



South African Forestry Company Limited

Annual Report 2009

**Presentation to the Portfolio
Committee on Public Enterprises**

20 October 2009

Team Introduction



SAFCOL Representatives	Position
Ms. Gugu Moloï	Board Chairperson
Mr. Peter Derman	Transformation Committee Chairperson
Mr. Seth Radebe	Audit & Risk Committee Chairperson
Mr. Kobus Breed	Chief Executive Officer
Mr. Parmas Chetty	Acting Chief Financial Officer
Leslie Mudimeli	Senior Executive Communication & Liaison

PRESENTATION OUTLINE

1. SAFCOL Group's Structure
2. Corporate Governance Issues
3. Current position of the SAFCOL Group
4. Strategic issue requiring ongoing focus
5. Performance Highlights
6. Next five years

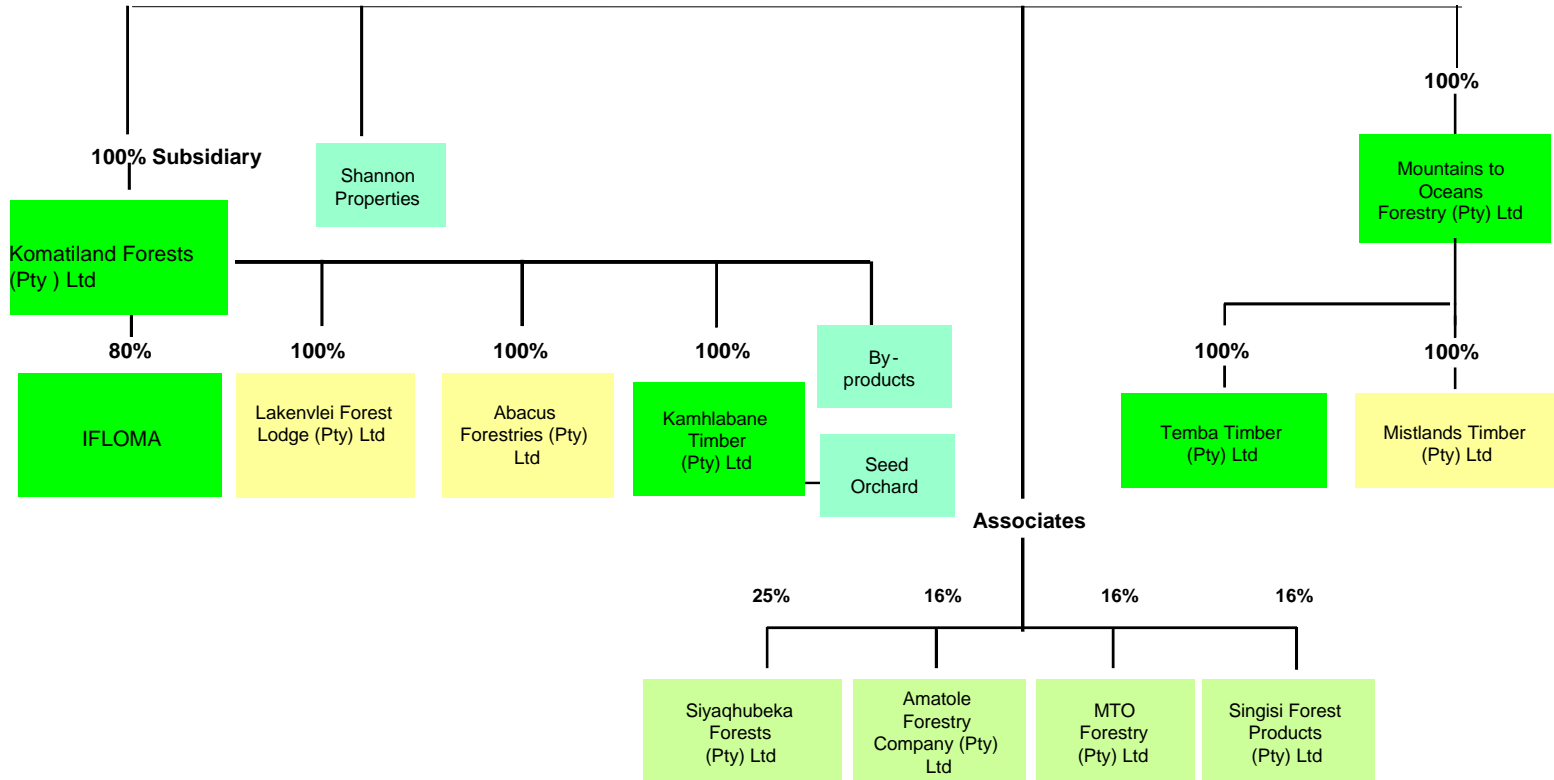
1. SAFCOL Group structure



Department of Public Enterprises

100%

SAFCOL



Associates

OPERATING SUBSIDIARIES

DORMANT SUBSIDIARIES

SPECIAL PROJECTS

ASSOCIATES



growth through partnership

1. Changes in structure

- Harlands Saligna Ltd deregistered on 25 April 2008.
- The shares in Valgrace Investments (Pty) Ltd sold on 1 April 2008.
- No change in associates shareholding.

2. Corporate Governance issues

- **Board's main activities in the year under review:**
 - Focus on transformation imperatives;
 - Development of SAFCOL's medium to long-term strategy (captured on the five-year Corporate and Business Plan).
 - Softening the Impact of global economic melt down on our business.
- Board's Constitution (additional members)
- Board's attendance.
- Board's sub-committees.
 - Work done by Sub committees in the year under review;
- Challenges requiring ongoing focus by SAFCOL Board.

2. Corporate Governance issues Cont..

- **Internal control:**
 - Clean auditor report and compliance to PFMA and other applicable legislation; Non-compliance to s77 of the PFMA recorded 2008 has been rectified in 2009.
- **Shareholder's Brief.**
 - Shareholder's compact;
 - Postponement of privatisation for the foreseeable future;
 - Future of SAFCOL and its Role in a developmental state;
 - Role of SAFCOL in socio-economic empowerment of rural communities;
 - Scenario planning on how SAFCOL will support land claimants and rural communities;

3. Current position of the SAFCOL Group

- Impact of current recession on profitability.
- Need for financial gearing.
- Signing of social compacts with adjacent communities.
- Discussion regarding parliament's decision to exit commercial forestry and privatize SAFCOL.
- Dealing with protracted Land claims processes.
- Pending decision of Mozambique investment.

4. Strategic issue requiring ongoing focus

- Impact that forestry sector could have in government's rural development strategy;
- Strengthen commitment to work closer with communities (resolution of land claims remains one of the major priorities for the Group);
- Building strong relationships with relevant; stakeholders (i.e. Gov, Communities, claimants etc);
- Developing better models for real empowerment;
- Future of SAFCOL.



5. HIGHLIGHTS OF SAFCOL'S PERFORMANCE IN THE YEAR UNDER REVIEW



5. Highlight of performance against targets

- 5.1. Financial Results (Highlights)
- 5.2. Financial Performance
- 5.3. Operational Performance
- 5.4. Transformation targets
- 5.5. Lowlights for the year under review
- 5.6. YTD Financial highlights – June 09
- 5.7. Cash flow position as at 30 June 2009
- 5.8. Financial outlook – 2010
- 6. 2010 and Beyond

5.1. Financial Results - Highlights

5.1.1. Factors that influenced financial performance

- Downturn of the economy, resulting in challenging trading conditions.
- The effects of the fires in both the 2008 and now 2009 financial years increased operating expenditure substantially.
- There is downward pressure on margins due to lower sales volume as a result of the decline in demand.
- Increase in land claims.
- Decrease of land available for forestry.

5.1. Financial Results - Highlights

5.1.2. Certain movements that impacted on operating results

- An increase of fair value adjustment to the carrying value of the salvaged logs stored on the wet decks R14.9 million (2008: R46.1 million).
- Foreign exchange gain on the revaluation of the IFLOMA loan R13.0 million (2008: R0.05 million).
- Recovered in respect of a long outstanding dispute from previous investment companies of the Group R2.5 million (2008: R0 million).
- Payment of retrenchment costs due to the corporate restructuring R4.4 million (2008: R0.8 million).
- Increase in receivable's days.
- Stock build-up at the Sawmill and wet-decks.

5.1. Financial Results - Highlights

5.1.3. Summary of SAFCOL Group's financial results

	2009*	2008*
	R'000	R'000
Turnover	857 148	845 017
Profit before Taxation	969 456	868 753
Net Profit	701 877	638 532
Capital Expenditure	98 569	76 533
	%	%
Return on Equity	31.9	36.6
Return on Capital Employed	31.8	36.4

**The figures include discontinuing operations*

5.2. Financial Performance

5.2.1. Highlights

- **PBT** and after discontinued operations increased by 11.6%.
- **Net asset value** increased by 25.6%.
- 10.4% **ROE** before fair value adjustments achieved as per the Shareholder's compact against a target of 10%.
- **Fair value** of biological asset increased by 28% to R3.2 billion (2007: R2.5 billion).
- Increase in **investment income** by 1.2% despite lower cash balance.
- Decline in **sales volume** by 171 227 m³ (2008: 1,628,341 m³).

5.2. Financial Performance

5.2.2. Financial performance against targets per Shareholder's Compact

Shareholder's Compact: Financial Targets	Unit	Actual Year 2009	Target Year 2009
Return On Equity before fair value adjustment * (Profit after tax - FV adjustments/ Average Capital and Reserves - FV adjustments)	%	10.4	10.0
Return On Equity after fair value adjustments (Profit after tax / Average Capital and Reserves)	%	23.1	10.0

* Fair value adjustments include the adjustment to biological assets, stock and unrealised forex gain.

5.2. Financial Performance

5.2.3. Performance Highlights – Profitability

	2009	2008
PBT (after discontinued ops)	R 969.5M	R 868.8M
Net asset value	R 3 385.3M	R 2 695.0M
ROE	31.9%	36.6%
Cash position (as of year end)	R295.9M	R 433.0M

5.2. Financial Performance

5.2.4. Quality of earnings

Quality of earnings	Year 2009 R'000	Year 2008 R'000	Variance %
Profit before tax	-969,456	-868,753	12%
Adjustments	781,785	559,501	-40%
Fair value adjustments*	784,113	568,931	-38%
Privatisation costs	-2,329	-9,664	-76%
Lease	2	237	99%
Total	-187,671	-309,253	-39%

** Fair value adjustments include the fair value adjustment to stock, biological assets and unrealised forex gain.*

5.2. Financial Performance

5.2.5. Liquidity Review

GROUP CASH FLOW STATEMENT			
YEARS ENDED	2009 YEAR	2008 YEAR	Variance %
Cash generated from / (utilised in) operations	22,878,056	195,577,720	-88%
<i>Net cash (outflow) / inflow from operating activities</i>	(42,975,970)	214,198,417	-120%
<i>Net cash outflow from investing activities</i>	(80,511,759)	(106,848,504)	25%
<i>Net cash outflow from financing activities</i>	(14,054,812)	(8,768,349)	-60%
Net (decrease) / increase in cash and cash equivalents	(137,542,541)	98,581,564	-240%
Cash and cash equivalents at the end of the year	295,940,590	432,979,030	-32%

5.2. Financial Performance

5.2.5. Liquidity Review Cont...

Significant cash flow movements for the year	2009 YEAR	2008 YEAR	Variance %
Operating cash flows before movements in working capital	133,107,784	242,355,729	-45%
Working capital changes	-110,733,829	-47,562,643	-133%
Increase in inventories	-45,747,737	-55,330,602	17%
Increase in trade and other receivables	-34,589,581	-32,566,116	-6%
(Decrease) / Increase in trade and other payables	-30,396,511	40,334,075	-175%
Taxation paid	-110,307,136	-23,549,297	-368%
Purchases of property, plant and equipment	-97,753,570	-75,878,263	-29%

5.2. Financial Performance

5.2.6. Solvency Review

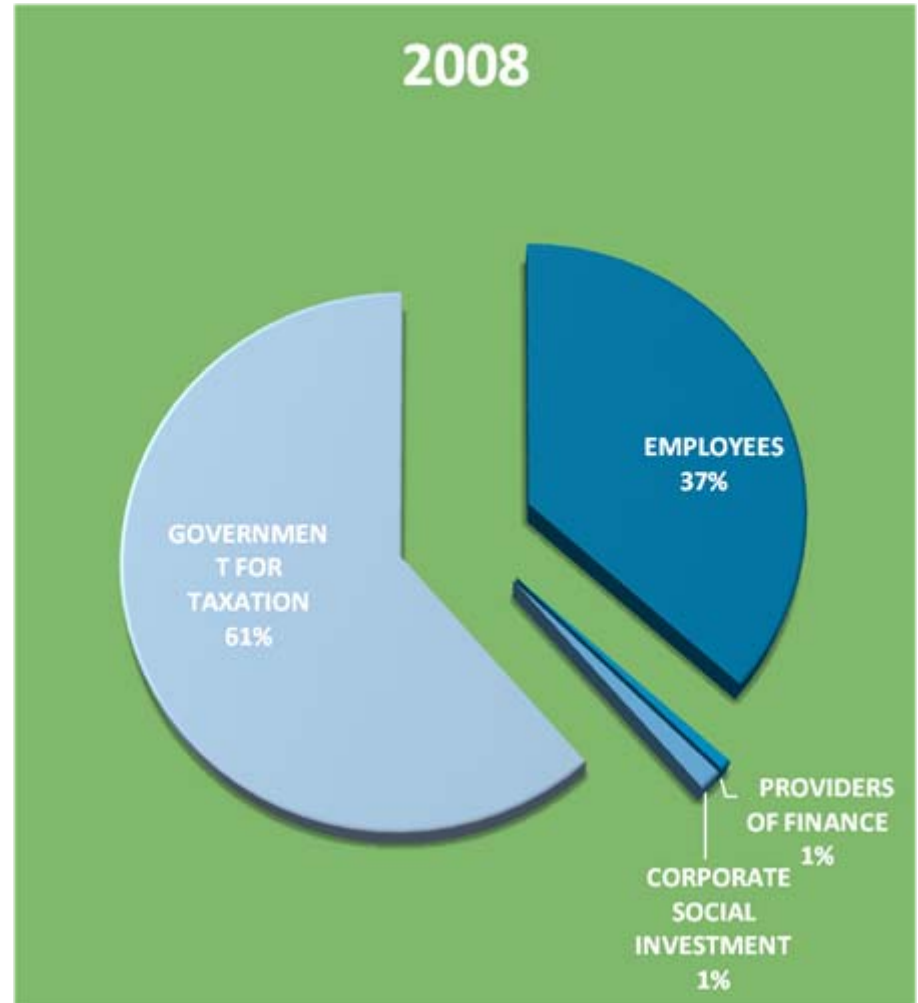
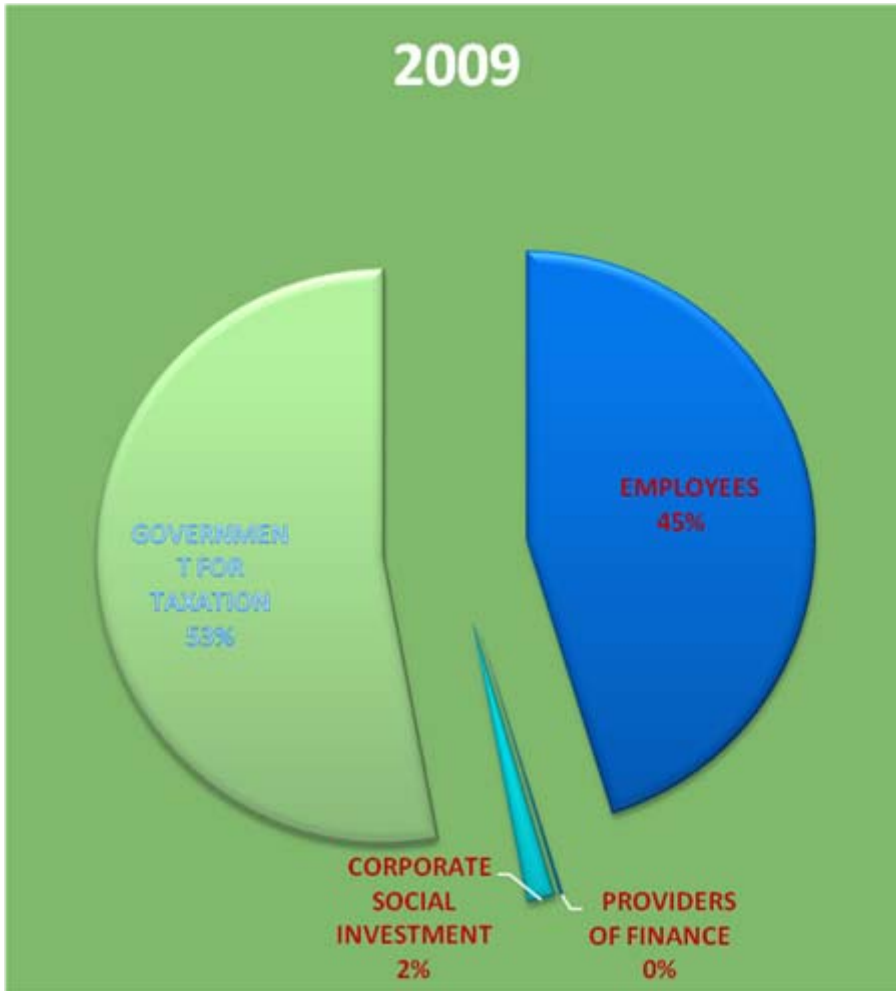
YEARS ENDED	2009 YEAR R'000	2008 YEAR R'000
Net Asset Value (Total assets - Total Liabilities)	3,385,342	2,694,987
	%	%
Return on Equity (PBT/ capital and reserves)	31.9	32.2
Return on Capital Employed (PBT/ (capital and reserves + non-current liabilities))	31.8	25.1
Net Margin (PBT/ revenue)	113.1	102.8
Basic earnings per share (cents)	220.7	200.8

5.2.7. Group Value Added Statement

The statement below details how the value added is applied to meet certain obligations, reward those responsible for its creation and the portion that is re-invested in the business for the continued operation and expansion of the Group.

	2009		2008	
	R'000	%	R'000	%
TURNOVER	857,148		845,017	
LESS: DIRECT COST (excluding labour cost)	466,487		408,026	
VALUE ADDED BY OPERATIONS	390,662		436,991	
ADD: FAIR VALUE ADJUSTMENT TO BIOLOGICAL ASSETS	757,915		528,715	
	1,148,577		965,706	
ADD: INVESTMENT INCOME & SHARE OF PROFIT OF ASSOCIATES	98,754		78,017	
TOTAL VALUE ADDED	1,247,331		1,043,723	
DISTRIBUTED AS FOLLOWS:				
EMPLOYEES (remuneration, benefits, social welfare and training)	228,049	19.9	137,038	14.2
PROVIDERS OF FINANCE	959	0.1	2,433	0.3
CORPORATE SOCIAL INVESTMENT	8,040	0.7	4,900	0.5
GOVERNMENT FOR TAXATION	267,579	23.3	230,222	23.8
SUB TOTAL	504,627	44.0	374,593	38.8
VALUE REINVESTED	742,703	64.7	669,130	69.3
DEPRECIATION AND AMORTISATION	40,826	3.6	30,598	3.2
RETAINED INCOME FOR THE YEAR	701,877	61.1	638,532	66.1
TOTAL VALUE DISTRIBUTED	1,247,331	108.7	1,043,723	108.1

5.2.7. Group Value Added Statement



5.3. Operational performance - highlights

- Temporary unplanted areas reduced to 6 377 ha (2008: 7 950 ha).
- No fatalities recorded in the year under review (2008: 2 fatalities).
- Workforce increased by 49 new positions, despite the challenging economic conditions.
- R2.1 million (2008: R 1.5 million) million worth of bursaries awarded.
- 5 Social Compacts signed with community clusters.
- Roll out of a comprehensive medical and wellness program

5.4. Transformation - Performance

5.4.1. Introduction

- SAFCOL is one of the signatories to the Forestry Sector Transformation Charter;
- Aggressive transformation targets have been set in the corporate and business plan;
- In the year under review a B-BBEE rating of Level 3 & 4 was achieved for SAFCOL and KLF respectively.

5.4. Transformation - Performance

5.4.2. Performance against B-BBEE Score card

- As a SOE, SAFCOL' S B-BBEE status is rated in terms of the adjusted generic score card for state owned entities which measure achievements against 6 of the 7 pillars.

5.4. Transformation - Performance

5.4.2. Performance against B-BBEE Score card

Element	Target Score SOE Weight	Base Score 2008	Score Achieved 2009
Management Control	15 + 1 Bonus Point	7	11.25
Employment Equity	15 + 3 Bonus Point	5	6.42
Skills Development	20	10	16.00
Preferential Procurement	20	14	20.00
Enterprise Development	15	2	9.57
Socio-economic Development	15 + 3 Bonus Point	15	15
Total B-BBEE score	107	52	78.24
Contributor Level		6	3

5.5. Summary of Lowlights - 2009

Operational

- Fire damage to KLF plantations of 4 911 ha (2008: 17 707 ha).
- Sawmill shutdown during December/January as result of the deteriorating market conditions.
- Damage to plantations due to baboon damage & pitch cancer fungus.

Financial

- Decline in sales volume by 10.5 % due to the global economic conditions.
- Declined in quality of earnings by 39% against prior year.
- R2.3 million incurred in 2009 (R58.1 million to date) on advisors fees for privatisation.
- Increase in non-performing receivables as well as average receivable days outstanding, due to cash flow problems experienced by our customers.

5.5. Summary of Low Lights - 2009

- Increase in inventory due to:
 - 25 972 m³ (2008: 5 795 m³) increased saw mill stock amounting to R40.4 million (2008: R8.3 million); and
 - R 118.3 million (2008: R95.9 million) relating to 228 458 m³ (2008: 218 351 m³) log stock stored on wet decks as a result of the slowdown in the market.
 - Increase in taxation payments due to R110.3 million (2008: R23.5 million)

Legal

- Claim damages of R3.2 billion instituted by Londoloza / Paharpur consortium against SAFCOL and DPE. SAFCOL is defending the matter.

5.6. YTD Financial highlights – June 09

FINANCIAL RESULTS	JUNE 2009		
	YTD ACTUAL	YTD BUDGET	VARIANCE %
INCOME STATEMENT			
REVENUE	-89,219,908	-95,343,128	-6%
OTHER INCOME	-13,266,774	-13,389,235	-1%
TOTAL INCOME	-102,486,681	-108,732,363	-6%
TOTAL EXPENDITURE	168,401,939	194,655,154	13%
FINANCE COSTS	180,352	244,756	26%
LOSS BEFORE TAXATION	66,095,610	86,167,546	23%
CASH FLOW STATEMENT			
NET CASH (OUT)FLOW FROM OPERATING ACTIVITIES	-30,823,903	-91,098,646	66%
NET CASH (OUT)FLOW FROM INVESTING ACTIVITIES	-29,827,592	-22,060,908	-35%
NET CASH (OUT)FLOW FROM FINANCING ACTIVITIES	-393,740	-411,654	4%
CASH AND CASH EQUIVALENTS AT END OF PERIOD	234,895,355	182,369,382	29%
BALANCE SHEET			
NET ASSET VALUE	3,312,602,548	3,299,149,588	0.4%



SAFCOL

5.7. Cash flow position as at 30 June 2009

- Cash flow of R234.9 million [29% higher than budget (R182.4 million)], mainly due to:
 - lower operating expenditure incurred;
 - reduced capital expenditure.
- Cash remain under pressure due to decreasing sales, build up of lumber and log inventories, and increase in receivables as a result of the adverse economic conditions.
- As a response to the economic conditions, the Group has adopted a prudent approach and intensified its focus on the following:
 - Researching innovative marketing strategies to increase sales volumes.
 - Implementing cost savings and efficiencies .
 - Re-looking at harvesting operations / operational activities, taking into account market conditions and maintaining the Group's asset.
 - Maintaining the Group's working capital to maximise liquidity.
 - Obtaining borrowing facilities with financial institutions
- Our priority is to continue implementing cost efficiencies, maintaining strong liquidity levels, and to achieve optimum sales volumes.

5.8. Financial outlook - 2010/11

- The 2010 financial year is expected to be one of the most challenging years the Group has ever faced.
- Due to the unpredictable economic climate we are operating in, it is forecasted that the Group will be in an overdraft.
- An overdraft facility will therefore be required to obtain funding.
- There will be a need to focus on cost management while increasing sustainable income and quality of earnings.

6. 2010 and beyond (next 5 years)

- We are excited at the prospects of going forward with the new strategic direction, we began with the rollout of the five-year Corporate and Business Plan which was approved by the Board following the announcement of the decision by Minister of Public Enterprise.
- Land claims resolution, transformation imperatives, socio-economic upliftment of rural communities, amongst others will remain some of the main priorities of the Group in the next five years.

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



Another project by Komatiland Forests
in conjunction with the community



Report wild fires to:

0860 NO FIRE

STOP! abuse against *women* and *children*
Report instances to Crime Stop: 08600 10111



Mpisikazi Tribal Authority
Computer Centre



STOP! abuse against *woman* and *Children*
Report instances to Crime Stop: 08600 10111

Mpisikazi Tribal Authority Computer Centre



STOP! abuse against *woman* and *Children*
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**ADDITIONAL SLIDES –
only if required**

SAFCOL's New Vision, Mission and Co-values

1. Vision

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

2. Mission

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

- Implementing **needs-driven** interventions
- Becoming a **partner of choice for land claimants**

We are dedicated to growing our business in the forestry value chain and maximising stakeholder value, through:

- Ensuring technical and business excellence by **attracting** and **retaining the best people**
- Enhancing the asset value by continuously pursuing innovative solutions
- Embracing and leading an all **inclusive equitable transformation** of the South African forestry sector
- Commitment to meaningful **partnerships with stakeholders**
- Practising transparent and fair marketing
- Develop the downstream value chain
- Environmentally responsible
- Therefore providing a green heritage, growth and socio-economic justice.

3. Core values

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

SAFCOL's main strategic goals in terms of the new direction

1. Position SAFCOL's operations as an attractive business partner for successful land claimants, investors, and B-BBEE business partners. This goal includes the desire to increase equitable ownership in the forestry sector.
2. Create economically vibrant forest communities where people desire to live and return to.
3. Fully embrace in all aspects, and rise above, the sector's transformation charter.
4. Build, attract and retain skills.
5. Increase financial value to current and future shareholders.
6. Practice world class sustainable forest management.



SAFCOL's main strategic goals in terms of the new direction Continues....

7. Increase forestry area under management in South Africa and internationally by partnering with successful land claimants, land owners, other forestry companies and government departments with forest holdings.
8. Increase value added services to customers and B-BBEE participation in the industry.
9. Develop solid company brands (SAFCOL, Komatiland Forests and IFLOMA) that are known in local and international stakeholder circles for leading sustainable multi- functional forestry practices and revolutionising forest community integration.
10. Development of and investment in the down-stream processing industry.