" in ensuring that inherent risks are appropriately managed and that business objectives are attained.
- The SAFCOL Fraud Hotline is managed by an external service provider. In 2021/22, six fraud and corruption-related allegations were recorded, indicating an increase of 50% in the number of reported allegations compared to the previous corresponding period. The nature of the reported cases relates to five allegations of corruption and one of fraud. At least 83% of all reported cases to date have been investigated and finalised.

Conclusion

The committee has performed its duties of strategic planning and oversight, discharged its responsibilities successfully as contained therein, as reflected in the key focus areas presented above.

Ms ZP Zatu
Chairperson of the Audit and Risk Committee

FINANCE, INVESTMENTS AND **TRANSACTIONS COMMITTEE**

Number of meetings in FY 2021/22	Planned meetings	Ad hoc/ Special meetings
8	6	2

Meeting attendance

Board member	Meeting attendance
NI Balton (Chairperson)	**8/8**
PM Makwana	**4/6**
LH Malema	**7/8**
Y Pillay	**6/8**
ZP Zatu	**7/8**

Composition

Five Non-executive Directors including the Chairperson

Members in FY 2020/21*

Mr NI Balton (Chairperson)
Mr PM Makwana
Ms LH Malema
Mr Y Pillay
Ms ZP Zatu

* *Executive Directors (CEO, CFO) and other key Executives participate in meetings by invitation.*

Responsibilities

- Assists the Board of Directors in providing oversight of investment and financial planning, funding models, implementation of major projects and investments, and proposed partnerships.
- In support of the abovementioned objectives, the committee reviews and approves:
  - SAFCOL's annual budget;
  - Funding models, including their respective funding sources in line with the approved delegation of authority;
  - Procurement transactions that are above the mandate of Executive authority;
  - The Company's financial performance and highlights any areas of concern to the Board; and
  - Management proposals, consider progress reports and reports on these to the Board.
- Maintains oversight and obtains assurances on the robustness of the Company's key income sources and contractual safeguard.

Key challenges, focus areas and achievements

- Customer satisfaction survey undertaken, with the recommendations implemented to ensure that the Company becomes more customer-centric.
- Approved the harvesting mechanisation expansion project that would result in the automation of some of the labour-intensive work and increased efficiency.
- Timbadola project progressed to project development with an approved business case;
- The process of securing a strategic partner to upgrade and manage the ecotourism sites was underway. The upgrade and refurbishment will ensure that the SAFCOL ecotourism sites are on par with the industry, thereby positioning the business to attract customers and grow revenue.
- The annual procurement plan (APP) was reviewed to support the efficient operations of the business and compliance with relevant legislation. 40% execution of the APP, with 38% of tenders awarded to black-owned companies. This performance was precipitated by the moratorium on advertisement of tenders issued by National Treasury following the confirmation of the Supreme Court of Appeal judgment by the Constitutional Court declaring the Preferential Procurement Regulations of 2017 as unconstitutional.
- Impact of the Constitutional Court ruling on treasury regulations at the end of the financial year hampered progress on the APP.
- A project investment matrix and capital investment framework was approved to ensure proper business cases and project governance.
- Financial performance improved to levels above budget and return on equity was 2.6% (prior year: -1.4%), while cash reserves grew by 22%.
- Approved the disposal of the 9% stake in SiyaQubeka.
- Considered the export strategy for SAFCOL, and a plan to respond to domestic market fluctuations. The analysis indicates an attractive market for SAFCOL products, however, local market demand would need to be considered prior to exporting. Furthermore, the export of processed products rather than raw materials was a viable option, reaffirming the strategy to produce more value-added products.

Conclusion

Committee members have performed their roles admirably in what was a challenging year. The committee adopted appropriate terms of reference as its charter regulated its affairs in compliance with this charter, and discharged its responsibilities as contained therein.

Mr NI Balton
Interim Chairperson of the Finance, Investments and Transactions Committee

SAFETY, HEALTH, ENVIRONMENT **AND QUALITY COMMITTEE**

Number of meetings in FY 2021/22	Planned meetings	Ad hoc/ Special meetings
4	4	0

Meeting attendance

Board member	Meeting attendance
MF Baleni (Chairperson)	4/4
NI Balton	2/4
LH Malema	4/4
LG Mokgatle	4/4
JR Yawitch	4/4

Composition

Five Non-executive Directors including the Chairperson

Members in FY 2020/21*

MF Baleni (Chairperson)
NI Balton
LH Malema
LG Mokgatle
JR Yawitch

* *Executive Directors (CEO, CFO) and other key Executives participate in meetings by invitation.*

Responsibilities

- Assist the Board to ensure the continuous safety of employees and other stakeholders.
- Assist the Board in discharging its duties by reviewing safety, health, environment and quality-related strategies, and strategic policies for safety, health, environment (including climate change) and quality management.
- Assess the impact the business has on the environment and the mitigation thereof.
- Monitor key indicators on incidents, and communicate improvement expectations where appropriate.
- Review high severity incidents, and ensure that accurate and consistent internal reporting systems and corrective mitigation strategies are in place.
- Consider substantive national and international regulatory and technical developments in the field of safety, health, environment and quality management and communicate appropriate improvement expectations to management.

Challenges, key focus areas and achievements

- There were no fatalities recorded for the year, and an all-time low DIFR was recorded. This was attributed to high visibility of the Health and Safety function, accurate reporting to business on root causes and undesired behaviours, training, and preventive internal audits on safety aspects.
- Safety culture: Health, safety, and environmental stewardship (including climate change) have been specifically included in the values roll-out programme to position these disciplines as important values in the business practices of SAFCOL.
- All statutory health and safety appointments were in place for the reporting period, apart from the position of GMR 2(1) (Machinery Supervisor for Forest Operations), which is in progress and awaiting final confirmation of suitability of the proposed appointment by the Department of Employment and Labour; and first aiders for the Pretoria office, which is also in process as employees return to the office after the COVID-19 restrictions were lifted.
- COVID-19: SAFCOL effectively dealt with the risk of COVID-19 to its business, monitored and enforced compliance with COVID-19 prevention protocols and encouraged employees to voluntarily vaccinate. The COVID-19 risk assessment was regularly updated to inform any further mitigation that may be required. Close collaboration with government entities such as the MEC of Health of the Mpumalanga Provincial Government supported these initiatives.
- Targeted training for company vehicle drivers, prioritising labour carrier drivers, has been initiated; the planned cohorts have been trained in the financial year while ongoing training is informed by the risk exposure.
- An overall compliance score of 87.06% was awarded for the NOSA Audit.

Challenges, key focus areas and achievements continued

- Employee wellness: SAFCOL recognises employee wellness as a critical component for the overall company risk management. To this end, SAFCOL has developed several employee wellbeing-related programmes, policies and processes that seek to enhance employee health and wellness. In an endeavour to promote employee health and wellness, employee wellness is supported through the Company's own clinics, which are fully operational in the Sabie (Mpumalanga) and Levubu (Limpopo) areas. Meanwhile, the plantations in the Highveld escarpment of Mpumalanga are serviced through a mobile clinic facility, managed by a qualified occupational nurse. These clinics and the mobile clinic provide occupational health service, primary healthcare as well as management of the chronic diseases programme for SAFCOL employees. The key elements for the SAFCOL employee wellness strategy and programme are HIV/AIDS management; incapacity management; the employee assistance programme; organisational wellness and individual wellness.
- SAFCOL's carbon footprint baseline has been established and the process to determine the sequestration capability is underway.
- A formal plan for a just transition to a low carbon economy, as related to SAFCOL's operations has been developed and is continuously updated as improvements are implemented. The position of Quality Assurance Practitioner has been filled to ensure due focus on this aspect of the business. A robust quality assurance management process has been implemented with clear milestones for improving the current document management and retention environment.
- Increased criminal activities on SAFCOL-operated land, driven by economic hardship in rural areas, amongst others, are receiving focused attention through collaboration with law enforcement and prosecuting authorities, communities and other forestry industry players. The impact of timber theft is being quantified to inform future security interventions to curb this challenge.
- The issuing of mining rights on classified forestry land remains a challenge. High level engagements with DPE and DFFE have taken place and direct engagement with DMRE at national level will take place going forward in an effort to find alignment across government policymakers in this regard.

Conclusion

The committee has regulated its affairs in compliance with its charter for the reporting period, and has discharged its responsibilities as contained therein successfully as reflected in the key focus areas presented above.

Mr MF Baleni
Chairperson of the Safety, Health, Environment and Quality Committee

SOCIAL AND ETHICS **COMMITTEE**

Number of meetings in FY 2021/22	Planned meetings	Ad hoc/ Special meetings
4	4	0

Meeting attendance

Board member	Meeting attendance
JR Yawitch (Chairperson)	4/4
MF Baleni	4/4
NI Balton	2/4
LG Mokgatle	4/4

Composition

Four Non-executive Directors including the Chairperson

Members in FY 2020/21*

Ms JR Yawitch (Chairperson)
Mr MF Baleni
Mr N IBalton
Adv LG Mokgatle

* *Executive Directors (CEO, CFO) and other key Executives participate in meetings by invitation.*

Responsibilities

- Govern and oversee SAFCOL's socio-economic transformation imperatives, as well as its drive to instill an ethical culture across the organisation at all levels.
- Ensure that the Board has a sound ethics policy.
- Ensure that SAFCOL is a socially responsible corporate citizen.
- Adopt an action plan to accelerate and achieve SAFCOL's social and transformation initiatives in communities in which SAFCOL operates, as well as to establish the building blocks necessary to guarantee the Company's ethical foundation.

Key challenges, focus areas and achievements

- The DFFE lease agreement (including a payment plan for amounts in arrears) has been signed by SAFCOL and DFFE and all payments in terms of the agreement have been made as required.
- The Portfolio Committee on Public Enterprises visited some of SAFCOL's plantations as part of its oversight tour. The committee applauded SAFCOL for investments made by the Company in reducing poverty and creating jobs for the local communities, as well as for the participation of young African people, especially females, within its value chain.
- SGS, our certification body during its FSC® audit, commended SAFCOL on its community relationship and transformation efforts.
- A webinar on B-BBEE was held with service providers. The webinar aimed to educate service providers on the validity and significance of B-BBEE certificates and sworn affidavits. More than one hundred (100) suppliers participated in the webinar.
- Land Reform: SAFCOL manages its land claimant integration programme, taking cognisance of the specific stage of each land claim in the State's land rights restitution process. A lease agreement has been signed with the Mamahlola communal property association (as this is the only land claim finalised to date) and all payments due in terms of the lease have been made. Finalisation of the land claims for the Entabeni communities is imminent and proactive engagement with these communities included CSI land SCM opportunities as well as negotiation of a land lease agreement, to be finalised once the land is transferred in title. The other more than 40 land claims are closely monitored and appropriate community engagement is in progress.
- The transfer of minority shares held by SAFCOL has been initiated through the DPE. SAFCOL has valued the shares in the four companies for the purpose of the transfer and will effect the transfer pending a directive from DPE, DFFE and DALRRD on the identity of the beneficiaries or holding vehicle to whom the shares should be transferred.
- The results of the customer satisfaction survey that provided direction to ensure the Company remains focused on customer and stakeholder centricity were noted.
- The committee and Board approved the ethics policy and ethics framework for implementation, together with continuous improvement on the DPE's Risk and Integrity Management Framework. A dedicated ethics structure was approved.

Key challenges, focus areas and achievements continued

- An ethics survey was conducted and the outcomes were included in the ethics implementation plan for the next financial year. The focus on ethics was strengthened with the appointment of a dedicated Ethics Practitioner.
- The implementation of the economic transformation strategy is ongoing to ensure that progress is made towards achieving our transformation objectives.
- The YES programme was implemented to support SAFCOL's socio-economic transformation objectives through job creation for youth.
- A phased approach to implement culture change included the rollout of awareness programmes of the values, developing the company leadership charter and instituting behavioural indicators as part of the 360 degree assessments.
- The following policies were reviewed by the committee to ensure they were still fit for purposes and that SAFCOL is a socially responsible corporate citizen: land risk policy; ethics policy and framework; sexual harassment policy; HIV/AIDS Policy; substance abuse policy; and whistleblowing policy.

Conclusion

The committee has adopted appropriate terms of reference as its charter, regulated its affairs in compliance with this charter, and discharged its responsibilities as contained therein. Going forward, the committee will prioritise oversight of SAFCOL's internal and external transformation initiatives. Recommendations from the culture survey were implemented by management using a phased approach. A leadership charter was introduced, and organisational values were embedded with behavioural indicators.

The committee will also monitor SAFCOL's community beneficiation, enterprise and SMME development initiatives and will ensure that work is done to increase SAFCOL's impact. The committee will also oversee and support management in resolving land claims.

Ms JR Yawitch
Chairperson of the Social and Ethics Committee

HUMAN RESOURCES AND REMUNERATION COMMITTEE

Number of meetings in FY 2021/22	Planned meetings	Ad hoc/ Special meetings
7	4	3

Meeting attendance

Board member	Meeting attendance
B Hanise (Chairperson)	6/7
MF Baleni	6/7
PM Makwana	5/7
LG Mokgatle	6/7
Y Pillay	5/7

Composition

Five Non-executive Directors including the Chairperson

Members in FY 2020/21	Permanent attendees*
Ms B Hanise (Chairperson)	CEO
Mr MF Baleni	
Mr PM Makwana	CFO
Adv LG Mokgatle	
Mr Y Pillay	

Executive Directors and other key Executives participate in meetings by invitation.

Responsibilities

The responsibilities of the Human Resources and Remuneration Committee are, amongst others, to provide oversight in determining the SAFCOL people strategy, practices, and policies, and company-wide remuneration matters. The committee also plays a key role in assisting the SAFCOL Board to discharge its responsibility of oversight in the management of reward and remuneration matters. In addition, it provides support for the acquisition of executive talent and sets the terms and conditions of employment of executives. Reviews and approves, through the Board and ultimately by the Shareholder, the Executive's proposals on the compensation of Non-executive Directors. It continuously monitors human resources and remuneration-related risks, which could potentially harm the execution of SAFCOL's strategic objectives. The committee also reviews and makes a determination of the various remuneration programmes, in particular, the compensation of Executive Directors and Prescribed Officers as well as employee benefits, and ensures that SAFCOL remunerates fairly, responsibly and transparently to promote the achievement of SAFCOL's strategic targets, goals and objectives.

The purpose of the committee

The purpose of the committee is to oversee all reward and remuneration matters for SAFCOL Group including its subsidiaries, with the objectives to:

- Review and endorse remuneration policies and practices;
- Ensure that the policy governing remuneration practices and structures within the Group support the Company's strategy, strategic objectives and performance goals;
- Ensure the remuneration policy enables the attraction, retention and motivation of all employees including the SAFCOL executives;
- Ensure the company has a succession plan in place for all leadership positions including Executive Director successors and that the same is implemented effectively;
- Review compliance with all statutory and best practice requirements on all people management issues;
- Oversee a fair, responsible, transparent, and open approach regarding the SAFCOL's remuneration framework, philosophy, and policy; and
- Ensure applicability of the individual and Company's Shareholder's Compact and scorecards.

Progress made on key focus areas and in addressing key challenges

The role and strategic importance of human capital has become key and now widely recognised both internally and externally due to the impact it has in driving our transformational agenda by inculcating a high-performance culture, people development, employee wellness, and creating an enabling and innovative environment that stimulates employees to deliver on organisational strategic objectives. During the year under review, SAFCOL's strategic focus was on the following: improving organisational effectiveness, SAFCOL remuneration philosophy, enhancement of the EVP, alignment project on state-owned company remuneration, key structural alignment and integrated talent management and succession planning. Below is SAFCOL's progress against key focus areas, i.e. internal and social impact:

Internal impact spotlights

- Overseen the successful conclusion of SAFCOL's skills analysis through a skills audit to ensure the entity has the requisite skills and talent to drive current and future strategic objectives
- Overseen the review and realignment of the company structures to ensure fit-for-purpose structures
- Achieved 100% of the human capital Shareholder's Compact targets in support of the Company's socio-economic mandate
- Overseen the successful introduction and implementation of the SAFCOL medical aid scheme and associated subsidy for all SAFCOL permanent employees
- R1.4 million discretionary funding from the FP&M SETA received due to SAFCOL's intentional focus on people development as well as our surrounding community development programmes
- Increased PWD intake from the previous years to support the development and placement of previously disadvantaged groups
- Achieved zero days lost due to industrial action for the sixth consecutive year as a result of sound labour engagements and consultation
- Successfully rolled out the annual 2021 wellness and health initiatives which positively impact the wellbeing of SAFCOL employees
- SAFCOL clinics and mobile clinics in partnership with Limpopo and Mpumalanga Departments of Health and the Makhado municipality provided the necessary healthcare support and access to a health centre for our employees and surrounding communities.
- Ensured the implementation of talent management and succession planning initiatives and monitored the implementation thereof to ensure the Company has a bench-strength leadership pipeline for continuity and sustainability
- Reviewed key policies such as reward and remuneration and in order to strengthen and enhance governance, compliance and management decision making
- Continued to support the development of internal people through the bursary programme and other learning and development interventions to reinforce a learning culture; currently the Company has 44 internal bursary holders

Social impact spotlights

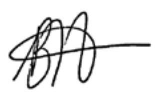
- SAFCOL recruited and placed 106 forestry sector-specific learnerships and appointed 15 apprenticeships targeting youth in rural communities of our operations
- 26 interns were placed for workplace experiential learning in line with sector skills priorities
- 21 bursars completed their qualifications and are placed on the Youth Employment Service (YES) initiative aiming to alleviate youth unemployment
- 2 060 beneficiaries were trained through forestry-specific short skills programmes, of whom 1 870 were contractors focusing on forestry best operating procedures to ensure safety practices
- Company awarded 33 external bursaries, and 12 students who are our employees' dependants were also awarded SAFCOL bursaries to build a pipeline of readily available skills for critical areas

In progress

- SAFCOL is working on conducting a full-time equivalent study analysis to validate whether the Company is fully capacitated in all levels across business functions as part of the process to ensure organisational effectiveness through future and fit-for-purpose structures and capabilities. In addition, the Company will be conducting an employee engagement survey in efforts to ensure an engaged workforce and in order to enhance our EVP to assist the Company to retain key talent. The committee intends to continue measuring the effectiveness of the organisation through a resource-based and strategic constituents approach.

Conclusion

The committee has adopted an appropriate terms of reference as its charter, has regulated its affairs in compliance with this charter, and has discharged its responsibilities as contained therein.



Ms B Hanise
Chairperson of Human Resources and Remuneration Committee

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 MARCH 2022

South African Forestry Company SOC Limited and its subsidiaries
(Registration number 1992/005427/30)

These consolidated annual financial statements were prepared under the supervision of:

D Human
Group Chief Financial Officer

These consolidated annual financial statements have been prepared in compliance with the applicable requirements of the Companies Act 71 of 2008.

Issued date: 30 August 2022

Contents

A report of the directors has not been prepared as the group is a wholly owned subsidiary of Government of the Republic of South Africa represented by the Minister of Public Enterprises.

GENERAL INFORMATION

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Development in the long-term of the South African forestry industry and the optimising of its assets and land value
Directors	OT Monaheng D Human PM Makwana ZP Zatu B Hanise L Malema Y Pillay J Yawitch N Balton FM Baleni L Mokgatle
Registered office	209 Aramist Avenue Menlyn Maine Pretoria 0181
Business address	209 Aramist Avenue Menlyn Maine Pretoria 0181
Ultimate shareholder	Government of the Republic of South Africa represented by the Minister of Public Enterprises
Auditors	Auditor-General South Africa Chapter 9 institution 300 Middel Street New Muckleneuk Pretoria, 0081
Company Secretary	Z Malinga (appointed 4 July 2022)

DIRECTORS' RESPONSIBILITIES AND APPROVAL

FOR THE PERIOD ENDED 31 MARCH 2022

The directors are required in terms of the Companies Act 71 of 2008 to maintain adequate accounting records and are responsible for the content and integrity of the consolidated annual financial statements and related financial information included in this report. It is their responsibility to ensure that the consolidated annual financial statements fairly present the state of affairs of the Group as at the end of the financial period and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the consolidated annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates. The appropriate framework to be used has also been assessed per Directive 12. Per the requirements of Directive 12, the appropriate framework to be used by the Group is International Financial Reporting Standards.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Group and all employees are required to maintain the highest ethical standards in ensuring the Group's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Group is on identifying, assessing, managing, and monitoring all known forms of risk across the Group. While operating risk cannot be fully eliminated, the Group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems, and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the consolidated annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the Group's cash flow forecast for the period to 31 March 2022 and, in light of this review and the current financial position, they are satisfied that the Group has access to adequate resources and funding to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the Group's consolidated annual financial statements. The consolidated annual financial statements have been examined by the Group's external auditors and their report is presented on pages 88 to 91.

The consolidated annual financial statements were approved by the board on 30 August 2022 and were signed on their behalf by:

PM Makwana
(Board Chairperson)

OT Monaheng
(Chief Executive Officer)

CERTIFICATE BY COMPANY SECRETARY

FOR THE PERIOD ENDED 31 MARCH 2022

The Company Secretary certifies to the best of her knowledge that the Group has lodged with the Companies and Intellectual Property Commission all such returns as are required of a public company in terms of the Companies Act, No. 71 of 2008 and that all such returns are true, correct and up to date.

Z Malinga

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE SOUTH AFRICAN FORESTRY COMPANY SOC LIMITED

Report on the audit of the consolidated and separate financial statements

Opinion

1. I have audited the consolidated and separate financial statements of the South African Forestry Company SOC Limited (SAFCOL) and its subsidiaries (the group) set out on pages 92 to 148, which comprise the consolidated and separate statement of financial position as at 31 March 2022, the consolidated and separate statement of financial performance and other comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, as well as notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the South African Forestry Company SOC Limited as at 31 March 2022, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS), the requirement of the Public Finance Management Act 1 of 1999 (PFMA) and requirements of the Companies Act 71 of 2008 (the Companies Act).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated and separate financial statements section of my report.

4. I am independent of the public entity in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the accounting authority for the financial statements

6. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the IFRS and the requirements of the PFMA and the Companies Act, and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

7. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the public entity or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the consolidated and separate financial statements

8. My objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

9. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

10. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

11. My procedures address the usefulness and reliability of the reported performance information, which must be based on the public entity's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the public entity enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

12. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objective presented in the public entity's annual performance report for the year ended 31 March 2022:

Objective	Page in the annual performance report
Objective 1.3 – operational excellence	18

13. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

14. I did not identify any material findings on the usefulness and reliability of the reported performance information for Objective 1.3 – operational excellence.

Other matters

15. I draw attention to the matters below.

Achievement of planned targets

16. Refer to the annual performance report on page 18 for information on the achievement of planned targets for the year.

Adjustment of material misstatements

17. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of Objective 1.3 – operational excellence. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

18. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the public entity's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE SOUTH AFRICAN FORESTRY COMPANY SOC LIMITED continued

19. The material findings on compliance with specific matters in key legislation are as follows:

Consequence management

20. I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure and fruitless and wasteful expenditure as required by section 51(1)(e)(iii) of the PFMA. This was because investigations into irregular expenditure and fruitless and wasteful expenditure were not performed.

Other information

21. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the directors' report, the audit committee's report and the company secretary's certificate, as required by the Companies Act, 2008 (Act No. 71 of 2008) (Companies Act). The other information does not include the consolidated and separate financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.

22. My opinion on the financial statements and findings on the reported performance information and compliance with legislation does not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.

23. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

24. If based on the work I have performed, I conclude that there is a material misstatement in this other information; I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

25. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the opinion, and the findings on compliance with legislation included in this report.

26. Management did not adequately implement monitoring processes to prevent non-compliance with laws and regulations relating to consequence management.

Auditor - General

Pretoria

28 August 2022

AUDITOR-GENERAL SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-General's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements and the procedures performed on reported performance information for selected objectives and on the public entity's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this auditor's report, I also:
   - identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
   - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the public entity's internal control
   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors, which constitutes the accounting authority
   - conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the South African Forestry Company SOC Limited and its subsidiaries to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a public entity to cease operating as a going concern
   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
   - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

Communication with those charged with governance

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also provide the accounting authority with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2022

	Note(s)	Group 2022 R'000	Group Restated* 2021 R'000	Company 2022 R'000	Company Restated* 2022 R'000
Assets					
Non-current assets					
Property, plant and equipment	3	**154 665**	177 783	**4 327**	3 427
Investment property	4	**456**	456	**–**	–
Biological assets	5	**3 712 455**	3 418 273	**–**	–
Intangible assets	6	**658**	1 753	**658**	1 753
Other financial assets	8	**4 584**	4 361	**2 841**	2 618
Right-of-use asset	24	**404 845**	312 957	**11 450**	–
Deferred tax	10	**107 340**	111 704	**62 497**	64 442
		4 385 003	**4 027 287**	**81 773**	**72 240**
Current assets					
Biological assets	5	**314 758**	394 521	**–**	–
Inventories	11	**74 787**	41 886	**212**	243
Loans to group companies	7	**–**	–	**249 969**	310 508
Trade and other receivables	12	**133 205**	161 171	**6 542**	1 472
Current tax receivables	13	**772**	772	**–**	–
Cash and cash equivalents	14	**409 295**	336 542	**386 544**	316 510
		932 817	**934 892**	**643 267**	**628 733**
Non-current assets held for sale	15	**708**	698	**–**	–
Total assets		**5 318 528**	**4 962 877**	**725 040**	**700 973**
Equity and liabilities					
Equity					
Equity attributable to equity holders of parent					
Share capital	16	**318 013**	318 013	**318 013**	318 013
Reserves		**28 522**	11 460	**129 043**	129 043
Retained income		**2 857 962**	2 770 190	**95 390**	92 827
		3 204 497	3 099 663	**542 446**	539 883
Non-controlling interest		**(47 517)**	(49 768)	**–**	–
		3 156 980	**3 049 895**	**542 446**	**539 883**
Liabilities					
Non-current liabilities					
Finance lease liabilities	20	**823 306**	646 497	**8 641**	–
Long-term liabilities	20	**7 661**	15 078	**–**	–
Deferred tax	10	**836 602**	810 626	**–**	–
Provisions	21	**7 640**	6 432	**–**	–
		1 675 209	**1 478 633**	**8 641**	**–**
Current liabilities					
Finance lease liabilities	20	**180 667**	140 650	**3 655**	–
Long-term liabilities	20	**7 417**	10 718	**–**	–
Provisions	21	**14 441**	9 241	**–**	–
Trade and other payables	23	**283 814**	273 740	**170 298**	**161 090**
		486 339	**434 349**	**173 953**	**161 090**
Total liabilities		**2 161 548**	**1 912 982**	**182 594**	**161 090**
Total equity and liabilities		**5 318 528**	**4 962 877**	**725 040**	**700 973**

* See Note 39

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE PERIOD ENDED 31 MARCH 2022

	Note(s)	Group 2022 R'000	Group Restated* 2021 R'000	Company 2022 R'000	Company Restated* 2021 R'000
Revenue	25	**1 220 784**	920 817	**176 452**	140 997
Cost of sales	26	**(1 170 589)**	(840 015)	**–**	–
Gross profit/(loss)		**50 195**	**80 802**	**176 452**	**140 997**
Other operating income	27	**17 477**	40 240	**703**	10 349
Fair value gain on biological assets	28	**1 303 378**	852 453	**–**	–
Other operating expenses	30	**(984 995)**	(912 847)	**(176 679)**	(165 832)
Allowance for bad debts	30	**783**	(20 959)	**–**	–
Operating profit/(loss)		**386 838**	**39 689**	**476**	**(14 486)**
Investment income	31	**7 475**	5 605	**7 525**	8 815
Finance costs	32				
Lease finance costs		**(277 838)**	(146 720)	**(540)**	(454)
Other finance costs		**(2 307)**	(3 461)	**(2 953)**	(249)
Profit/(loss) before taxation		**114 168**	**(104 887)**	**4 508**	**(6 374)**
Taxation	34	**(30 557)**	60 065	**(1 945)**	1 621
Profit/(loss) for the year		**83 611**	**(44 822)**	**2 563**	**(4 753)**
Other comprehensive income:					
Items that may be reclassified to profit or loss:					
Exchange differences on translating foreign operations		**17 062**	(40 978)	**–**	–
Other comprehensive income for the year net of taxation		**17 062**	**(40 978)**	**–**	**–**
Total comprehensive income for the year		**100 673**	(85 800)	**2 563**	(4 753)
Total comprehensive income for the period attributable to owners of SAFCOL Group arises from:					
Owners of SAFCOL Group SOC Ltd		**104 834**	92 350		
Non-controlling interests		**(4 161)**	(6 550)		
		100 673	**(85 800)**		

* See Note 39

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 31 MARCH 2022

	Share capital R'000	Foreign currency translation reserve R'000	Retirement fund reserve R'000	Other NDR R'000	Total reserves R'000	Retained income R'000	Total equity of the Parent R'000	Non-controlling interest R'000	Total equity Group R'000
Group									
Balance at 31 March 2020	**318 013**	**(76 570)**	**64 000**	**65 043**	**52 473**	**2 836 331**	**3 206 817**	**(61 368)**	**3 145 449**
Profit/(loss) for the year	–	–		–	–	(51 372)	(51 372)	6 550	(44 822)
Current year movement in translation reserve	–	20 194	–	–	20 194	–	20 194	5 050	25 244
Other comprehensive income**	–	(61 207)	–	–	(61 207)	–	(61 207)	–	(61 207)
Prior period adjustments	–	–	–	–	–	(14 769)	(14 769)	–	(14 769)
Balance at 31 March 2021 as restated*	**318 013**	**(117 583)**	**64 000**	**65 043**	**11 460**	**2 770 190**	**3 099 663**	**(49 768)**	**3 049 895**
Profit/(loss) for the year	**–**	**–**	**–**	**–**	**–**	**87 772**	**87 772**	**(4 161)**	**83 611**
Current year movement in translation reserve	**–**	**25 641**	**–**	**–**	**25 641**	**–**	**25 641**	**6 412**	**32 053**
Other comprehensive income**	**–**	**(8 579)**	**–**	**–**	**(8 579)**	**–**	**(8 579)**	**–**	**(8 579)**
Balance at 31 March 2022	**318 013**	**(100 521)**	**64 000**	**65 043**	**28 522**	**2 857 962**	**3 204 497**	**(47 517)**	**3 156 980**
Note(s)	16	17	18	19					

** Unrealised forex loss/gain, as a result of movement on foreign currency translations.
* See Note 39

	Share capital R'000	Retirement fund reserve R'000	Other NDR R'000	Total reserves R'000	Retained income R'000	Total equity of the company R'000
Company						
Balance at 31 March 2020						
	318 013	64 000	65 043	129 043	85 361	532 417
Prior period adjustments	–	–	–	–	7 605	7 605
Balance at 31 March 2020						
	318 013	**64 000**	**65 043**	**129 043**	**92 966**	**540 022**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**(4 753)**	**(4 753)**
Prior period adjustment*					**4 614**	**4 614**
Balance at 31 March 2021 restated*	**318 013**	**64 000**	**65 043**	**129 043**	**92 827**	**539 883**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**2 563**	**2 563**
Balance at 31 March 2022	**318 013**	**64 000**	**65 043**	**129 043**	**95 390**	**542 446**
Note(s)	16	18	19			

* See Note 39

STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 MARCH 2022

		Group		Company	
	Note(s)	2022 R'000	Restated* 2021 R'000	2022 R'000	Restated* 2022 R'000
Cash flows from operating activities					
Cash generated from operations	33	**244 423**	145 704	**5 176**	10 244
Interest received		**7 467**	5 589	**7 461**	5 447
Dividend received		**8**	16	**8**	16
Finance costs paid		**(2 307)**	(32)	**(544)**	(22)
Tax received/(paid)	34	**(216)**	(24 389)	**–**	–
Net cash from operating activities		**249 375**	**126 888**	**12 101**	**15 685**
Cash flows from investing activities					
Purchase of property, plant and equipment	3	**(13 355)**	(3 082)	**(1 481)**	–
Loans to group companies repaid		**–**	–	**60 539**	69 788
Net cash from investing activities		**(13 355)**	**(3 082)**	**59 058**	**69 788**
Cash flows from financing activities					
Finance lease payments		**(163 267)**	(39 622)	**(1 126)**	–
Net cash from financing activities		**(163 267)**	**(39 622)**	**(1 126)**	**–**
Total cash movement for the year		**72 753**	**84 184**	**70 033**	**85 473**
Cash at the beginning of the year		**336 542**	252 358	**316 510**	231 037
Total cash at end of the year	14	**409 295**	**336 542**	**386 543**	**316 510**

* See Note 39

ACCOUNTING POLICIES
FOR THE PERIOD ENDED 31 MARCH 2022

General information

South African Forestry Company SOC Limited (SAFCOL), a public company and holding company of the Group, is incorporated and domiciled in the Republic of South Africa. The Group's main business is the development in the long-term of the South African forestry industry and the optimising of its assets and land value.

1. Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been applied to all years presented which are consistent with those of the previous year, except for new and revised standards and interpretations adopted per notes to the financial statements.

The preparation of the annual financial statements in conformity with International Financial Reporting Standards, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the South African Companies Act No. 71 of 2008 and the Public Finance Management Act No. 1 of 1999 requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and the underlying assumptions are reviewed on an ongoing basis. The actual results may differ from these estimates. Revisions to accounting estimates are recognised in the year in which the estimate is revised and future years, if it affects both the current and future years.

The level rounding used in presenting amounts in the financial statements is thousands.

1.1 Basis of preparation

The consolidated and separate annual financial statements have been prepared on the going concern basis in accordance with, and in compliance with, International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective at the time of preparing these annual financial statements and the Companies Act 71 of 2008 of South Africa, as amended.

These annual financial statements comply with the requirements of the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council.

The annual financial statements have been prepared on the historical cost convention. Unless otherwise stated in the accounting policies that follow, the financial statements incorporate the principal accounting policies set out below. They are presented in Rands, which is the Group's functional currency.

These accounting policies are consistent with the previous period.

1.2 Consolidation

Basis of consolidation

The consolidated annual financial statements incorporate the consolidated annual financial statements of the company and all subsidiaries. Subsidiaries are entities, which are controlled by the group.

The group has control of an entity when it is exposed to or has rights to variable returns from involvement with the entity and it has the ability to affect those returns through use of its power over the entity.

The results of subsidiaries are included in the consolidated annual financial statements from the effective date of acquisition to the effective date of disposal.

Adjustments are made when necessary, to the consolidated annual financial statements of subsidiaries to bring their accounting policies in line with those of the group.

All inter company transactions, balances, and unrealised gains on transactions between group companies are eliminated in full on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Industrias Florestais de Manica SA (IFLOMA), is a company situated in Mozambique. It is fully controlled by Komatiland Forest SOC Limited (KLF) with an 80% shareholding. Although KLF holds only 80% of the shares, it has an irrevocable option to acquire the minority interest at a fixed price of R1 641 949 (equivalent to USD112 500). Non-controlling interests is initially recognised at fair value. The net assets of consolidated subsidiaries are identified and recognised separately from the group's interest therein, and are recognised within equity. Losses of subsidiaries attributable to non-controlling interests are allocated to the non-controlling interest even if this results in a debit balance being recognised for non-controlling interest.

ACCOUNTING POLICIES continued

FOR THE PERIOD ENDED 31 MARCH 2022

1. Significant accounting policies continued

1.2 Consolidation continued

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions and are recognised directly in the statement of changes in equity.

The difference between the fair value of consideration paid or received and the movement in non-controlling interest for such transactions is recognised in equity attributable to the owners of the company.

Where a subsidiary is disposed of and a non-controlling shareholding is retained, the remaining investment is measured to fair value with the adjustment to fair value recognised in profit or loss as part of the gain or loss on disposal of the controlling interest. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

1.3 Significant judgements and sources of estimation uncertainty

The preparation of consolidated annual financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Key sources of estimation uncertainty

Provisions

Provisions are inherently based on assumptions and estimates using the best information available. Additional disclosure of these estimates of provisions are included in the provisions note.

Provision for impairment of trade receivables

A simplified lifetime expected credit loss (ECL) model assesses trade receivables for impairment. ECL is the present value of all cash shortfalls over the expected life of a trade receivable. Expected credit losses are based on historical loss experience on trade receivables, adjusted to reflect information about current economic conditions and reasonable and supportable forecasts of future economic conditions. At the date of initial recognition, the credit losses expected to arise over the lifetime of a trade receivable are recognised as an impairment.

Impairment of property, plant and equipment and intangible assets

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets are impaired. If any such indication exists, the asset's recoverable amount is estimated. Suppose the recoverable amount of an asset, or cash-generating unit (CGU) to which the asset relates, is less than its carrying amount. The carrying amount of the asset, or CGU, is reduced to its recoverable amount, an impairment is recognised as an expense.

The recoverable amount of the asset, or CGU, is the higher of its fair value less costs to dispose and its value-in-use. In assessing value-in-use, the estimated future cash flows generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted. Where the asset does not generate cash flows independent from other assets, the Group estimates the recoverable amount of the smallest CGU to which the asset belongs.

Where the underlying circumstances change such that a previously recognised impairment subsequently reverses, the carrying amount of the asset, or CGU, is increased to the revised estimate of its recoverable amount. Such a reversal is limited to the carrying amount that would have been determined had no impairment been recognised for the asset, or CGU, in prior years. A reversal of impairment is recognised in the statement of profit or loss.

Agriculture – owned forestry assets

The methods and assumptions used in determining the fair value of the standing timber in the plantations can be described as follows and have been applied consistently in accordance with The Group policy and are reviewed every five years or when there are market conditions which impact:

Current market prices:

The market prices per cubic metre are based on market expectations per log class.

Expected yield per log class:

- The expected yield per log class is calculated with reference to growth models relevant to the nominal planted area.
- The growth models are derived from actual trial data measured regularly. Using the modelled tree shape at various ages, a merchandising model is used to split the tree lengths into pre-defined products or log classes.
- The nominal planted area is derived from the core forestry management systems.

Volume adjustment factor:

Due to the nature of plantation forestry, and more specifically, its susceptibility to the environment, an adjustment factor is determined to reduce the modelled volumes to approximate marketable volumes. The percentage volume adjustment is based on factors such as baboon damage and other pests and damage due to natural elements, such as wind, rain, hail, drought, fires, insect and fungal damage such as sirex and fusarium. Natural elements such as extreme wind, rain and hail conditions may damage the trees, as well as reduced rainfall or uneven rainfall affects tree growth. In the case of fires, the actual volume is recalculated per compartment.

Rotation:

The Group mainly manages its plantation crop on a 30-year rotation for saw log production.

Operating costs:

- Operating costs are calculated with reference to the maintenance and harvesting activities and the average annual unit costs per activity.
- The activities are based on the prescribed silvicultural regimes and volume of timber to be harvested and extracted.
- The operating costs per activity are based on the annual average unit costs as per the plantation operating statements and include relevant overheads.

Discount rate:

The current market determined discount rate is based on the Weighted Average Cost of Capital model as calculated by an independent professional service provider, using the following:

- Risk free rate which is updated with the market rates applicable at the valuation dates.
- Market premium which has been adjusted to compensate for increased risk factors.
- Inflation assumptions which have been adjusted to incorporate the market view at the valuation date.

Taxation

The Group is subject to income taxes in South African and Mozambican jurisdictions. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the initially recorded amounts, such differences will affect the income tax and deferred tax provisions in the period in which such determination is made.

Finance leases

The application of IFRS 16 requires the Group to make judgements that affect the valuation of the lease liabilities and the valuation of right-of-use assets. These include determining contracts in the scope of IFRS 16, determining the contract term and determining the interest rate used for discounting future cash flows.

The lease term determined by the Group generally comprises a non-cancellable period of lease contracts, periods covered by an option to extend the lease if it is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Group is reasonably certain not to exercise that option. The same term is applied to the useful economic life of right-of-use assets.

ACCOUNTING POLICIES continued

FOR THE PERIOD ENDED 31 MARCH 2022

1. Significant accounting policies continued

1.3 Significant judgements and sources of estimation uncertainty continued

For all contracts signed since 1 January 2018 relating to properties and printers, the Group has concluded that there are a number of scenarios where it might not be able to exercise the extension options. Therefore, the IFRS 16 criterion of being reasonably certain to exercise the extension options is not fulfilled. The periods covered by the potential use of an option to extend the lease are excluded from the lease term. For leases with the indefinite term, the Group estimates the non-cancellable period of such leases to be equal to approximately two rotational pine periods.

When assessing the lease term, the Group considers penalty payments specified in the contract and the materiality of possible economic outflows related to the termination of the contracts. The Group will continue to monitor these assumptions in the future due to a review of the industry practice and the evolution of the accounting interpretations concerning estimation of the lease terms among peer forestry entities when they also apply IFRS 16.

The present value of the lease payment is determined using the discount rate representing the incremental cost of borrowing for the Group observed in the period when the lease contract commences or is modified.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

1.4 Biological assets

Biological assets are pine, wattle and eucalyptus trees planted, where the Group controls the assets, future economic benefits are probable and the fair value can be reliably measured. Biological assets are measured at their fair value less costs to sell. Fair value of plantations is estimated based on the present value of the net future cash flows from the asset, discounted at a current market-based rate of the Group. In determining the present value of expected net cash flows, the Group includes the net cash flows that market participants would expect the asset to generate in its most relevant market. Costs to sell are the costs of harvesting and bringing the timber to roadside. Increases or decreases in value are recognised in the statement of profit and loss. Biological assets that are expected to be consumed in the next 12 months are disclosed under current assets. Biological assets are transferred to inventory upon harvesting.

1.5 Investment property

Investment properties are properties held for earning rental income or for capital appreciation or both, and are initially recognised at cost or deemed cost. Investment properties are subsequently measured at cost less accumulated depreciation and accumulated impairment. Land is not depreciated as it is considered to have an indefinite useful life. Transaction costs are included in the initial measurement.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service, a property.

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the enterprise, and the cost of the investment property can be measured reliably.

1.6 Investment in subsidiaries

Komatiland Forests SOC Limited, Kamahlabane Forests SOC Limited and ABACUS Forests SOC Limited are subsidiaries of SAFCOL Group. Significant judgements and assumptions relating to control relates to ownership of the subsidiaries. SAFCOL Group wholly owns the subsidiaries. An assessment of control arises from the basis that SAFCOL Group wholly owns and has the ability to direct all the activities of the subsidiaries. In making judgement, there are no limitations in terms of rights.

SAFCOL entity applies the cost method for measurement of investments in subsidiaries.

1.7 Property, plant and equipment

Property, plant and equipment are tangible assets that the Group holds for its own use or for rental to others and which are expected to be used for more than one year.

An item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the Group, and the cost of the item can be measured reliably.

Owned assets

Property, plant and equipment is initially measured at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment loss. Items of property, plant and equipment are stated at historical cost less related accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment includes all costs that are incurred in bringing the asset into a location and condition necessary to enable it to operate as intended by management and includes the cost of materials, direct labour, and the initial estimate, where applicable, of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent expenditure

Subsequent expenditure relating to an item or part of property, plant and equipment is capitalised when it is probable that future economic benefits associated with an item will flow to the Group and the cost can be measured reliably. The carrying amount of the part that is replaced is derecognised in accordance with the principles set out below. Items such as spare parts, stand by equipment and servicing equipment are recognised in accordance with IFRS when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory. Costs of repairs and maintenance are recognised as an expense in the year in which it was incurred.

Derecognition

The carrying amount of an item of property, plant and equipment is derecognised at the earlier of the date of disposal or the date when no future economic benefits are expected from its use or disposal. Gains or losses on derecognition of items of property, plant and equipment are included in the statement of profit or loss and other comprehensive income. The gain or loss is the difference between the net disposal proceeds and the carrying amount of the asset.

Depreciation

Depreciation is charged to the statement of profit or loss and other comprehensive income on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment. Depreciation will not be charged to the statement of profit or loss and other comprehensive income if it has been included in the carrying amount of another asset. Land and capital work in progress are not depreciated. The methods of depreciation, useful lives and residual values are reviewed at the end of each reporting period. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate annually and changes in estimates, if appropriate, are accounted for on a prospective basis. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Useful life
Buildings and utilities	Straight line	5 – 50 years
Plant and machinery	Straight line	3 – 40 years
Furniture and fixtures	Straight line	5 – 35 years
Motor vehicles	Straight line	4 – 35 years
Computer equipment	Straight line	3 – 25 years
Roads	Straight line	5 – 40 years
Leasehold improvements – buildings and utilities	Straight line	5 – 40 years
Leasehold improvements – telephone lines and fences	Straight line	5 – 40 years
Leasehold improvements – roads	Straight line	5 – 40 years

ACCOUNTING POLICIES continued

FOR THE PERIOD ENDED 31 MARCH 2022

1. Significant accounting policies continued

1.8 Intangible assets

Intangible assets are initially measured at cost and subsequently carried at cost less accumulated amortisation and accumulated impairment loss. Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates, and all other subsequent expenditure is expensed as incurred.

Acquired computer software is capitalised based on the costs incurred to acquire and bring the specific software into use. Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software and other products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software or product so that it will be available for use
- management intends to complete the software or product and use or sell it
- there is an ability to use or sell the software or product
- it can be demonstrated how the software or product will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software or product are available, and
- the expenditure attributable to the software and product during its development can be reliably measured.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

The Group's intangible assets are assessed as having finite useful lives. Amortisation is charged to the statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful life of the asset.

The methods of amortisation, useful lives and residual values are reviewed annually and changes in estimates, if appropriate, are accounted for on a prospective basis.

Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values as follows:

Item	Useful life
Computer software	3 – 25 years

The carrying amount of an item or part of an intangible asset is derecognised at the earlier of the date of disposal or the date when no future economic benefits are expected from its use or disposal. Gains or losses on de-recognition of an item of an intangible asset are included in the statement of profit or loss and other comprehensive income. The gain or loss is the difference between the net disposal proceeds and the carrying amount of the asset.

1.9 Financial instruments

Financial instruments held by the Group are classified in accordance with the provisions of IFRS 9: Financial Instruments. Broadly, the classification possibilities, which are adopted by the Group, as applicable, are as follows:

Financial assets, which are debt instruments:

- Amortised cost – This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is met by holding the instrument to collect contractual cash flows.

Financial liabilities:

- Amortised cost – Financial instruments and risk management presents the financial instruments held by the Group based on their specific classifications.

The specific accounting policies for the classification, recognition and measurement of each type of financial instrument held by the Group are presented below:

Loans receivable

Classification

Loans to Group companies are classified as financial assets subsequently measured at amortised cost.

Loans to Group have been classified in this manner because the contractual terms of these loans give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding and the Group's business model is to collect the contractual cash flows on these loans.

Recognition and measurement

Loans receivable are recognised when the Group becomes a party to the contractual provisions of the loan. The loans are measured, at initial recognition, at fair value plus transaction costs, if any.

Subsequently measured at amortised cost

The amortised cost is the amount recognised on the loan initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Impairment

The Group recognises a loss allowance for expected credit losses on all loans receivable measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective loans.

The Group measures the loss allowance at an amount equal to lifetime expected credit losses (lifetime ECL) when there has been a significant increase in credit risk since initial recognition. If the credit risk on a loan has not increased significantly since initial recognition, then the loss allowance for that loan is measured at 12-month expected credit losses (12-month ECL).

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a loan. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a loan that are possible within 12 months after the reporting date.

In order to assess whether to apply lifetime ECL or 12-month ECL, in other words, whether or not there has been a significant increase in credit risk since initial recognition, the Group considers whether there has been a significant increase in the risk of a default occurring since initial recognition rather than at evidence of a loan being credit impaired at the reporting date or of an actual default occurring.

Trade and other receivables

Classification

Trade and other receivables, excluding, when applicable, Value-Added Tax (VAT) and prepayments, are classified as financial assets and subsequently measured at amortised cost.

They have been classified in this manner because their contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding and the Group's business model is to collect the contractual cash flows on trade and other receivables.

Recognition and measurement

Trade and other receivables are recognised when the Group becomes a party to the contractual provisions of the receivables. They are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the receivable initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Impairment

The Group recognises a loss allowance for expected credit losses on trade and other receivables, excluding VAT and prepayments. The amount of expected credit losses is updated at each reporting date.

The Group calculated the expected credit loss under the simplified approach using a provision matrix. The expected credit loss is calculated by applying an expected loss ratio to each age receivable group. The loss ratio is calculated as the historical payment profile and adjusted for macro-economic forecasts. A default credit loss ratio is applied to ageing periods of 90 days and over.

ACCOUNTING POLICIES continued
FOR THE PERIOD ENDED 31 MARCH 2022

1. Significant accounting policies continued

1.9 Financial instruments continued

Derecognition

Any gains or losses arising on the de-recognition of trade and other receivables is included in profit or loss in the derecognition gains/(losses) on financial assets at amortised cost.

Borrowings

Classification

Borrowings are classified as financial liabilities subsequently measured at amortised cost.

Recognition and measurement

Borrowings are recognised when the Group becomes a party to the contractual provisions of the loan. The loans are measured, at initial recognition, at fair value less transaction costs, if any.

They are subsequently measured at amortised cost using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Interest expense, calculated on the effective interest method, is included in profit or loss in other finance costs paid. Borrowings expose the Group to liquidity risk and interest rate risk. Refer to the note for details of risk exposure and management thereof.

Trade and other payables

Classification

Trade and other payables, excluding VAT and amounts received in advance, are classified as financial liabilities and subsequently measured at amortised cost.

Recognition and measurement

Trade and other payables are recognised when the Group becomes a party to the contractual provisions, and are measured, at initial recognition, at fair value plus transaction costs, if any, and are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

If trade and other payables contain a significant financing component, and the effective interest method results in the recognition of interest expense, then it is included in profit or loss in finance costs.

Trade and other payables expose the Group to liquidity risk and possibly to interest rate risk. Refer to the note for details of risk exposure and management thereof.

Derecognition

Any gains or losses arising on the de-recognition of trade and other payables is included in profit or loss in the de-recognition gains (losses) on financial assets at amortised cost.

Cash and cash equivalents

Cash and cash equivalents are classified as financial assets and subsequently measured at amortised cost. Cash and cash equivalents are initially and subsequently recognised at amortised cost.

1.10 Tax

Current tax

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction affects neither accounting profit nor taxable profit or tax loss.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction, which at the time of the transaction affects neither accounting profit nor taxable profit or tax loss.

The Group shall disclose the amount of a deferred tax asset and the nature of evidence supporting its recognition, when: the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and the entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The consumption of biological assets is uncertain. The Group have used historical information to estimate future consumptions. The consumption rates have an impact on volumes available and the value of the biological assets disclosed. The value of biological assets has an impact on the deferred tax estimated.

Dividend withholding tax

Dividends withholding tax is a tax levied on the beneficial owner of the share. The tax is withheld by the Group and paid over to the revenue authorities on the beneficiaries' behalf.

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- A transaction or event which is recognised, in the same or a different period, to other comprehensive income, or
- Directly in equity.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

1.11 Leases

Where the Group is a lessee, a right-of-use asset and lease liability is recognised, except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on a commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

ACCOUNTING POLICIES continued

FOR THE PERIOD ENDED 31 MARCH 2022

1. Significant accounting policies continued

1.11 Leases continued

Right-of-use

The following policies apply subsequent to the date of initial application, 1 January 2019. On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the company if it is reasonably certain to assess that option; and
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the company is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases, an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

When the Group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- If the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional right-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy.
- In all other cases where the renegotiation increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is re-measured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount.
- If the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

For contracts that both convey a right to the Group to use an identified asset and require services to be provided to the Group by the lessor, has elected to account for the entire contract as a lease, i.e. it does not allocate any amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

Nature of leasing activities (in the capacity as lessee)

The Group leases land from the Department of Forestry, Fisheries and the Environment (DFFE) and Mamahlola CPA. In the current year, the Group finalised leases over land it is leasing from DFFE and Mamahlola CPA. Right of use assets has been recognised over the leased land. The lease contracts allow payments to increase each year by a pre-agreed rate usually linked to inflation. The Group has also recognised the right of use over building leased from a related party and computer equipment leased from an independent third party. Leases of land and buildings comprise only fixed payments over the lease terms. No rent concessions were received on any of the leases the Group has entered into.

The percentages in the table below reflect the current proportions of lease payments that are either fixed or variable.

At 31 March 2022	Lease contracts number	Fixed payment %
Land and property lease	**3**	**80**
Leases of computer equipment	**1**	**20**

1.12 Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity. When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised.

The amount of any write down of inventories to net realisable value and all losses of inventories is recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Cost is determined on the following bases:

- Finished goods and work in progress comprise raw material, direct labour, other direct costs and related production overheads incurred in bringing the inventories to their present location and condition, calculated on the weighted average basis, based on the normal capacity for the period to eliminate the effect of changes in log distribution. Included in finished goods and work in progress inventories are sawn timber, lumber and seedlings.
- Raw materials are valued at landed cost on the weighted average basis.
- Consumable stores are valued at cost on the weighted average basis.
- The cost of harvested timber transferred from biological assets is its fair value less costs to sell at the date of harvest.

1.13 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal) are measured at the lower of its carrying amount and fair value less costs to sell. A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in profit or loss.

1.14 Impairment of non-financial assets

The carrying amounts of the Group's tangible and intangible assets are assessed at each reporting date to determine whether there is any indication that those assets may have suffered an impairment loss. If such an indication exists, the recoverable amount of the asset is estimated as the higher of the fair value less costs to sell and value in use of the asset. Value in use is estimated based on the expected future cash flows, discounted to their present values using a discount rate that reflects forecast market assessments over the estimated useful life of the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the cash generating unit to which the asset belongs is calculated. Where an asset or a cash generating unit's recoverable amount has declined below the carrying amount, the decline is recognised as an expense.

ACCOUNTING POLICIES continued

FOR THE PERIOD ENDED 31 MARCH 2022

1. Significant accounting policies continued

1.14 Impairment of non-financial assets continued

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

1.15 Share capital and equity

Ordinary shares are classified as equity.

1.16 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), is recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Group and Company's shareholders after certain adjustments. The Group recognises a provision where obliged contractually, or where there is a past practice that has created a constructive obligation.

Defined contribution plans

The SAFCOL Provident Fund is a defined contribution plan. The contribution plan under which the Group pays fixed contributions into a separate entity.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

1.17 Provisions, contingencies and commitments

A provision is recognised when the Group has a present legal or constructive obligation because of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the effect of the time value of money is material, provisions are measured by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or announced publicly. Costs relating to ongoing activities are not provided for.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognised for future operating losses. Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in notes to the annual financial statements. A commitment is an agreement or a pledge to assume a financial obligation at a future date. The Group discloses commitments incurred by the Group at year-end.

1.18 Revenue

Under IFRS 15, revenue is recognised based on the satisfaction of performance obligations. In applying IFRS 15, entities would follow this five-steps process:

- Identify the contract with a customer;
- Identify the separate performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the separate performance obligations; and
- Recognise revenue when (or as) each performance obligation is satisfied.

Sales of services

Where the holding company charges management services to its subsidiaries, the fees are eliminated on consolidation level. Revenue arising from such services is recognised on the decimal basis over the period the services are rendered in accordance with the substance of the relevant agreements.

Sale of logs

Revenue is recognised at a point in time for sale of logs. The sale of logs to customers, revenue is recognised when control of the goods has transferred, being at the point the customer purchases the goods. Payment of the transaction price is due either immediately at the point the customer purchases the goods, or within 30 days for account holding customers or on agreed terms payment. A receivable is recognised for account holding customers. No financing element is recognised as the payment terms are either within 30 days or less than a calendar year for negotiated settlements. When the period of time between delivery of goods and subsequent payment by the customer is less than one year, no adjustment for a financing component is made.

Sale of timber products

Revenue is recognised at a point in time for local sales of timber products. For local timber sales, revenue is recognised when the goods leave the premises at the stand-alone selling prices. When the customer collects the goods at the premises, the Group no longer directs the use of the goods and the client accepts responsibility.

1.19 Translation of foreign currencies

Functional and presentation currency

These consolidated financial statements are presented in Rand, which is the Group's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the Group at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss and presented within finance costs.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Rand at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into Rand at the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interest (NCI). The Group applies the proportionate share method for measurement and recognition of NCI.

ACCOUNTING POLICIES continued

FOR THE PERIOD ENDED 31 MARCH 2022

1. Significant accounting policies continued

1.20 Reserves

Translation reserve

If the functional currency of a subsidiary is different to the presentation currency of the Group, the net effect of translating to the presentation currency is allocated to the foreign currency translation reserve.

Revaluation reserve

The revaluation of non-current assets and equity instruments are charged to the Non-distributable reserve and therefore reflected as a gain or loss in the statement of profit or loss.

Retirement fund reserve

Accelerated lump sum payments to reduce the retirement fund deficit are transferred to a distributable reserve being a retirement fund reserve, as far as cash generated through profits from trading activities is available for this purpose.

Capital profit reserve

Where profits made on disposal of assets and the proceeds from insurance claims are deemed exceptional, these profits are classified as distributable reserve.

1.21 Post balance sheet

Recognised amounts in the financial statements are adjusted to reflect events arising after the statement of financial position date that provide evidence of conditions that existed at the statement of financial position date. Depending on materiality, events after the statement of financial position date that are indicative of conditions that arose after the statement of financial position date are dealt with by way of a note.

1.22 Related parties

An entity is related to a reporting entity if the following condition applies:

- The entity and the reporting entity are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others); and
- SAFCOL also considers all other entities controlled by Department of Enterprise as related.

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

1.23 PFMA reportable expenditure

In terms of section 55(2)(b)(i) of the Public Finance Management Act, 1999 (PFMA) the financial statements must include particulars of any material losses through criminal conduct and any irregular and fruitless and wasteful expenditure.

Section 1 of the PFMA, as amended, defines irregular expenditure as expenditure, other than unauthorised expenditure, incurred in contravention of or that is not incurred in accordance with a requirement of any applicable legislation, and defines fruitless and wasteful expenditure as expenditure that was made in vain and would have been avoided had reasonable care been exercised.

All PFMA reportable expenditure is accounted for in the statement of profit or loss and other comprehensive income in the period in which it is identified.

PFMA reportable expenditure is recorded in the notes to the annual financial statements when confirmed. The amount recorded is equal to the value of the expenditure incurred, unless it is impractical to determine, in which case reasons therefore must be provided.

PFMA reportable expenditure receivables are de recognised when settled, or written off as irrecoverable or condoned by the relevant authority.

1.24 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. The note on other income provides further information on how the Group accounts for government grants.

The Group recognises a conditional government grant as a trade payable when the grant is initially received. Other government grants related to assets are initially recognised as deferred income at fair value if there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant; they are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the periods in which the expenses are recognised.

1.25 Research and development

Research and development expenditure are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the prior year

A number of new standards are effective for annual periods beginning after 1 January 2021, and earlier application is permitted, however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements:

IFRS pronouncement	Effective date
IFRS 16 – COVID-19 Related Rent Concessions beyond 30 June 2021	1 April 2021
IAS 37 – Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to IFRS Standards 2018–2020	1 January 2022
IFRS 3 – Reference to the Conceptual Framework	1 January 2022
IAS 16 – Property, Plant and Equipment: Proceeds before intended use	1 January 2022
IAS 1 – Classification of Liabilities as Current or Non-current Amendments.	1 January 2023
IFRS 17 – Insurance Contracts and amendments to IFRS 17 Insurance Contracts	1 January 2023
IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies	1 January 2023
IAS 8 – Definition of Accounting Estimates	1 January 2023
IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023

The standard is not applicable to the company and will not have an impact on the financial statements.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 MARCH 2022

3. Property, plant and equipment

Group	2022 Cost or revaluation R'000	2022 Accumulated depreciation R'000	2022 Carrying value R'000	2021 Restated* Cost or revaluation R'000	2021 Restated* Accumulated depreciation R'000	2021 Restated* Carrying value R'000
Land	**2 481**	**–**	**2 481**	2 481	–	2 481
Buildings	**34 992**	**(21 994)**	**12 998**	34 797	(20 536)	14 261
Leasehold improvements: Buildings	**19 568**	**(9 185)**	**10 383**	17 655	(7 295)	10 360
Plant and machinery	**307 508**	**(233 699)**	**73 809**	296 965	(215 297)	81 668
Furniture and fixtures	**3 215**	**(2 585)**	**630**	4 654	(3 898)	756
Motor vehicles	**155 627**	**(132 547)**	**23 080**	156 052	(123 342)	32 711
Computer equipment	**43 411**	**(38 461)**	**4 950**	44 481	(35 235)	9 246
Leasehold improvements: roads, telephone lines and fences	**46 242**	**(23 733)**	**22 509**	44 611	(22 046)	22 565
Capital – work in progress	**3 825**	**–**	**3 825**	3 735	–	3 735
Total	**616 869**	**(462 204)**	**154 665**	**605 431**	**(427 649)**	**177 783**

Company	2022 Cost or revaluation R'000	2022 Accumulated depreciation R'000	2022 Carrying value R'000	2021 Restated* Cost or revaluation R'000	2021 Restated* Accumulated depreciation R'000	2021 Restated* Carrying value R'000
Buildings	**3 138**	**(562)**	**2 576**	3 138	(430)	2 708
Leasehold improvements: Buildings	**1 564**	**(105)**	**1 459**	107	(75)	32
Plant and machinery	**87**	**(80)**	**7**	94	(80)	14
Furniture and fixtures	**1 286**	**(1 272)**	**14**	2 725	(2 703)	22
Motor vehicles	**3 421**	**(3 163)**	**258**	3 907	(3 292)	615
Computer equipment	**2 847**	**(2 834)**	**13**	5 131	(5 095)	36
Total	**12 343**	**(8 016)**	**4 327**	**15 102**	**(11 675)**	**3 427**

Reconciliation of property, plant and equipment

Group 2022	Opening balance R'000	Additions R'000	Other changes: write-backs, write-offs and transfers R'000	Depreciation R'000	Closing balance R'000
Land	**2 481**	**–**	**–**	**–**	**2 481**
Buildings	**14 263**	**–**	**(596)**	**(668)**	**12 998**
Leasehold improvements: Buildings	**10 361**	**3 186**	**(1 344)**	**(1 820)**	**10 383**
Plant and machinery	**81 668**	**7 823**	**2 443**	**(18 125)**	**73 809**
Furniture and fixtures	**757**	**31**	**(118)**	**(40)**	**630**
Motor vehicles	**32 711**	**–**	**(197)**	**(9 434)**	**23 080**
Computer equipment	**9 246**	**1 213**	**1**	**(5 511)**	**4 950**
Leasehold improvements: roads, telephone lines and fences	**22 561**	**–**	**1 731**	**(1 783)**	**22 509**
Capital work in progress	**3 735**	**1 102**	**(1 012)**	**–**	**3 825**
	177 783	**13 355**	**908**	**(37 381)**	**154 665**

* See Note 39

Reconciliation of property, plant and equipment

Group – 2021	Opening balance R'000	Additions R'000	Other changes: write-backs, write-offs and transfers R'000	Depreciation R'000	Closing balance R'000
Land	2 481	–	–	–	2 481
Buildings	15 190	–	(307)	(620)	14 263
Leasehold improvements: Buildings	11 419	469	437	(1 964)	10 361
Plant and machinery	88 229	961	12 558	(20 080)	81 668
Furniture and fixtures	788	92	(108)	(15)	757
Motor vehicles	44 842	–	(1 249)	(10 882)	32 711
Computer equipment	15 993	1 016	(241)	(7 522)	9 246
Leasehold improvements: roads, telephone lines and fences	24 635	–	(579)	(1 495)	22 561
Capital work in progress	11 920	544	(8 729)	–	3 735
	215 497	**3 082**	**1 782**	**(42 578)**	**177 783**

Company 2022	Opening balance R'000	Additions R'000	Depreciation R'000	Closing balance R'000
Buildings	**2 708**	**–**	**(132)**	**2 576**
Leasehold improvements: Buildings	**32**	**1 450**	**(22)**	**1 460**
Plant and machinery	**14**	**–**	**(7)**	**7**
Furniture and fixtures	**22**	**31**	**(40)**	**13**
Motor vehicles	**615**	**–**	**(357)**	**258**
Computer equipment	**36**	**–**	**(23)**	**13**
	3 427	**1 481**	**(581)**	**4 327**

Company 2021	Opening balance R'000	Other changes/ transfers R'000	Depreciation R'000	Closing balance R'000
Buildings	2 834	–	(126)	2 708
Leasehold improvements: Buildings	36	–	(4)	32
Plant and machinery	22	–	(8)	14
Furniture and fixtures	37	–	(15)	22
Motor vehicles	1 004	–	(389)	615
Computer equipment	185	(28)	(121)	36
	4 118	**(28)**	**(663)**	**3 427**

A schedule containing the information required by Regulation 25(3) of the Companies Regulations is available for inspection at the registered office of the company.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

FOR THE PERIOD ENDED 31 MARCH 2022

4. Investment property

Group	2022 Cost/ Valuation R'000	2022 Accumulated depreciation R'000	2022 Carrying value R'000	2021 Cost/ Valuation R'000	2021 Accumulated depreciation R'000	2021 Carrying value R'000
Investment property	**456**	**–**	**456**	456	–	456

	Opening balance R'000	Additions R'000	Impairments R'000	Depreciation R'000	Closing balance R'000
Reconciliation of investment property – Group 2022					
Land and buildings	**456**	**–**	**–**	**–**	**456**
Reconciliation of investment property – Group 2021					
Land and buildings	456	–	–	–	456

Investment property consists of land and buildings, which forms part of the remainders of portions 1 and 2 of the Farm Mooiplaats No. 537; and Portion 1 of the Farm Zaagkuil No. 777 situated at R618 Ngome, KwaZulu-Natal, South Africa. The fair value of the land as determined by an independent valuator is R10.4 million.

The level of hierarchy within which the fair value measurement is categorised as Level 3. A register containing the details of the investment property is available for inspection at the registered office of the company.

The fair value of the investment property was determined by an external independent property valuator, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

The fair value measurement for all of the investment properties has been categorised as Level 3 based on the inputs to the valuation technique used.

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Discounted cash flows: The valuation model considers the present value of net cash flows to be generated from the property, taking into account the expected rental growth rate, void periods, occupancy rate, lease incentive costs such as rent-free periods and other costs not paid by tenants. The expected net cash flows are discounted using risk adjusted discount rates. Among other factors, the discount rate estimation considers the quality of a building and its location (prime vs secondary), tenant credit quality and lease terms.	The method of valuation employed to determine the fair value of the property is the comparable sales approach. The value is established by comparing the subject property with similar properties. The international valuation standards 2007 defines the sales comparison method as "The comparative approach considers the sales of similar or substitute properties and related market data, and establishes value estimated by processes involving comparison."	The estimated fair value would increase/(decrease) if any: a. expected market rentals increase/(decrease); b. growth were higher/(lower); c. void periods were shorter/(longer); and d. the occupancy rates were higher/(lower).

5. Biological assets

Biological assets are measured at fair value less costs to sell, with any change recognised in profit or loss. On 31 March 2022, standing timber comprised approximately 117 617 hectares of pine, eucalyptus, wattle and other tree plantations (2021: 117 272 hectares), which ranged from newly established plantations to plantations that were 30 years old. The Group recognises biological assets when it controls the assets because of past events. Future economic benefits associated with such assets will probably flow to the Group, and the fair value or cost of the assets can be measured reliably. Expenditure incurred on biological assets is recognised as a period cost in the period that it is incurred.

Group	2022 Fair valuation R'000	2022 Carrying value R'000	2021 Fair valuation R'000	2021 Carrying value R'000
Non-current portion	**3 712 455**	**3 712 455**	3 418 273	3 418 273
Current portion	**314 758**	**314 758**	394 521	394 521
Total	**4 027 213**	**4 027 213**	**3 812 794**	**3 812 794**

Reconciliation of biological assets Group – 2022

	Opening balance R'000	Increase/ (decrease) due to harvest/ sales R'000	Gains/(losses) arising from changes in fair value R'000	Closing balance R'000
Total	**3 812 794**	**(1 088 959)**	**1303 378**	**4 027 213**

Reconciliation of biological assets Group – 2021

	Opening balance R'000	Increase/ (decrease) due to harvest/ sales R'000	Gains/(losses) arising from changes in fair value R'000	Closing balance R'000
Total	3 761 117	(800 777)	852 453	3 812 794

Measurement of fair values

i. Fair value hierarchy

The fair value measurements for the standing timber have been categorised as Level 3 fair values based on the inputs to the valuation techniques used.

ii. Level 3 fair values

The following table shows a breakdown of the total gains/(losses) recognised in respect of Level 3 fair values (standing timber).

Gains included in other operating gains and losses

	Group 2022 R'000	Group 2021 R'000	Company 2022 R'000	Company 2021 R'000
Fair value gains	**1 303 378**	852 453	**–**	–

iii. Valuation techniques and significant unobservable inputs

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

FOR THE PERIOD ENDED 31 MARCH 2022

5. Biological assets continued

The following table shows the valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used.

Type	Valuation techniques	Significant unobservable inputs	Inter-relationship between unobservable inputs and fair value measurement
Standing timber Standing timber older than 30 years (the age at which it becomes marketable)	Discounted cash flows: The valuation model considers the present value of the net cash flows expected to be generated by the plantation. The cash flow projections include specific estimates for 30 years. The expected net cash flows are discounted using a risk-adjusted discount rate.	– Estimated future timber market prices weighted average per cube (2022: R802, 2021: R660). – Estimated volumes (2022: 38 536 388, 2021: 37 389 413). – Risk-adjusted discount rate (2022: 12.8%; 2021: 14.9%).	The estimated fair value would increase (decrease) if: – the estimated timber prices per tonne were higher (lower); – the estimated yields per hectare were higher (lower); – the estimated harvest and transportation costs were lower (higher); or – the risk-adjusted discount rates were lower (higher).

Level 3 fair value

The valuation model considers the present value of the net cash flows expected to be generated from the plantations. The cash flow projections include specific estimates for 30 years (2021: 30 years). The expected net cash flows are discounted using a risk-adjusted comparable discount rate that takes into account the Beta factors of comparable forestry companies.

Methodology and assumptions used in determining fair value.

Volumes:
The expected yields per log class are calculated with reference to growth models relevant to the planted area. The growth models are derived from actual trial data that is measured annually. Using the modelled tree shapes at various ages, a merchandising model is used to divide the trees into predefined products as a basis for calculating log yields.

Volume adjustment factor:
Due to the susceptibility of the plantations to the environment, an adjustment factor is used to reduce the volumes obtained from the merchandising model. This percentage is based mainly on animal damage and damage due to natural elements, such as wind, rain, hail, droughts and fires. The volume reduction was made to acknowledge deviations such as the impact of baboon damage and other natural elements, genetic defects and pest and diseases from the planned harvesting volumes. Consistent with prior years, volumes expected from KLF plantations in MicroForest are adjusted down by 2% (2021: 5%).

Log prices:
The price per cubic metre per log class is based on current and future expected market prices per log class. The log prices have not increased by either inflation or an actual price increase in the subsequent years. Log prices are computed as a weighted average of external market prices and internal prices charged to the Group's processing operations. Internal prices are generally higher than external prices and are limited to levels that result in the profitability of the processing operations. Prices have been adjusted down by 2% (2021: 0%) to account for the changes due to natural and animal induced defects at the selling point.

Operating costs:
The costs are based on the unit cost of the forest management activities required for the trees to reach the age of felling. The costs include the current and expected future costs of harvesting, maintenance and risk management and an appropriate amount of fixed overhead costs. The costs exclude the costs necessary to get the asset to the market. It has been assumed that all stock will be sold either standing or roadside.

Costs to sell:
Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes. The only costs to sell applied are harvesting costs, which are included under operating costs. No other selling costs are included.

Discount rate:
The directors used comparable forestry companies' Beta to calculate the after-tax weighted average cost of capital (WACC), which was applied to the after-taxation net cash flows. An independent third party calculated the discount rate used by the Group.

Risk management strategy related to agricultural activities:
The Group is exposed to the following risks relating to its pine tree plantations.

i. Regulatory and environmental risks

The Group is subject to laws and regulations in various countries in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws.

ii. Supply and demand risks

The Group is exposed to risks arising from fluctuations in pine's price and sales volume. The Group manages this risk by aligning its harvest volume to market supply and demand. Management performs industry trend analyses for projected harvest volumes and pricing. Management performs regular industry trend analyses for projected harvest volumes and pricing. The Group uses the auction process to sell available volumes to potential customers.

iii. Climate and other risks

The Group's pine plantations are exposed to the risk of damage from climatic changes, diseases, forest fires and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular forest health inspections and industry pest and disease surveys. The Group is also partly self-insured against natural disasters such as floods and hurricanes.

Components of biological assets:
Biological assets is made up of the following plantation trees:
- Pine trees
- Eucalyptus trees
- Wattle trees

Biological assets standing timber

The valuation methodology used to determine the fair value of the biological assets at year end is the discounted cash flow method, which is complex, highly judgemental and based on significant assumptions.

The most significant judgements and assumptions relate to:
- The weighted average cost of capital (WACC) calculation;
- A volume adjustment factor due to susceptibility of the plantations to the environment;
- The price per cubic metre based on the current and future expected market prices per log class (profit margin); and
- Operating costs based on unit cost of the forest management activities.

In the current year, there were no additions to biological assets through acquisitions of either forests or other plantations.

Key assumptions used in the calculation of the discount rate

	Company	
	2022	2021
Risk-free rate (%)	**10.0**	10.0
Beta factor	**1.13**	0.96
Cost of equity (%)	**23.60**	24.36
Cost of debt (%)	**10.20**	10.30
Capital structure (%)	**64.40**	70.30
Pre-tax discount rate	**12.80**	14.90

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FOR THE PERIOD ENDED 31 MARCH 2022

5. Biological assets continued

Sensitivity

A variation of 10% on the significant assumptions will have the following impact on the valuation of biological assets fair value.

	Weighted average range of probabilities	
	High R'000	Low R'000
10% change in WACC	3 083 904	4 517 864
10% change in price	3 214 439	4 396 326
10% change in costs	4 323 911	3 426 274
10% change in volume	4 203 053	3 521 459

The higher the timber price and yield per hectare, the higher the fair value. The lower the discount rate, the higher the fair value.

6. Intangible assets

	2022			2021		
Group	Cost/ Valuation R'000	Accumulated amortisation R'000	Carrying value R'000	Cost/ Valuation R'000	Accumulated amortisation R'000	Carrying value R'000
Computer software	**66 158**	**(65 500)**	**658**	66 158	(64 405)	1 753

	2022			2021		
Company	Cost/ Valuation R'000	Accumulated amortisation R'000	Carrying value R'000	Cost/ Valuation R'000	Accumulated amortisation R'000	Carrying value R'000
Computer software	**59 202**	**(58 544)**	**658**	59 202	(57 449)	1 753

Reconciliation of intangible assets Group – 2022	Opening balance R'000	Amortisation R'000	Closing balance R'000
Computer software	**1 753**	**(1 095)**	**658**

Reconciliation of intangible assets Group – 2021	Opening balance R'000	Amortisation R'000	Closing balance R'000
Computer software	2 848	(1 095)	1 753

Reconciliation of intangible assets Company – 2022	Opening balance R'000	Amortisation R'000	Closing balance R'000
Computer software	**1 753**	**(1 095)**	**658**

Reconciliation of intangible assets Company – 2021	Opening balance R'000	Amortisation R'000	Closing balance R'000
Computer software	2 848	(1 095)	1 753

7. Loans to group companies

Subsidiaries

	Company	
	2022 R'000	2021 R'000
Komatiland Forests SOC Limited	**249 513**	310 052
ABACUS Forestries SOC Limited	**456**	456
Kamhlabane Timber SOC Limited	**–**	
	249 969	**310 508**

Loans are held in Komatiland Forests SOC Limited, ABACUS Forestries SOC Limited and Kamhlabane Timber SOC Limited, which are wholly owned subsidiaries of SAFCOL. The Intercompany loan in Komatiland Forests is unsecured, bears interest at the prime rate of 7.75% (2021: 7%), and has no fixed terms of repayment. The loans in Kamhlabane and ABACUS bear no interest. The loan in Kamhlabane is at R100. SAFCOL entity applies the cost method for measurement of all loans in subsidiaries.

8. Other financial assets as restated*

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Investments	**4 584**	4 361	**2 841**	2 618
Non-current assets				
Other financial assets	**4 584**	4 361	**2 841**	2 618
	4 584	**4 361**	**2 841**	**2 618**

Fair value hierarchy of available for sale financial assets

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy, which reflects the significance of the inputs used to make the measurements.

Level 1 represents those assets, which are measured using unadjusted quoted prices for identical assets.

Level 2 applies inputs other than quoted prices that are observable for the assets either directly (as prices) or indirectly (derived from prices).

Level 3 applies inputs, which are not based on observable market data.

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Level 1				
Insurance policy Guardrisk	**2 839**	2 616	**2 839**	2 616
Level 3				
Transvaal Wattle Growers Co Op Agriculture Company	**1**	1	**1**	1
KAAP Agri	**1**	1	**1**	1
NTE Investments	**1 743**	1 743	**–**	–
	1 745	**1 745**	**2**	**2**
	4 584	**4 361**	**2 841**	**2 618**

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8. Other financial assets as restated* continued

	Opening balance R'000	Closing balance R'000
Reconciliation of financial assets measured at Level 3 Group – 2022		
Transvaal Wattle Growers Co Op Agriculture Company	**1**	**1**
KAAP Agri	**1**	**1**
NTE Investments	**1 743**	**1 743**
	1 745	**1 745**
Reconciliation of financial assets measured at Level 3 Group – 2021		
Transvaal Wattle Growers Co Op Agriculture Company	1	1
KAAP Agri	1	1
NTE Investments	1 743	1 743
	1 745	**1 745**

	Opening balance R'000	Closing balance R'000
Reconciliation of financial assets measured at Level 3 Company 2022		
Transvaal Wattle Growers Co Op Agriculture Company	**1**	**1**
KAAP Agri	**1**	**1**
	2	**2**
Reconciliation of financial assets measured at Level 3 Company 2021		
Transvaal Wattle Growers Co Op Agriculture Company	1	1
KAAP Agri	1	1
	2	**2**

Other financial assets as restated*

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Balance at the beginning of the year	**4 361**	2 735	**2 618**	992
Movement for the year	**223**	1 626	**223**	1 626
	4 584	**4 361**	**2 841**	**2 618**

The directors value all unlisted investments at cost.

None of the available for sale assets are past due or impaired.

9. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

	Loans and receivables R'000	Other financial assets R'000	Total R'000
Group – 2022			
Trade and other receivables	**129 404**	**–**	**129 404**
Other financial assets	**–**	**4 584**	**4 584**
Cash and cash equivalents	**409 295**	**–**	**409 295**
	538 699	**4 584**	**543 283**
Group – 2021			
Trade and other receivables	158 169	–	158 169
Other financial assets	–	4 361	4 361
Cash and cash equivalents	336 542	–	336 542
	494 711	**4 361**	**499 072**

	Loans and receivables R'000	Other financial assets R'000	Total R'000
Company – 2022			
Loans to group companies	**249 969**	**–**	**249 969**
Trade and other receivables	**5 662**	**–**	**5 662**
Other financial assets	**–**	**2 841**	**2 841**
Cash and cash equivalents	**386 544**	**–**	**386 544**
	642 175	**2 841**	**645 016**
Company – 2021			
Loans to group companies	310 508	–	310 508
Trade and other receivables	1 472	–	1 472
Other financial assets	–	2 618	2 618
Cash and cash equivalents	316 510	–	316 510
	628 490	**2 618**	**631 108**

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10. Deferred tax

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Deferred tax asset	**107 340**	111 704	**62 497**	64 442
Deferred tax liability	**(836 602)**	(810 626)	**–**	–
Total net deferred tax asset/(liability)	**(729 262)**	**(698 922)**	**62 497**	**64 442**
Reconciliation of deferred tax asset/(liability)				
At beginning of year	**(698 922)**	(735 905)	**64 442**	62 821
Prior year under/(over) provision	**3 856**	846	**(685)**	(28)
Reversing/Originating temporary differences on property, plant and equipment, right-of-use assets	**(20 013)**	8 172	**(2 880)**	1 334
Reversing/Originating temporary differences on provisions	**(2 441)**	(157)	**52**	500
Reversing/Originating temporary differences on other allowances	**2 404**	17 151	**–**	–
Reversing/Originating temporary differences on fair value	**(62 415)**	(13 735)	**–**	–
Reversing/Originating temporary differences on borrowings	**57 710**	26 380	**3 443**	(1 056)
Reversing/Originating temporary difference on assessed loss	**(9 441)**	(1 674)	**(1 875)**	871
	(729 262)	**(698 922)**	**62 497**	**64 442**

The deferred tax asset in SAFCOL is due to an assessed loss, which has accumulated over the years, timing differences in property, plant and equipment, right-of-use assets and provisions. This asset will be realised over a period of time at the applicable tax rate.

11. Inventories

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Raw materials	**12 843**	3 288	**–**	–
Work in progress	**6 622**	4 711	**–**	–
Finished goods	**43 202**	25 463	**–**	–
Consumables	**22 093**	21 295	**212**	243
	84 760	54 757	**212**	243
Provision for obsolete stock	**(9 973)**	(12 871)	**–**	–
	74 787	**41 886**	**212**	**243**

Assigning costs to inventories

The costs of individual items of inventory are determined using weighted average costs with the exception of harvested logs that are valued at fair value at the point of harvest.

Provision for obsolete stock

The Group has provided for an inventory based on the history on write-downs in the prior years. This has been assumed to estimate correct provisions as the business model and products have not changed over the years.

Amounts recognised in profit or loss

Inventories recognised as an expense under cost of sales during the year amounted to R1 085 million (2021: R688 million).

Inventory-write-downs

Inventory has been reduced by R44 million (2021: R69 million) because of the write-down to net realisable value. This write down was recognised as an expense during 2022.

There are no inventories pledged as security at the date of these financial statements.

12. Trade and other receivables

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Trade receivables	**185 328**	207 325	**–**	–
Prepayments	**3 801**	3 002	**880**	–
Other receivables	**9 011**	16 562	**5 662**	1 472
Provision for impairment	**(64 935)**	(65 718)	**–**	–
	133 205	**161 171**	**6 542**	**1 472**

Classification as trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Group's impairment policies and the calculation of the loss allowance are provided in the accounting policies.

Fair values of trade receivables

Due to the short-term nature of the current receivables, their carrying amount is considered the same as their fair value.

Impairment and risk exposure

Information about the impairment of trade receivables and the Group's exposure to credit risk and interest rate risk can be found in the Risk Management Note.

Trade and other receivables pledged as security

In the current year, there are no trade and other receivables pledged as security.

Fully performing trade and other receivables

Trade receivables and other receivables

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Fully performing trade receivables	**86 177**	105 669	**–**	–
Fully performing other receivables	**4 730**	4 244	**4 132**	359
	90 907	**109 913**	**4 132**	**359**

Trade and other receivables which would have been past due or impaired, but which have been renegotiated are as follows:

Included in the Group's trade and other receivables are trade and other receivables with a carrying amount of R35 million (2021: R42 million) which has not been provided as there has been no significant change in the credit quality and the amounts are still considered recoverable.

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Trade receivables	**35 165**	42 603	**–**	–
Other receivables	**40**	227	**–**	–
	35 205	**42 830**	**–**	**–**

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

FOR THE PERIOD ENDED 31 MARCH 2022

12. Trade and other receivables continued

Trade and other receivables not impaired

The ageing of amounts past due but not impaired is as follows:

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
30 – 60 days	**30 916**	29 497	–	–
60 – 90 days	**2 207**	8 164	–	–
90 – 20 days	**1 470**	3 886	–	–
120 – 150 days	**612**	1 283	–	–
More than 150 days	**–**	–	–	–
	35 205	**42 830**	**–**	**–**
Reconciliation of loss allowance:				
Opening balance	**(65 718)**	(44 785)	–	–
Decrease/(increase) in loss allowance	**783**	(20 933)	–	–
	(64 935)	**(65 718)**	**–**	**–**

The Group has applied the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables.

13. Current tax receivable/(payable)

Consists of:

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
SA Normal Tax: Normal Taxation	**772**	772	–	–
	772	**772**	**–**	**–**

Tax receivable relates to an overestimated taxable income, which resulted in a higher provisional tax payment made to SARS. The refund is expected to be paid after the submission of the income tax return this financial year.

14. Cash and cash equivalents

Cash and cash equivalents consist of:

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Bank balances	**23 106**	32 506	**355**	12 474
Short-term deposits	**386 185**	304 030	**386 185**	304 030
Petty cash	**4**	6	**4**	6
	409 295	**336 542**	**386 544**	**316 510**

15. Non-current assets held for sale

Non-current assets held for sale consists of property, plant and equipment. In current year, no assets held for sale were disposed of through the auction process. Gains realised through the sale of assets held for sale are normally recognised in other income in the current year. In the current year, certain assets will be recovered through sale and not use in the operations. Based on past practice; assets identified for sale will be auctioned in accordance with National Treasury prescripts and regulations. Management is committed to the sale of the assets in the next financial period through an auction process. Significant changes to the plan are unlikely. As at 31 March 2022, all assets held for sale were stated at lower of carrying amount or fair value less costs to sell and comprised the following assets.

Assets and liabilities

Non-current assets held for sale

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Property, plant and equipment	**708**	**698**	**–**	**–**

Measurement of fair values:

i. Fair values

The non-recurring fair value measurement for assets held for sale has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

Valuation technique	Significant unobservable inputs
Fair value approach: The valuation of property, plant and equipment was based on comparable fair values of assets in the market in the same location and condition of assets held for sale. Inferences to previous selling prices were used for specialised assets that did not have readily available market information.	There are no significant unobservable inputs used by management to determine the fair values of assets held for sale in the prior year.

16. Share capital

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Authorised				
1 500 000 000 Ordinary shares of R 1 each	**1 500 000**	1 500 000	**1 500 000**	1 500 000
Issued				
318 013 254 Ordinary shares of R1 each	**318 013**	318 013	**318 013**	318 013

17. Foreign currency translation reserve

Translation reserve comprises exchange differences on consolidation of foreign subsidiaries.				
Foreign exchange IFLOMA	**(100 521)**	(117 583)	–	–

18. Retirement fund reserve

Lump sum payment to retirement funds	**20 000**	20 000	**20 000**	20 000
Pension fund shortfall funded by Government	**44 000**	44 000	**44 000**	44 000
	64 000	**64 000**	**64 000**	**64 000**

19. Capital profit reserve

Capital surplus on sawmill insurance claims	**37 061**	37 061	**37 061**	37 061
Cancellation of provision for cost of transfer of land	**27 982**	27 982	**27 982**	27 982
	65 043	**65 043**	**65 043**	**65 043**

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FOR THE PERIOD ENDED 31 MARCH 2022

20. Finance lease liabilities

	Group 2022 R'000	Group 2021 R'000	Company 2022 R'000	Company 2021 R'000
Minimum lease payments due				
• within one year	**220 395**	171 086	**5 024**	–
• in second to fifth year inclusive	**900 499**	683 398	**9 015**	–
• more than five years	**13 304 797**	10 724 118	**–**	
	14 425 691	11 578 602	**14 039**	–
less: future finance charges	**(13 421 718)**	(10 791 455)	**(1 743)**	–
Present value of minimum lease payments	**1 003 973**	**787 147**	**12 296**	**–**
Present value of minimum lease payments due				
• within one year	**180 667**	140 650	**3 655**	–
• in second to fifth year inclusive	**452 795**	352 350	**8 641**	–
• more than five years	**370 511**	294 147	**–**	
	1 003 973	**787 147**	**12 296**	**–**
Non-current liabilities	**823 306**	646 497	**8 641**	–
Current liabilities	**180 667**	140 650	**3 655**	–
	1 003 973	**787 147**	**12 296**	**–**

Finance lease liabilities are capitalised between prime plus 1.7% and prime less 3.6% (2021: prime plus 2.1% and prime less 4.4%). The effective interest rate prevailing at year-end was 10.2% (2021: 10.6%). Included in finance lease liabilities are instalment sale agreements that are secured over assets with a carrying value of R18.7 million (2021: R31.7 million). Monthly repayments are R1.1 million (2021: R1.5 million).

Reconciliation of finance leases

	Group 2022 R'000	Group 2021 R'000	Company 2022 R'000	Company 2021 R'000
Opening balance	**787 147**	680 049	**–**	3 771
Additions	**12 881**	246	**12 881**	–
Change in estimate	**161 130**	–	**–**	–
Interest	**206 082**	146 474	**540**	455
Payments	**(163 267)**	(39 622)	**(1 126)**	(4 226)
Closing balance	**1 003 973**	**787 147**	**12 296**	**–**

Long-term liabilities

The Group has entered into a long-term liability with a financial institution to purchase vehicles and equipment. The vehicles purchased are used as a collateral support over the lease liability. The duration of the collateral support is equal to the finance term over the liability incurred. The balance of the liabilities is as shown below.

	Group 2022 R'000	Group 2021 R'000	Company 2022 R'000	Company 2021 R'000
Non-current liabilities	**7 661**	15 078	**–**	–
Current liabilities	**7 417**	10 718	**–**	–
	15 078	**25 796**	**–**	**–**
Maturity analysis – contractual undiscounted cash flows				
• within one year	**8 674**	13 002	**–**	–
• in second to fifth year inclusive	**8 283**	16 956	**–**	–
	16 957	29 958	**–**	–
• less: future finance charges	**(1 879)**	(4 162)	**–**	–
Present value of minimum lease payments	**15 078**	**25 796**	**–**	**–**
Reconciliation				
Opening balance	**25 796**	38 681	**–**	–
Interest	**2 284**	3 430	**–**	–
Payments	**(13 002)**	(16 315)	**–**	–
Closing balance	**15 078**	**25 796**	**–**	**–**

21. Provisions

Reconciliation of provisions Group – 2022

	Opening balance R'000	Additions R'000	Reversals R'000	Closing balance R'000
Non-current liabilities				
Provisions – IFLOMA	**6 432**	**1 208**	**–**	**7 640**
Current liabilities				
Provision for quality claims on log products	**9 241**	**5 200**	**–**	**14 441**
	15 673	**6 408**	**–**	**22 081**

The provision on logs relates to customer claims. The provision on IFLOMA relates to withholding tax payable to the Mozambique tax authority.

Reconciliation of provisions Group – 2021

	Opening balance R'000	Additions R'000	Reversals R'000	Closing balance R'000
Non-current liabilities				
Provisions – IFLOMA	7 601	–	(1 169)	6 432
Current liabilities				
Provision for quality claims on log products	36 466	–	(27 225)	9 241
	44 067	**–**	**(28 394)**	**15 673**

The provision for returns is calculated based on the anticipated returns on products delivered to customers. The sales contracts and past practice of the Group allows the customers to return products that are out of specifications or damaged. In practice, the Group allows claims that can be substantiated and verified to be adjusted on the price of the product collect. Past practice has shown that there are no actual returns that are made by customers but an adjustment on the price of the product collected. The Group business model has not substantially changed from prior year. The provision for returns has thus been calculated based on prior years rate of returns. The expected timing of the outflow of economic benefits is estimated to be during the next two to five years.

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22. Financial liabilities by category

Financial liabilities at amortised cost. The accounting policies for financial instruments have been applied to the line items below:

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Trade and other payables	**266 696**	251 249	**164 232**	155 175

23. Trade and other payables

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Trade payables	**72 299**	55 996	**2 719**	3 632
Value-Added Tax (VAT)	**1 273**	5 020	**5 772**	2 819
Accruals and other payables	**59 886**	68 990	**11 451**	10 905
Minority shareholders	**150 356**	143 734	**150 356**	143 734
	283 814	**273 740**	**170 298**	**161 090**

Minority shareholders:

Included in trade and other payables is dividends and interest of R150.3 million which is held on behalf of minority shareholders.

24. Right-of-use asset

The Group leases land from the Department of Environment, Forestry and Fisheries. The lease term has been estimated over 70 years. This corresponds to two rotation periods of pine trees, which is the main product of the Group. The Group's obligations under its leases are secured by the lessor's title to the leased assets. The Group leases a building from a third party. The building is used as offices for administration purposes. The Group also leases computer equipment from a third party. Some of the Group's vehicles, property, plant and equipment are financed through finance leasing with financial institutions.

Change in estimate

During 2021 financial year, the Group concluded a lease agreement on land. The lease agreement was backdated to beginning of the lease agreement. Management had used their best estimates to estimate the lease agreement before it was concluded in the prior year. It was not possible to accurately predict and have reasonably known the exact amount that would have been included in the lease agreement. The initial estimate was R319 418, agreed contract amount R408 792. The impact of the lease agreement on the current and future years is R89 374 as shown below.

Right-of-use assets 2022

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Balance at 1 April 2021	**312 957**	323 187	**–**	3 458
Additions for the year	**12 881**	–	**12 881**	–
Change in estimate	**89 374**	–	**–**	–
Depreciation charge for the year	**(10 367)**	(10 230)	**(1 431)**	(3 458)
Balance at 31 March 2022	**404 845**	**312 957**	**11 450**	**–**

Finance lease obligations are capitalised between prime plus 1.7% and prime less 3.6% (2021: prime plus 2.1% and prime less 4.4%). The effective interest rate prevailing at year-end was 10.2% (2021: 10.6%). Instalment sale agreement are secured over assets with a carrying value of R18.7 million (2021: R31.7 million). Monthly repayments are R1.1 million (2021: R1.5 million).

The finance lease portion relating to land has been capitalised using weighted average cost of capital. The weighted average cost of capital of 14.8% has been determined by an independent third party at the inception of the lease. The lease relating to land is escalated with a portion of PPI every year.

25. Revenue

The Group harvests, manufactures and sells timber products in the timber market. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

It is the Group's policy to sell its products to the end customer with a right of return within a reasonable time. Therefore, a refund liability (included in provisions) and a right to the returned goods (included in other current assets) are recognised for the products expected to be returned. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method). Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

Revenue streams

The Group generates revenue primarily from the sale of Logs and Lumber products. Other sources of revenue include rental income from its tourism facilities.

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Provision of services: Management fees	**–**	–	**176 452**	140 997
Sale of goods: Log sales	**1 051 161**	762 234	**–**	–
Sale of goods: Lumber sales	**148 114**	139 350	**–**	–
Other revenue	**21 509**	19 233	**–**	–
	1 220 784	**920 817**	**176 452**	**140 997**

Other revenue includes:

Other revenue arises mainly from property management, eco-tourism and sundry sales. The Group does not consider this to be part of main revenue generating activities.

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Property and Housing Management	**10 927**	11 341	**–**	–
Eco-Tourism	**9 223**	6 056	**–**	–
Sundry Products	**1 359**	1 836	**–**	–
	21 509	**19 233**	**–**	**–**

26. Cost of sales

Cost of sales includes only expenses directly or indirectly attributable to the production process. Cost of harvested logs at point of harvest is valued at fair value less cost to sell. The fair value of harvested logs has been estimated to equal the prevailing market price in an open market between a willing buyer and a willing seller. The costs of harvesting are negligible and thus selling price is assumed to approximate fair value less costs to sell.

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Harvested timber	**1 000 234**	688 431	**–**	–
Lumber processing	**167 434**	151 549	**–**	–
Other	**2 921**	35	**–**	–
	1 170 589	**840 015**	**–**	**–**

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

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27. Other operating income

	Group 2022 R'000	Group 2021 R'000	Company 2022 R'000	Company 2021 R'000
Other recoveries	–	13	–	–
Other income	17 477	6 990	703	3 759
Government Grant – UIF COVID 19	–	33 237	–	6 590
	17 477	40 240	703	10 349

28. Fair value gain on biological assets

	Group 2022 R'000	Group 2021 R'000	Company 2022 R'000	Company 2021 R'000
Fair value gains				
Biological assets	1 303 378	852 453	–	–

29. Operating profit/(loss)

Operating profit/loss for the period is stated after charging the following operating expenses: Group 2022: R 984 212 (2021: R933 806), Company 2022: R176 679 (2021: R165 832).

30. Other operating expenses

	Group 2022 R'000	Group 2021 R'000	Company 2022 R'000	Company 2021 R'000
Auditor's remuneration – external	9 826	8 519	4 339	2 345
Fees for services				
Administrative and legal services	11 855	5 256	4 401	4 188
Managerial services	39 726	30 329	13 768	13 243
	51 581	35 585	18 169	17 431
Employee costs				
Basic	305 378	285 827	87 841	80 362
Incentive bonus – (Production)	16 463	13 457	1 673	1 731
Unemployment Insurance Fund	1 973	1 760	359	310
Workmen Compensation Association	6 689	6 473	1 313	1 267
Skills Development Levy	3 073	1 941	928	566
Leave pay provision charge	1 960	4 384	947	2 402
Other short-term costs	41 340	41 740	16 082	15 386
Retirement defined contribution plans	36 443	33 992	9 841	8 892
	413 319	389 574	118 984	110 916
Depreciation, amortisation and impairment losses				
Depreciation				
Property, plant and equipment	37 381	42 578	581	663
Right-of-use	10 367	10 230	1 431	3 458
Amortisation				
Intangible assets	1 095	1 095	1 095	1 095
Total depreciation, amortisation and impairment	48 843	53 903	3 107	5 216
Leases				
Premises	573	60	573	60
Equipment	89	3 346	–	–
	662	3 406	573	60

	Group 2022 R'000	Group 2021 R'000	Company 2022 R'000	Company 2021 R'000
Other operating costs				
Repairs and maintenance	73 216	50 808	634	800
Risk management	18 429	17 621	11 534	15 295
Inventory write-down	44 040	69 222	–	–
Travel and accommodation	2 674	1 202	1 220	575
Contractors and material management	241 177	191 408	1 309	486
Indirect taxes	2 942	2 970	460	777
Subscriptions and levies	12 390	17 808	210	161
Office and admin	56 427	63 454	6 671	4 403
Bursaries	3 483	3 004	3 483	3 004
Corporate Social Investment	5 986	4 363	5 986	4 363
	460 764	421 860	31 507	29 864
Allowance for bad debts	(783)	20 959	–	–
Total	984 212	933 806	176 679	165 832

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The loss allowance for trade receivables as at 31 March 2022 has been reconciled in trade receivables note. The allowance for bad debts recognised in the profit and loss account is as shown above.

31. Investment income

	Group 2022 R'000	Group 2021 R'000	Company 2022 R'000	Company 2021 R'000
Dividend income				
From Group entities:				
Dividends received from NTE	8	16	8	16
Interest income				
From investments in financial assets:				
Bank and other cash	7 255	5 304	7 255	5 304
Other interest	212	285	206	143
From loans to Group and other related parties:				
Subsidiaries	–	–	56	3 352
Total interest income	7 467	5 589	7 517	8 799
Total investment income	7 475	5 605	7 525	8 815

Investment income on financial instruments which are held to maturity have been reclassified in compliance with IFRS 9. Investment income consists of interest earned on investments.

32. Finance costs

	Group 2022 R'000	Group 2021 R'000	Company 2022 R'000	Company 2021 R'000
Lease finance costs	277 838	146 720	540	454
Other finance costs	2 307	3 461	2 953	249
Total finance costs	280 145	150 181	3 493	703

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33. Cash generated from operations

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Profit/(loss) before taxation	**114 168**	(104 888)	**4 508**	(6 374)
Adjustments for:				
Depreciation and amortisation	**48 843**	53 902	**3 107**	5 215
Dividend income	**(8)**	(16)	**(8)**	(16)
Interest income	**(7 467)**	–	**(7 461)**	(3 353)
Finance costs	**280 145**	150 149	**544**	22
Adjustment on finance costs lease liability	**–**	–	**353**	–
Movement on biological assets	**(214 420)**	(51 676)	**–**	–
Movements in provisions	**6 407**	(28 393)	**–**	–
Adjustment passed on retained earnings	**14 768**	6 201	**–**	–
Movement on long-term lease payments	**(3 154)**	(16 315)		
Other expenses non-cash transactions	**–**	3 327	**(37)**	(2 849)
Changes in working capital:				
Movement in Inventories	**(32 901)**	60 098	**31**	240
Movement in trade and other receivables	**27 967**	28 562	**(5 070)**	218
Movement in trade and other payables	**10 075**	44 753	**9 209**	17 141
	244 423	**145 704**	**5 176**	**10 244**

34. Taxation

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Major components of the taxation				
Current tax				
Current period	**216**	213	**–**	–
	216	213	**–**	–
Deferred tax				
Current period	**30 341**	(60 278)	**(1 945)**	1 621
	30 557	**(60 065)**	**(1 945)**	**1 621**
Reconciliation of the tax expense				
Reconciliation between accounting profit and tax expense.				
Accounting profit/loss	**114 168**	(104 887)	**4 508**	(6 374)
Tax at the applicable tax rate of 28% (2021: 28%)	**31 967**	(29 369)	**1 262**	(1 785)
Tax effect of adjustments on taxable income				
Net effect of (income)/expenses that are not (taxable)/deductible in determining taxable profit	**(1 835)**	(36 069)	**(2)**	136
Effect of different tax rate of subsidiaries operating in different jurisdictions	**4 552**	15 119	**–**	–
Adjustments recognised in the current year in relation to prior periods	**(4 127)**	(9 746)	**685**	28
	30 557	**(60 065)**	**(1 945)**	**(1 621)**
Tax paid				
Balance at the beginning of the year	**7**	(24 609)	**–**	–
Current tax for the period recognised in profit or loss	**(216)**	213	**–**	–
Balance at the end of the year	**7**	7	**–**	–
	(216)	**(24 389)**	**–**	**–**

35. Commitments

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Authorised capital expenditure				
Already contracted for but not provided for:				
Operational commitments	**1 122 701**	428 111	**380 708**	3 424
Capital commitments	**19 051**	–	**–**	–
	1 141 752	**428 111**	**380 708**	**3 424**

This committed expenditure relates to operational and capital expenditures and will be financed by available bank facilities, retained profits, and existing cash resources. It is not possible to estimate reliably how the commitments will be expended as the expenditure depends on business activities and cash management processes. Some activities may be prioritised over others based on their cash generating capacity. Straight-lining the remaining value of the contract will therefore not approximate the intended future expenditure. These commitments support the Group's strategy and growth initiatives.

36. Contingencies

1. Land claims

It is SAFCOL's aim to retain land use rights in view of the fact that 57% of the land it operates on is under land claims and to ensure business sustainability and continuity, through the integration of South Africa's land restitution and reform programme beneficiaries into viable, mutually beneficial business relationships with SAFCOL.

DFFE land lease agreement and payments

The DFFE lease agreement was signed on 17 January 2022 and payments are made accordingly. The compliance risk management plan have been development with quarterly reporting from FY2022/23 Q1. DFFE has confirmed that the joint revaluation of the leased land as part of the five (5) year cycle, stipulated in the agreement, has commenced and SAFCOL has nominated its representatives in the process to DFFE.

Mamahlola land lease agreement and payments

The Mamahlola lease agreement, signed on 13 August 2021 with commensurate payments, is well embedded with the Communal Property Association. The compliance risk management plan has been developed with quarterly reporting from FY2022/23 Q1. Feedback is awaited from DFFE on the exclusion of the Mamahlola land from the DFFE land lease agreement.

Minority shareholding

There has been no update on the verification of beneficiaries to whom the shares should be transferred from the relevant Government Departments, since approval of the position paper by the Board in April 2021. In November 2021 and March 2022, DPME engaged DPE, DFFE, and DALRRD (including the LCC) to drive the finalisation of key land claims, including that of the Mkhwanazi, affecting SiyaQhubeka Forests. DPME recommended that the legitimate beneficiaries be verified through a forensic audit by DALRRD. SAFCOL supports this position and, during a meeting in March 2022, DPE and DFFE officials also agreed with the recommendation.

Land claimant integration programme

SAFCOL's land reform process was expanded into an overall Land Claimant Integration Programme. As opposed to reporting on a few individual land claim projects (where land claims were nearing completion) the integrated programme now evaluates all land claimant communities against the various elements of SAFCOL's Proactive Community Engagement Model, Post Settlement Business Model and Transformation Initiatives. Individual projects are mostly reported by the Transformation Department, whereas the overall Integration Programme is reported holistically by the Land Risk Management Department.

Action plan going forward

SAFCOL will continue to report progress on managing the specific pillars affecting SAFCOL's land risk management profile by:

- Managing relationships with all land claims stakeholders, e.g., DPE, DFFE, DALRRD, LCC, DPW, DMRE, and claimants.
- Implement models to optimally involve communities across SAFCOL's value chain.
- Collaborate on projects that will enable claimants to derive value from their land as leased by SAFCOL
- Establish independent businesses to provide services to SAFCOL (ESD).
- Enter into silviculture contracts in SAFCOL's supply chain (e.g., set-aside, preferential procurement)
- Participate in non-forestry projects on unplanted land, subject to legal and FSC requirements (vegetables, mushrooms, and beekeeping).
- Commercial partnerships in the forestry value chain (e.g., mobile sawmill, power generation).

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36. Contingencies continued

2. Bank facilities

There are contingent liabilities in respect of:

- Bank guarantees in respect of Group company liabilities to the amount of R750 000 (2021: R750 000).
- Cross-suretyships between the subsidiaries and the holding company for any indebtedness which any of them may have to the specific financial institutions in respect of cash management and financial facilities.
- SAFCOL has provided a guarantee to the amount of R160 000 000 in respect of Komatiland Forests SOC Ltd obligations, including asset-based finance.
- SAFCOL has a credit card facility to the value of R2 500 000.
- An automated clearing bureau credit facility of R5 440 000.
- Fleet Card Facility of R200 000.
- Daylight Limit of R52 000 000.

3. Legal cases

The Group is currently involved in a number of legal disputes. The amount provided represents the directors' best estimate of the Group's liability having taken legal advice. Uncertainties relate to whether claims will be settled out of court or if not whether the Group is successful in defending any action. Because of the nature of the disputes, the directors have not disclosed future information on the basis that they believe that this would be seriously prejudicial to the Group's position in defending the cases brought against it.

Estimates and assumptions

The Group reviews outstanding legal cases following developments in the legal proceedings and at each reporting date, in order to assess the need for provisions and disclosures in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Group's management as to how it will respond to the litigation, claim or assessment.

3.1 Competition Law Infringement Investigations

3.1.1 South African Revenue Services (SARS) vs Komatiland Forests SOC Limited

During 2021, SARS conducted an audit of income tax assessment of KLF. This audit assessment resulted a penalty of the amount of R4 055 211.00 levied against KLF on the impaired losses submitted as incurred by KLF during the 2019 tax year assessment returns.

KLF is appealing against the levied penalty and the matter is pending at the SARS Alternative Dispute Resolution Committee.

3.1.2 Masterbord SA (Pty) Ltd (MASTERBORD) V Komatiland Forests SOC Limited (KLF) and South African Forestry Company SOC Limited (SAFCOL) – 2018DEC0036.

On 26 February, SAFCOL/KLF received a letter ("the Letter") from the Competition Commission SA ("Competition Commission").

In the Letter, the Competition Commission informed SAFCOL/KLF that Masterbord had lodged a complaint of abuse of dominance through exclusionary acts (including excessive pricing). SAFCOL/KLF has denied these claims and has submitted written representations to the Competition Commission.

This complaint is still under investigation.

3.2 Contingent assets

3.2.1 KLF vs Hlanyela Business Solutions Pty Ltd ("Hlanyela")

KLF instructed its attorneys to issue summons against Hlanyela arising out its failure to pay for timber sold and delivered by KLF. Hlanyela did not enter notice of intention to defend the summons and consequently an application for default judgment has been filed in court, the outcome of which is pending.

The full extent of the financial implications in the case is R5 944 492.

3.2.2 KLF vs Andre Moller

This matter arises from the findings of the forensic investigation that was conducted by SAFCOL. The summons was issued against Moller in the Mbombela High Court. The defendant (Mr. Moller) has entered appearance to defend. KLF has now amended its particulars following an exception ruling and the defendant has to file its plea.

The full extent of the financial implications in the case is R1 080 616.

3.2.3 KLF vs JWV (Return of stock)

In this application, KLF essentially seeks an order directing JWV to return lumber stock to KLF that was produced by JWV for purposes of custom-cut sawmilling operations under a written contract concluded on 1 November 2017. The stock comprises a quantity of $349m^3$ and is valued at R7 586 921. The application was heard on 16 February 2021 and the court ordered that the matter be pursued on the ordinary court roll and not on urgent basis.

Summons was issued against JWV on 11 August 2021. JWV is defending the matter. The matter is currently at pleading stage. It will be set down once the pleadings have closed and pre-trial processes are finalised.

The full extent of the financial implications in the case is R7 586 921.

3.2.4 KLF vs John Wright Veneers (Pty) Ltd ("JWV") and Advocate Lerato Maite (Arbitrator)

KLF seeks to remove the financial implications of the Arbitration Award that KLF suggest that it has now become liable to pay JWV an extra-contractual amount of R10 477 255.42 and other costs. The review and setting aside will enable KLF to recoup the indeterminable costs associated with the arbitration and issuance of the arbitration award.

The matter will be set down once all pre-application procedures have been exhausted.

The extent of the financial value in the case is R10 477 255.

3.2.5 KLF vs Fanta Forestry

This is a breach of contract matter. KLF issued summons shortly after various consultations with plantation officials. The attorneys have reported that they are ready to proceed to the next stage of litigation towards the trial.

The extent of the financial value in the case is R223 588.

3.2.6 Tzaneng Treated Timber (Pty) Ltd vs KLF

KLF initiated 7 (seven) claims against Tzaneng to claim various outstanding amounts of monies that are overdue on timber products that were delivered and sold last year. The attorneys have drafted the particulars of claim and will be issuing summons shortly after various consultations were held with KLF officials and documents substantiating the claim were provided.

The extent of the financial value anticipated in the case is R8 720 913.

3.2.7 KLF vs Diggersest (Pty) Ltd

KLF initiated the legal action. KLF issued summons to recover R9 304 867 in monies outstanding as a result of a breach of a sale agreement. In the meanwhile, Diggerrest has paid an amount of R4 million. KLF has determined that the amount that will be acceptable to finalise the matter will be R2 545 223.

The extent of the financial value in the case is R2 545 223.

3.2.8 Ladz Trading CC vs SAFCOL and Nomkhitha Mona

Late in March 2016, SAFCOL received summons from Ladz Trading cc for R498 980 alleging breach of an 'oral agreement' and claiming damages as a result.

SAFCOL has launched a counterclaim against Ms Nomkhita Mona for R807 560. The matter is still pending at the High Court.

3.3 Contingent liability

3.3.1 Economists.co.za (Pty) Ltd vs KLF

In November 2016, KLF received summons from Economists.co.za claiming payment of the sum of R399 000. KLF defended the action matter due to issues related to the contraventions of the PFMA. The matter is pending in the High Court and awaiting the Plaintiff to set the matter down for trial.

3.3.2 Collins Sebola Financial Services (CSF) vs SAFCOL and Others

This was an application launched by CSF against SAFCOL and others for the court to set aside the decision of SAFCOL to appoint two service providers jointly for the provision of security services. This matter was heard on 10 October 2020 and judgment handed down on 14 January 2021. The court upheld the High the application against SAFCOL and ordered substitution of the decision of SAFCOL to award the security contract to more than one service provider by awarding the whole contract to CSF.

SAFCOL is appealing the entire judgement and the appeal is currently underway.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

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36. Contingencies continued

3. Legal cases continued

Contingent liability continued

3.3.3 The iFIRM Trading & Project (Pty) Ltd vs SAFCOL & NP Mona

In March 2017, SAFCOL received summons from iFIRM claiming payment of the sum of R873 053 from SAFCOL and NP Mona jointly and severally. The matter is pending in the High Court. SAFCOL still awaits a plea by iFIRM on the counter-claim filed to set aside the unlawful contract entered with iFIRM by Ms Mona. Judgment was granted against MS Mona and she subsequently launched proceedings to rescind the judgment, which SAFCOL did not oppose.

Ms Mona was successful in her rescission application and thereafter entered her plea.

There have been no further steps taken by the Plaintiff.

3.3.4 John Wright Veneers (Pty) Ltd vs KLF

This application for the liquidation of KLF premised on an arbitration award issued by the Arbitrator in favour of JWV. KLF is challenging the lawfulness of the Arbitration Award and has filed its answering affidavit. The attorneys have reported that the is set down for 17 March 2022, however, unlikely to be heard on that day.

The extent of the financial value in the case is R 10 477 255.

3.3.5 Ukhamba Management Consultants CC vs KLF

Ukhamba issued summons against KLF in the High Court of South Africa, Johannesburg for an alleged breach contract for services rendered but not paid for by KLF, which claim KLF is disputing and defending. Ukhamba applied for summary judgment against KLF, which KLF resisted successfully as the applications for summary judgment were dismissed. To date, there has not been any further development as the Plaintiff has not taken any further steps to advance the matter.

The full extent of the financial exposure in the case is R10 702 883.

3.3.6 Ukhamba Management Consultants CC vs KLF

Ukhamba issued summons against KLF for an alleged breach contract for services rendered but not paid for by KLF, which claim KLF is disputing and defending. Ukhamba applied for summary judgment against KLF, which KLF resisted successfully as the applications for summary judgment were dismissed. However, the plaintiff has not taken any further steps to advance the matter so that a court date can be allocated by the Registrar.

The full extent of the potential financial liability exposure in the case is R66 774.

3.3.7 John Wright Veneers (Pty) Ltd vs KLF

This matter was heard in the High Court on 09 November 2020. Judgment was granted in KLF's favour on 16 February 2021 and the court dismissed the claim by JWV with costs. However, JWV applied for leave to appeal. The appeal is set down for 20 July 2022 to be heard by a full bench of the High Court in Pretoria.

The full extent of the potential financial liability exposure in the case is R2 809 442.

3.3.8 Andries Themba vs SAFCOL

This is a review application instituted by . Andries Themba, a former employee of SAFCOL to set aside his dismissal by SAFCOL. The matter is proceeding in the Labour Court.

3.2.9 SAFCOL vs Bathobile Gabela

This is a review application in the Labour Court launched by SAFCOL against a former employee. The matter is proceeding in the Labour Court. The attorneys await a court date.

The extent of the potential financial liability value in the case is R917 664.

3.3.10 Basadi Ba itsosa ("Basadi") vs SAFCOL

The matter started as an application by Basadi as one of SAFCOL' service providers to interdict SAFCOL from proceeding with the appointment of new service providers pending the resolution of disputes between Basadi and SAFCOL by way of arbitration. After the failed attempt with the interdict in June 2021, Basadi instituted arbitration proceedings.

The extent of the potential financial liability value in the case is R59 912 697.

3.3.11 Morajane du Plessis vs SAFCOL

This is a collection matter instituted by Morajane du Plessis Attorneys against SAFCOL for payment of alleged outstanding invoices. The parties are engaged in pre-trial procedures and the matter will be set down thereafter.

The extent of the potential financial liability value in the case is R72 858.

3.3.12 Frano Toich vs SAFCOL

This is a review application against SAFCOL by one of its former employees. The former employee was dismissed by SAFCOL on 15 March 2018. SAFCOL's attorneys have applied for the dismissal of the application due to the fact it was not brought in terms of the Labour Court rules. Mr Toich has filed a notice of opposition to SAFCOL's application to dismiss. The parties await a date for the hearing of the application to dismiss the review from the Registrar of the Labour Court.

3.3.13 SAFCOL vs Patrick Maphai

This is a review application launched by the former employee against SAFCOL to review the CCMA award which confirmed his dismissal. SAFCOL awaits the hearing date from the Registrar.

3.3.14 Emmanuel Mphephu vs SAFCOL

This is an application by a former employee of SAFCOL to set aside an arbitration award that confirmed his dismissal by SAFCOL. SAFCOL has instructed its attorneys to oppose the application and opposing papers are being prepared.

3.3.15 Vincent Shai vs SAFCOL

This is a review application by a former employee of SAFCOL against an arbitration award issued by the CCMA confirming his dismissal. SAFCOL is opposing the review application.

3.3.16 York Timbers vs SAFCOL and KLF

In June 2018, York Timbers instituted proceedings under the Promotion of Access to Information Act wherein it prayed for an order compelling SAFCOL and KLF to make certain records available as per the application. The application was opposed.

Both parties filed heads of argument and a hearing date was applied for, but the matter was never argued or finally enrolled. A compromise was entered into in terms of which certain information was made available to the applicant. York Timbers has not taken any further steps to advance the matter and no formal withdrawal has been made. The matter accordingly remains pended.

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37. Related parties

Relationships

Ultimate shareholder	Government of the Republic of South Africa represented by the Minister of the Public Enterprises
Subsidiaries	Komatiland Forests SOC Limited
	Abacus Forestries SOC Limited
	Kamhlabane Timber SOC Limited
	Industrias Florestias de Manica.
Other related parties	Other public entities within Department of Public Enterprise.
Members of key management	Listed in Directors emoluments.

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Related party balances				
Loan accounts – Owing (to)/by related parties				
ABACUS Forestries SOC Limited	**–**	–	**456**	456
Komatiland Forests SOC Limited	**–**	–	**249 513**	310 052
Kamhlabane Forests SOC Limited, at cost R100	**–**	–	**–**	–
Payables to related parties				
Komatiland Forests SOC Limited	**–**	–	**(664)**	(106)
Other State-Owned Companies	**(866)**	(494)	**–**	–
Receivables from related parties				
Other State-Owned Companies	**–**	409	**–**	–
Interest income				
Komatiland Forests SOC Limited	**–**	–	**56**	3 353
Interest expense				
Komatiland Forests SOC Limited	**–**	–	**(2 949)**	(227)
Other State-Owned Companies	**–**	(2)	**–**	–
Sale of goods and services				
Komatiland Forests SOC Limited	**–**	–	**176 452**	140 997
Eskom	**228**	936	**–**	–
Purchase of goods and services				
Komatiland Forests SOC Limited	**–**	–	**(600)**	(540)
Eskom	**(18 810)**	(14 249)	**–**	–
Compensation to directors and other key management				
Short-term employee benefits	**3 811**	3 625	**3 811**	3 625

Transactions between SAFCOL and its subsidiaries are mainly to settle third party obligations on behalf of each other. The Group also has a centralised treasury function where cash resources are pulled together to ensure that the Group obtains maximum interest benefits.

38. Directors' emoluments

Executive Directors and Prescribed Officers

2022	Emoluments R'000	Reimbursement R'000	Retirement fund R'000	Total R'000
OT Monaheng	**3 053**	**4**	**391**	**3 448**
D Human	**2 473**	**–**	**268**	**2 741**
SO Dlamini	**2 738**	**3**	**307**	**3 048**
LN Rapoo	**1 564**	**–**	**176**	**1 740**
C Marais	**1 608**	**–**	**293**	**1 901**
V Harichund	**1 745**	**8**	**230**	**1 983**
	13 181	**15**	**1 665**	**14 861**

2021	Emoluments R'000	Reimbursement R'000	Retirement fund R'000	Total R'000
OT Monaheng	2 892	4	350	3 246
J Maruma	631	–	–	631
SO Dlamini	1 299	–	134	1 433
LN Rapoo	1 253	–	128	1 381
C Marais	1 173	–	200	1 373
V Harichund	1 259	–	150	1 409
	8 507	**4**	**962**	**9 473**

Non-executive

2022	Directors' fees R'000	Reimbursements R'000	Total R'000
N Balton	**334**	**–**	**334**
Y Pillay	**372**	**–**	**372**
L Malema	**372**	**–**	**372**
Z Zatu	**373**	**–**	**373**
L Mokgatle	**334**	**–**	**334**
M Baleni	**379**	**–**	**379**
P Makwana	**865**	**–**	**865**
B Hanise	**366**	**–**	**366**
J Yawitch	**416**	**–**	**416**
	3 811	**–**	**3 811**

2021	Directors' fees R'000	Reimbursements R'000	Total R'000
N Balton	318	–	318
Y Pillay	354	–	354
L Malema	354	–	354
Z Zatu	354	–	354
L Mokgatle	318	–	318
M Baleni	359	–	359
P Makwana	824	–	824
B Hanise	348	–	348
J Yawitch	396	–	396
	3 625	**–**	**3 625**

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39. Prior period adjustment

The following were adjusted in the current year:

	Group		Company	
Statement of profit or loss	**Restated values R'000**	**Previously reported R'000**	**Restated values R'000**	**Previously reported R'000**
Statement of financial position				
1. Trade and other payables	**(273 740)**	**(275 848)**	**(161 090)**	**(163 198)**
2. Retained earnings	**(2 770 190)**	**(2 784 960)**	**(92 827)**	**(88 213)**
3. Other financial assets	**4 361**	**1 855**	**2 618**	**112**
4. Deferred tax liability	**(810 626)**	**(791 242)**	–	–
5. Finance lease liability – current	**(140 650)**	**(151 368)**	–	–
6. Finance lease liability – non-current	**(646 497)**	**(661 575)**	–	–
	(4 637 342)	**(4 663 138)**	**(251 299)**	**(251 299)**
Statement of financial performance				
1. Finance cost: IFRS adjustment	**(146 720)**	**(150 149)**	–	–
2. Finance cost: Other	**(3 461)**	**(32)**	–	–
	(150 181)	**(150 181)**	–	–

Group and Company

Statement of financial position:

1. Adjustment on trade and other payables, due to correction of prior years' accruals reversal. Retained earnings was affected by the prior year adjustments.
2. Adjustment on other financial assets due to correcting opening balances on the Guardrisk policy. Retained earnings was affected by the prior year adjustment.
3. Adjustment on deferred tax relate to 2018/2019 financial year, KLF incorrectly added non-deductible expenses to its assessed losses. This has been subsequently realised and corrected. Retained earnings was affected by the prior period adjustment.
4. The lease liabilities note included sale and lease agreement with the financial institutions. The sale and lease agreement were incorrectly classified as leases per IFRS 16. The sale and lease agreement did not meet the definition of a sale per IFRS 15. The sale and leaseback transaction were reclassified as long-term liabilities in the current financial year.
5. IFRS 16 finance costs included costs relating to the sale and leaseback transaction. The sale and leaseback transaction did not meet the requirements of a sales as per IFRS 15. Thus, did not meet the definition of IFRS 16 as a finance lease.

Cash flow statement

Cash flows from financing activities was affected by the adjustment passed on finance lease payments. Previously reported: R55 937, corrected to R39 622.

Disclosure note: 13

Trade and other receivables which would have been past due or impaired, but which have been renegotiated are as follows:

Previously reported: 2021: R158 million, corrected to R42 million.

Disclosure note: 20

Finance lease liability note previously reported R812 943, corrected to R787 147, due to the incorrect inclusion of the sale and leaseback transaction.

Disclosure note: 38

Prescribed officers' emoluments as stipulated by section 30 of the Companies Act of 2008 were not fully disclosed in the prior year.

Previously reported 2021: Nil, Corrected in the current year R9.4 million.

Disclosure note: 43 – Fruitless and wasteful expenditure

Group previously reported R2.6 million, corrected to R2.7 million. An error was identified on the fruitless and wasteful expenditure opening balance. The error was caused by an inadequate system to recognise and correctly capture fruitless and wasteful expenditure. This was corrected in the current year.

Disclosure note: 44 – Irregular expenditure

Group previously reported R740 985, corrected to R740 988. There were irregular expenditure items that had not been included on the register. The error was caused by inadequate systems to identify and record irregular expenditure. These have been subsequently included on the irregular expenditure register

40. Risk management

The Group is exposed to various financial risks due to the nature of its activities and the use of various financial instruments. The Board has the overall responsibility for the establishment and oversight of the Group's risk management framework.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concern. The Group's overall strategy is to position itself as an attractive business partner by continuous management of the Group's statement of financial position, preserve cash and seek alternative funding alternatives.

The gearing ratio at 2022 and 2021 respectively was as follows:

		Group		Company	
		2022 R'000	**2021 R'000**	**2022 R'000**	**2021 R'000**
Total borrowings					
Finance lease obligation	21	**(1 003 973)**	(787 147)	–	–
Total debt		**(1 003 973)**	(787 147)	–	–
Total equity		**(3 156 980)**	(3 049 895)	**(542 446)**	(539 883)
Total capital		**(4 160 953)**	**(3 837 042)**	**(542 446)**	**(539 883)**
		32%	26%	**0.0%**	0.0%

Gearing ratio

The capital structure of the Group consists of debt, which includes short and long-term borrowings and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings. As a contingency plan, to manage the liquidity of the Group, a facility (combination of an asset based finance and multi option facility) has been secured with a financial institution. No dividends have been declared in the current financial year (2021: R 0 million). A significant portion of the debt consist of finance lease relating to land lease from DFFE. Equity and other reserves have been disclosed in the statement of change in equity note.

Risk management policies have been compiled and approved by the Board. The Group's risk management policies have been established to identify and analyse the risks, to set appropriate risk limits and controls, and to monitor the progress made in addressing those risks. The internal audit conducts ad hoc reviews to assess compliance with risk management policies.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

FOR THE PERIOD ENDED 31 MARCH 2022

40. Risk management continued

Classes of financial instruments

The financial instruments are held at amortised costs. At year-end, all financial instruments held at amortised value approximated fair value.

Group

	2022		2021	
Financial assets	Carrying amount R'000	Fair value R'000	Carrying amount R'000	Fair value R'000
Cash and cash equivalents	**409 295**	**409 295**	336 542	336 542
Other financial assets	**4 584**	**4 584**	4 361	4 361
Trade and other receivables	**129 404**	**129 404**	158 169	158 169
	543 283	**543 283**	**499 072**	**499 072**

	2022		2021	
Financial liabilities	Carrying amount R'000	Fair value R'000	Carrying amount R'000	Fair value R'000
Finance lease obligations	**1 003 973**	**1 003 973**	787 147	787 147
Long-term liabilities	**15 078**	**15 078**	25 796	25 796
Trade and other payables	**266 696**	**266 696**	251 249	251 249
	1 285 747	**1 285 747**	**1 064 192**	**1 064 192**

Company

	2022		2021	
Financial assets	Carrying amount R'000	Fair value R'000	Carrying amount R'000	Fair value R'000
Other financial assets	**2 841**	**2 841**	2 618	2 618
Cash and cash equivalents	**386 544**	**386 544**	316 510	316 510
Trade and other receivables	**5 662**	**5 662**	1 472	1 472
Loans to group companies	**249 969**	**249 969**	310 508	310 508
	645 016	**645 016**	**631 108**	**631 108**

	2022		2021	
Financial liabilities	Carrying amount R'000	Fair value R'000	Carrying amount R'000	Fair value R'000
Finance lease obligations	**12 296**	**12 296**	–	–
Trade and other payables	**164 232**	**164 232**	155 175	155 175
	176 528	**176 528**	**155 175**	**155 175**

Major financial risks

The following major financial risks that the organisation is exposed to have been identified:

- Forward exchange risk
- Financial risk management
- Liquidity risk
- Market risk
- Compliance risk
- Operational risk
- Price risk
- Credit risk
- Cash flow interest rate risk

Forward exchange risk

Forward exchange risk is the risk of loss arising from changes in the exchange rate from one currency to another through higher payments or lower receipts in the local currency.

The Group enters forward exchange contracts to buy and sell specified amounts of various foreign currencies in the future at predetermined exchange rates. The contracts are entered into to manage the Group's exposure to fluctuations in foreign currency exchange rates on specific transactions. The contracts are matched with foreign currency commitments and anticipated future cash flows in foreign currencies consisting primarily of exports. No significant export transactions were concluded during the year.

Funding for the IFLOMA subsidiary in Mozambique is mainly paid in US Dollars, whilst expenses are mainly denominated in Metical. This has the effect that the Group is exposed to fluctuations in the Rand, the US Dollar, and the Metical. No forward exchange cover was used during the year.

Financial risk management

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. A central treasury department (Group treasury) under policies approved by the board carries out risk management. Group treasury identifies, evaluates, and manages financial risks in close co operation with the Group's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and Non-derivative financial instruments, and investment of excess liquidity.

Liquidity risk

Liquidity risk is the risk that the Group has insufficient funds or marketable securities available to fulfil its cash flow obligations on time. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due and to close out market positions. At the end of the reporting period the Group held deposits at call of R213 million (2021: R147 million) that are expected to readily generate cash inflows for managing liquidity risk. Due to the dynamic nature of the underlying businesses, Group treasury maintains flexibility in funding by maintaining availability under committed credit lines. Management monitors rolling forecasts of the Group's liquidity reserve and cash and cash equivalents based on expected cash flows. In addition, the Group's liquidity management policy involves projecting cash flows and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt-financing plans.

Liquidity risk arises primarily from variation in revenue flows as well as the Group's ability to repay principal debt and interest.

The Group's approach to liquidity risk management includes:

- Regular monitoring of liquidity through periodic forecast cash flow management and maintaining an adequate level of short-term marketable securities;
- Implementation of long-term and short-term funding and investment strategies; and
- Diversification of funding and investing activities.

The Group manages its liquidity risk through review of its daily cash flow position. The Board monitors the liquidity position of the Group through review of six months cash flow forecasts. The liquidity position of the Group has been assessed as part of going concern assessment. Management has assessed and concluded that the Group has access to sufficient cash resources to continue in the foreseeable future. The tables below analyse the Group and Company's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

FOR THE PERIOD ENDED 31 MARCH 2022

40. Risk management continued

Group

At 31 March 2022	Carrying amount R'000	Contractual amount R'000	Less than one year R'000	More than one year R'000
Finance lease obligation	1 003 973	1 003 973	180 667	823 306
Long-term liabilities	15 078	15 078	7 417	7 661
Trade and other payables	266 696	266 696	266 696	–
	1 285 747	1 285 747	454 780	830 967

At 31 March 2021	Carrying amount R'000	Contractual amount R'000	Less than one year R'000	More than one year R'000
Finance lease obligation	787 147	787 147	140 650	646 497
Long-term liabilities	25 796	25 796	10 718	15 078
Trade and other payables	251 249	251 249	251 249	–
	1 064 192	1 064 192	402 617	661 575

Company

At 31 March 2022	Carrying amount R'000	Contractual amount R'000	Less than one year R'000	More than one year R'000
Finance lease obligation	12 296	12 296	3 655	8 641
Trade and other payables	164 232	164 232	164 232	–
	176 528	176 528	167 887	8 641

At 31 March 2021	Carrying amount R'000	Contractual amount R'000	Less than one year R'000	More than one year R'000
Trade and other payables	155 175	155 175	155 175	–
	155 175	155 175	155 175	–

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising returns.

Compliance risk

Compliance risk is the risk of non-compliance with any statutory requirement of National or local Government and includes the South African Reserve Bank, Financial Services Board, and various financial exchanges.

This is minimised through effective monitoring and reporting to ensure compliance with the PFMA, the Occupational Health & Safety Act, Companies Act, Income Tax Act, The Corporate Laws Amendment Act, applicable environmental legislation and the requirements of statutory and other bodies, including the Competition Authorities, South African Reserve Bank, Financial Services Board and the Forestry Stewardship Council.

Operational risk

Operational risk is the risk resulting from inadequate or failed internal processes, people, and systems, or from external events. The Group's approach to managing operational risk has led to the establishment of the following practices:

- Policies and procedures to sustain effective risk management; and
- The ongoing assessment of the effects of changes in the regulatory environment and adaptation of the processes accordingly.

Price risk

Price risk is the risk that changes in log prices have on the financial performance and cash flows of the Group.

Prices have been adjusted in accordance with market expectations.

Credit risk

Trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates. The expected loss rates are based on the payment profiles of sales over a period of 36 months. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The Group makes use of credit rating agencies to assess credit worthiness of customers. The current credit profiles of customers are used to assess the future credit behaviour of customers before they are provided with a credit limit. The impact of COVID-19 pandemic on the economy has been assessed against the future payment behaviour of our customers. The Group mainly provides saw logs to its customers. The Group is currently the main supplier of saw logs in Mpumalanga and Limpopo. Customers are therefore less likely to default on their accounts with the Group as we are the only suppliers of raw materials. The historical losses are used as a basis of determining future losses based on the term of the debt. On that basis, the loss allowance as at 31 March 2022 was determined as follows for trade receivables:

2022	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	Total
Expected loss rate (%)	2	5	50	100	
Gross carrying amount – trade receivables (R'000)	31 547	3 870	1 223	63 499	100 139
Loss allowance (R'000)	631	193	612	63 499	64 935

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due. The Group actively follows up on all outstanding debtors to ensure that they are recovered. Group Legal is also involved in credit disputes that require their services. CGIC insurance is then engaged at the point where the Legal team fails to recover. Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Interest rate risk

Cash flow interest rate risk is the risk of loss arising from changes in interest rates through higher interest payments or lower interest receipts. The Group does not have significant liabilities financed through finance lease. The interest rate associated with each finance lease is negotiated and agreed before the finance lease is concluded. Financial institutions consider the company to be medium risk with its interest payments linked to prime.

The Group is exposed to interest rate risk as the Group funds working capital shortfalls and assets and invests surplus funds from time to time. The Group utilises limited asset-based and finance leases to fund assets. These finance leases rates are fixed interest rates linked to prime. The Group also invests funds in the money market at both fixed and floating interest rates. The underlying interest rate risk associated with this risk is managed by maintaining an appropriate mix between fixed and floating interest rates.

Shortfalls are funded by the holding company, South African Forestry Company SOC Limited, as and when required. Surplus funds from operations are transferred to the holding company daily. These surpluses or shortfalls bear interest on a floating interest intercompany account.

Basis for determining fair values

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments reflected above.

Available for sale financial assets

The fair value of available for sale financial assets is determined by reference to the deemed cost price or quoted price at the reporting date.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Carrying amount approximates fair value due to the short-term nature of trade and other receivables.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

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40. Risk management continued

Other loans and receivables

The fair value of other loans and receivables is based on cash flows discounted using the effective interest rate at the reporting date. Carrying amount approximates fair value due to the short-term nature of other loans and receivables.

Cash and cash equivalents

The fair value of cash and cash equivalents is based on cash flows discounted using the effective interest rate at the reporting date. Carrying amount approximates fair value due to the short-term nature of cash and cash equivalents.

Borrowings

The fair value of borrowings is based on cash flows discounted using the effective interest rate at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

Other financial liabilities

The fair value of other financial liabilities is based on cash flows discounted using the effective interest rate at the reporting date. Carrying amount approximates fair value due to the short-term nature of other financial liabilities.

Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Carrying amount approximates fair value due to the short-term nature of trade and other payables.

Interest rates used for determining fair values

The interest rates used to discount estimated cash flows were as follows:

- 31 March 2022: 16.0%
- 31 March 2021: 16.0%

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Interest rate risk sensitivity: Finance costs				
5.9% increase in interest rate	**296 674**	154 987	**3 699**	726
5.9% decrease in interest rate	**263 617**	145 376	**3 287**	681
Profit/loss after tax				
5.9% increase in interest rate	**88 545**	46 256	**2 714**	4 905
5.9% decrease in interest rate	**78 679**	43 388	**2 412**	4 601

5.9% rate used linked to the average CPI rate for the year.

The table below analyses assets and liabilities carried at fair value. The different levels are defined as follows:

Level 1: Quoted unadjusted prices in active markets for identical assets or liabilities that the Group can access at measurement date.

Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

Levels of fair value measurements

Level 3

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Recurring fair value measurements				
Assets				
Biological assets				
Biological assets	**1 303 378**	852 453	**–**	–
Other financial assets				
Unlisted shares (NTE & Guardrisk)	**4 584**	4 361	**2 841**	2 618
Total	**1 307 962**	**856 814**	**2 841**	**2 618**

* Gains and losses recognised in profit or loss are included in other income on the statement of comprehensive income.

41. Going concern

The annual financial statements have been prepared based on accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

For the year ended 31 March 2022, the Group reported a profit after tax R83 611 (2021: loss R44 822). In the same period the Group had operating cash inflows of R249 375 (2021: R126 888). A cash flow forecast for the next 12 months prepared by management has indicated that the consolidated Group will have sufficient cash assets to be able to meet its debts as and when they are due.

The ability of the Group to continue as a going concern is dependent on a number of factors. The most significant of these is that the directors continue to procure funding for the ongoing operations of the Group. The directors believe the Group has ability to raise funds to continue operating in the near future.

42. Events after the reporting period

Since December 2019, the spread of COVID-19 has severely affected the local and international economy. The pandemic resulted in the limitation and restriction of how the Group does and is able to do its normal business operations. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to the business. The Group embarked on scenario planning exercise to prepare itself for various scenarios. The Group continues to monitor developments. The impact of the pandemic is still unfolding and cannot be quantified.

The Group has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended 31 March 2022 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Group for future periods. Other than above, there were no other material adjusting or non-adjusting events that were identified after year-end.

43. Fruitless and wasteful expenditure

There were a number of incidents of fruitless and wasteful expenditure, which were individually, or collectively (where items are closely related) below the materiality threshold. Management continues to institute preventive and corrective measures, including disciplinary action, as considered appropriate. Funds are also recovered as relevant based on the outcome of the disciplinary hearings.

Fruitless and wasteful expenditure movement

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Opening balance	**2 705**	2 693	**391**	390
Incurred for the year (under investigation)	**19**	12	**–**	1
Closing balance	**2 724**	**2 705**	**391**	**391**

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FOR THE PERIOD ENDED 31 MARCH 2022

44. Irregular expenditure

Section 55(2)(b)(i) of the PFMA requires that the particulars of any irregular expenditure, fruitless and wasteful expenditure as well as material losses due to criminal conduct be disclosed in the annual financial statements. The Group has to report any losses that individually or collectively (where items are closely related) exceed R25 million in terms of the significance and materiality framework agreed with the shareholder.

Irregular expenditure is defined as expenditure, other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation. The scope is very broad as it includes all transgressions of any laws and regulations as well as internal policies and procedures regardless of whether the breaches were deliberate or accidental, or if they happened unknowingly or in good faith, or if value was received or not.

Condonation of the irregular expenditure is obtained from the relevant internal governance structure, government department or National Treasury.

Irregular expenditure

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Opening balance	**740 988**	626 513	**79 575**	74 493
Irregular expenditure identified in current year	**951**	8 670	**113**	1 598
Irregular expenditure identified from the prior year	**58 716**	105 805	**1 393**	3 484
Condoned in current year relating to prior year	**–**	–	**–**	–
Condoned in current year relating to current year	**–**	–	**–**	–
	800 655	**740 988**	**81 081**	**79 575**

Non-compliance with SCM policies

Irregular expenditure relating to non-compliance with SCM policies has been identified. Most of the expenditure relates to costs incurred through contracts and quotations that were awarded without following prescribed SCM policies and Treasury Regulations. To ensure that these findings will not be repeated various measures have been put in place to ensure that all SCM Policies and Treasury Regulations are followed before awarding a contract and when quotations are sourced. Furthermore, investigations have been instituted to identify root causes of the irregular expenditure and assist with consequence management. The investigations also review and test whether the company for services and goods provided received value for money.

The SCM environment is continuously being strengthened and supported by appropriate oversight to eliminate future non-compliance. Irregular expenditure incurred in the current year has been further sub-divided into the following categories

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Due to other service providers being unfairly disqualified	**–**	17 122	**–**	1 085
Minimum quotes not obtained	**35 078**	3 621	**113**	1 050
Other non-compliance with supply chain policy	**24 589**	93 732	**1 393**	2 947
Irregular expenditure identified in the current year	**59 667**	**114 475**	**1 506**	**5 082**

GLOSSARY OF ACRONYMS AND ABBREVIATIONS

AGSA	Auditor-General of South Africa
B-BBEE	Broad-Based Black Economic Empowerment
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIO	Chief Information Officer
CSI	Corporate social investment
CSIR	Council for Scientific and Industrial Research
DALRRD	Department of Agriculture, Land Reform and Rural Development
DIFR	Disabling Injury Frequency Rate
DFFE	Department of Forestry, Fisheries and the Environment
DPE	Department of Public Enterprises
ERP	Enterprise resource planning
EBITDA	Earnings before interest, tax, depreciation and amortisation
ECD	Early Childhood Development
EE	Employment Equity
ERRP	Economic Reconstruction and Recovery Plan
ESD	Enterprise and supplier development
EVP	Employee value proposition
FP&M SETA	Fibre Processing and Manufacturing Sector Education and Training Authority
FSA	Forestry South Africa
FSC®	Forest Stewardship Council®
Group	SAFCOL, together with its subsidiaries, namely Abacus Forestries SOC Limited, Kamhlabane SOC Limited and KLF SOC Limited with its subsidiary, IFLOMA
FY	Financial year
GHG	Greenhouse gas
ha	hectare(s)
ICT	Information and communication technology
IFLOMA	Indústrias Florestais de Manica SARL
JCF	Joint Community Forum
IFRS	International Financial Reporting Standards
KLF	Komatiland Forests SOC Limited
KPA	Key performance area
KPI	Key performance indicator
MSFA	Management of State Forests Act, No 128 of 1992
NDP	National Development Plan
MOU	Memorandum of Understanding
PFMA	Public Finance Management Act, No 1 of 1999
PWD	People with disabilities
ROE	Return on equity
R&D	Research and development
SAFCOL	South African Forestry Company SOC Limited, also referred to as the Company
SDG	Sustainable Development Goal
SETA	Sector Education and Training Authority
SMME	Small, medium and micro enterprises
SHEQ	Safety, Health, Environmental and Quality
SOC	State-owned company
TMPS	Total Measured Procurement Spend
TU	Temporarily unplanted
TUP	Temporarily Unplanted Proportion
VAT	Value Added Tax
YES	Youth Employment Service

CORPORATE AND CONTACT INFORMATION

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Registration number:	1992/005427/30
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Telephone number:	+27 12 436 6300
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