



SAFCOL's Annual Financial Statements and Report

For the year ended 31 March 2011

Presented by Maureen Manyama-Matome
Acting Chief Executive Officer
1 November 2011

SAFCOL Representatives

SAFCOL REPRESENTATIVE	DESIGNATION
1. Nomfanelo Magwentshu	Board Chairperson (NED)
2. Maureen Manyama-Matome	Acting Chief Executive Officer (ED)

vision

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

mission

Our mission is driven by an unwavering commitment to facilitate sustainable economic empowerment of communities and alleviation of poverty through Implementing needs-driven interventions and becoming a partner of choice for land claimants

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.



Presentation overview

1. Mandate & strategic objectives
2. Core operations
3. Salient features – 2011 financial year
4. Governance
5. Financial and commercial sustainability
6. Sustainable forests management
7. Enhanced developmental contribution
8. Outlook
9. Key risks and conclusion

1. Mandate & Strategic Objectives

Mandate

To ensure Sustainable management of forests and other assets within the SAFCOL group and to enhance the value of the group and play a catalytic role in the realisation of the state's afforestation, rural development and economic transformation goals.

Strategic Objectives

Financial and commercial sustainability	Sustainable forestry management	Enhanced developmental contribution
<ul style="list-style-type: none"> To achieve returns which are acceptable to the shareholders. To manage the business and engage in projects that preserve the gearing and liquidity ratios. 	<ul style="list-style-type: none"> To manage the South African forests in a sustainable manner consistent with the requirements of the South African law and international independent certification. The retention and expansion of the amount of land used for forestry plantations. 	<ul style="list-style-type: none"> To play a leading role in contributing to the transformation of the economy as envisaged in the forestry charter. To implement marketing policies that improve access to supply SMMEs, B-BBEE firms and new entrants. To continue with current and new community development and investment projects in rural communities close to our operations.

2. Core Operations

A. The Group's main focus is on the management of state – owned commercial plantations and performs through:

- Komatiland Forests (Pty) Ltd
- FLOMA
- Mountains to Oceans
- Kamhlabane Timber
- Temba Timber

B. KLF major subsidiary:

- Forests business unit
- Research centre
- Nursery
- Processing:
 - Own sawmill = Timbadola sawmill
 - Custom cut = Ringkink; John wright veneer and eMpuluzi.

2. Core Operations

Key processes within our forests operations:



2. Core Operations

Key processes within our processing operations:



3. Salient Features

- ✓ 2 years since the decision to privatise was put on hold in 2009.
- ✓ No significant improvements on the timber trading conditions.
- ✓ The end of majority of long-term timber sales contracts. New ways of selling our products:
 - Delivered-to-mill strategy was introduced
 - Credit terms for the sawn timber customers were reviewed
- ✓ No job losses to date and employees (excl. executive management) received salary increases
- ✓ Cost savings initiatives and Loss situation continued
- ✓ Wetdecks inventory cleared by year-end
- ✓ SAFCOL and KLF -> Level 2 BBBEE contributor
- ✓ 11 social compact signed (5 new compacts in 2011 financial year)

4. Governance

- ✓ **SAFCOL board reconstituted** and induction held
- ✓ **Subcommittees restructured** from 4 to 3 namely:
 - Human resources and remuneration committee
 - Finance, investment and transaction committee
 - Audit and risk committee
- ✓ **King III adopted** as far as applicable & TOR/charters reviewed and updated
- ✓ **Unqualified audit opinion**

5. Financial and commercial sustainability

Performance Against Targets

The 2011 financial year performance compares as follows to the target per shareholders' compact and prior year performance:

Key performance indicator	31 March 2011		31 March 2010
<u>Financial Returns</u>			
EBITDA/Revenue	-3.7%	3%	New (2011)
Return on equity	-5%	10%	-18.5%
<u>Creditworthiness</u>			
Gearing ratio	1.4%	<50%	0.46%
Cash interest cover	-1	2	New (2011)
<u>Working capital management</u>			
Current ratio	4.1	≤3	New (2011)
Cash ratio	1.2	2	1.7

- ✓ **Losses experienced** during the 2011 financial year (similar to 2010)
- ✓ **Less gearing.** Instalment of sales agreements and Enterprise Recourse Project (ERP) licences obligation
- ✓ **Negative cash flow from operations**
- ✓ **Increase in trade receivables**
- ✓ **Lower than target cash reserves @ R100.6 million**

5.1. Income statement overview

The year-on-year performance (2011 vs. 2010) is as follows:

Key performance indicator	31 March		YOY% variance
	2011	2010	
(amounts in rand thousand)			
Turnover	705 602	431 914	63%
Investment revenue	10 261	20 677	-50%
Expenses	141 625	210 237	48%
Fair value adjustments	-34 413	-342 561	895%
Operating loss	-80 026	-277 677	247%
Loss before taxation	-103 036	-588 987	472%

- ✓ **Increased sales levels:** timber; sawn timber; other
- ✓ **Wetdeck inventory cleared** -> increased sales
- ✓ R3 million **dividend revenue**
- ✓ **Declining interest revenue** -> declining cash reserves
- ✓ **Improvement of fair value adjustment** on plantation valuation
- ✓ **Increase in finance costs** -> increased usage of credit facility (CAPEX) -> cash preservation
- ✓ **Operating loss & Loss before taxation** -> better than 2010

5.2. Balance sheet overview

The year-on-year performance (2011 vs. 2010) is as follows:

- ✓ **Decline in biological assets** -> fair value adjustment
- ✓ **Decline in PPE** -> cost savings initiatives also applied to CAPEX
- ✓ **Increase in Intangible assets** -> ERP licences
- ✓ **Reduction in surplus apportionment account:**
 - Safcol pension fund -> Safcol provident fund {Partial contribution holiday; Enhancement on member benefits (tax)}
- ✓ **Decline in inventory** -> wetdeck stock fully sold
- ✓ **Increase in accounts receivable** -> extended credit terms (lumber customers)
- ✓ **Refunds received from SARS**

Description	31 March		YOY% variance
	2011	2010	
(amounts in rand thousand)			
Non-current assets	3 093 271	3 197 873	-3%
Current assets	341 014	375 834	-9%
Non-current assets held for sale	295 192	239 280	23%
Total assets	3 729 477	3 812 987	-2%
Equity	2 818 479	2 895 067	-3%
Non-current liabilities	826 529	843 757	2%
Current liabilities	84 469	74 163	-12%
Total equity and liabilities	3 729 477	3 812 987	-2%

- ✓ **Declining retained income** -> losses experienced
- ✓ **Other financial liabilities** -> ERP obligation
- ✓ **Declining deferred tax** -> fair value adjustment
- ✓ **Increasing trade and other payables**

5.3. Cash flow overview

The year-on-year performance (2011 vs. 2010) is as follows:

- ✓ **Increased receipts** -> increased revenue
- ✓ Declining interest revenue & Slight increase on dividend revenue
- ✓ **Tax refunded** = R5.4 million
- ✓ **Lower investment on PPE**
- ✓ **Increase investment – Intangible assets** (ERP licences)
- ✓ **Investment in non-current assets** held for sale (Singisi rights offer + loan repayment by MTO)
- ✓ **Increase in alternative funding** ->Increase in financial liabilities – ERP and Increase in instalment sale agreements – normal operational CAPEX

Description	31 March	
	2011	2010
(amounts in rand thousand)		
Cash flows from operating activities	5 314	-104 028
Cash flows from investing activities	-49 991	-63 611
Cash flows from financing activities	18 853	-1 545
Cash and cash equivalents	100 570	126 394

Cash movement for the year
(Outflow) R25.8 million
(2010: R169.2 million)

5.4. Investments in privatized entities

Description	% Shareholding
Siyaqhubeka Forests (Pty) Ltd	25%
Amathole Forestry Company (Pty) Ltd	16%
MTO Forestry (Pty) Ltd	16%
Singisi Forest Products (Pty) Ltd	16%

✓ **The value of the investments:**

- 2011: R295 million
- 2010: R239 million

✓ **Dividends received:**

- Siyaqhubeka Forests

5.5. Funding & borrowings levels (incl. maturity profile)

✓ Funding levels @ 31 March 2011 = R256 million

Facility Type	Provider / Funder	Actual Utilised	Funding Available
Multi-option facility - Direct facilities (Overdraft facility, overnight facility) - Indirect facilities (letters of guarantee) - Derivative facility (forward exchange contracts)	Nedbank	R0	R100 million
Asset based finance / Revolving credit line facility	Nedbank	R4.3 million	R55.7 million
Investments and Cash	Own Resources		R100.6 million

✓ Borrowing levels @ 31 March 2011 = R21 million and maturity profile is as follows:

Funder	Balance as at 31 March 2011	Maturity Profile				
		2011	2012	2013	2014	2015
Nedbank	R5 435 424	R-1 030 143	R-1 222 064	R-1 222 064	R-1 222 064	R-739 090
Oracle Finance	R16 479 714	R-7 300 000	R-4 614 857	R-4 564 857	R0	R0

6. Sustainable forests management

Performance Against Targets

Key performance indicator	31 March 2011		31 March 2010
	Actual	Target	Actual
Area of forest under management			
Total gross stocked area, in hectares, including temporarily unplanted areas	139 000 ha	140 000 ha	140 000 ha
Area, in hectares of the above, under saw log management objectives	131 000 ha	≥ 100 000 ha	131 787 ha
Temporarily unplanted area in SA	2.1%	3%	New (2011)
Area of forest under management which is fully certified to FSC or programme for the endorsement of forests certification standard			
% of area of forest under management in South Africa	100%	100%	100%
% of total forest area under management in Mozambique	0%	0%	0%

- ✓ **Total gross stock area** is subject to excisions required by legislation, environmental concerns or other regulatory concerns.
- ✓ **All other KPIs are within target**
- ✓ **FSC certification maintained**

6. Sustainable forests management

Challenges to sustainable Forests management

- Fires remains main risk for our forests sustainability
- Other risks includes Pest and disease - Baboon damage
- Slow progress in resolution of land claims remains a challenge



Management of Fires

- **The “Mlilo” fire awareness campaign** was intensified and rolled-out to surrounding communities.
- **Under canopy burning**, assisted in reduction of fuel loads in compartments
- **Continued focus on fire management** resulted in reduction of area damaged by fire 468 ha in the reporting period v/s a 3 year average 7 654 ha.



Under canopy burning operation



Fire awareness campaign

6. Sustainable forests management

Baboon Damage

- ✓ **Baboon damage to pine plantations in the Sabie area escalated.**
- ✓ Due to seriousness of the problem especially in the Mpumalanga area, culling was reinstated in the reporting period.
- ✓ A total of 59 damage causing baboons have been culled in plantations where the damage was up to 70% per compartment.
- ✓ Culling was done as a last resort and in accordance with the agreed industry protocol on the control of problem animals.
- ✓ **NB: Only problem troops are culled, the rest roam free in our forests**



*Baboon damage to
Pine trees*

7. Enhanced developmental contribution

Performance Against Targets

Key performance indicator	31 March 2011		31 March 2010
	Actual	Target	Actual
Achievement of Forestry Charter transformation objectives			
B-BBEE contributor level	Level 2	Level 2	Level 3
Number of medium-sized businesses	3 plans approved	3 enterprise development opportunities approved	1 small enterprise created, 5 SME contractors created
Market access for small to medium enterprises			
% of volume of round wood sales sold by a price competitive sales process in accordance with revised marketing policy	84%	42.5%	58%
Number of community groupings with signed social compacts	11	10	6
Socio-economic spend per year	R6.3 million	R7m (>1% NPAT)	R6.6 million

- **BBBEE contributor level:**
 - ✓ **Company performed well:** management control; skills development; preferential procurement; socio-economic development pillars.
 - ✓ **Areas of improvement:** Employment equity (disabled employees; black managers @ senior & middle levels); Enterprise development

7. Employment as at 31 March 2011

South African Operations:

Type of employment	2011	2010
Permanent*	1 933	2 021
Fixed-term	52	99
Total	1 985	2 120

**The above figure includes four expatriates seconded to IFLOMA as noted in the next table.*

Mozambique Operations – IFLOMA:

Type of employment	2011	2010
Local employees**	698	699
Expatriates	4	4
Total	702	703

*** Actual number of IFLOMA employees excludes four expatriates*

- **The 1933 permanent employees includes:**
 - 16 people with disabilities
 - 389 female (20%)

7. Enhanced developmental contribution

Summary of the Socio Economic Development Projects implemented

Project Description	Actual Costs
Support investments	
Information and communication technology for schools, equipment and furniture	R 943 619
Information and communication technology for the communities; equipment and furniture	R 12 022
Maths and Science enhancement	R 233 266
Information Centres; books and equipment	R 23 070
Environmental education	R 113 050
Health Care Support (buildings excluded)	R 35 113
Infrastructure Investments	
Early Childhood Development Centres	R 2 186 285
Information and Communication Technology Centres	R 268 693
School Classroom Buildings	R 985 414
Information Centres	R 358 441
Youth Development (Car Wash)	R 107 622
Plunge Dips	R 193 680
Small Business Development; gardening	R 209 180
Small Business Development; women empowerment	R 45 078
Water Supply; boreholes, tanks and installations	R 257 349
Social Compacts and Handing-over Ceremonies	R 283 892
Total	R 6 255 774

7. Enhanced developmental contribution

Highlights on Enterprise Development Projects implemented

- ✓ Through **DBSA partnership** a bee keeping cooperative was initiated.
- ✓ **Prefeasibility study** on green energy (biomass) was concluded.
- ✓ **Two timber frame housing** show units were built in Grabouw and Rustenburg
- ✓ **Four new forestry enterprise development** contractors were formed
- ✓ **A total of 302 jobs were created** through various enterprise development programmes.



Going forward : SAFCOL is actively driving the concept of timber frame buildings.

8. Outlook

Performance Against Financial and Commercial sustainability KPIs

The financial and Commercial sustainability KPIs for the period ended 30 September 2011:

Key performance area	Key performance indicator	Actual	FY 2012 Target
Financial Returns	EBITDA / Revenue	9.9%	9%
	ROE (excl. FV movements & translation gains/(losses))	1.8%	5%
Creditworthiness	Gearing ratio	6.2%	<50%
	Cash interest cover	-15.5%	2%
Working capital management	Current ratio	3.8	≤3
	Cash ratio	0.8	2

- ✓ The company's **cash reserves is continuing to decline.**
- ✓ The revenue generated is not sufficient to cover the operating costs
- ✓ The **cash flow from operations is a negative** R34.4 million
- ✓ The cash reserves declined by R28 million since beginning of 2012 financial year

8. Outlook

The focus on the year ahead is as follows:

- ✓ Implementation of the 2012 corporate plan
- ✓ Implementation of business turnaround plan + filling of key positions
- ✓ Cash preservation
- ✓ Implementation of an ERP system
- ✓ Continuous improvement of productivity
- ✓ Continued focus on socio-economic programmes -> upliftment of rural communities
- ✓ Closing the gaps – BBBEE verification
- ✓ Stakeholder Management + Resolution of land claims

9. Key risks and conclusion

A. Damages claim against SAFCOL and government

- Londoloza / Paharpur consortium
- R3.2 billion
- Government's decision not to continue with the previous privatisation process
- **Key individuals who dealt with the case are no longer within SAFCOL**

B. 61% of the land that SAFCOL operates on is under land claims

- Sustainability into continued existence of SAFCOL post land claims.

C. Financial losses – not sustainable

- Declining cash reserves is concerning and might impact on going-concern.



Thank you!

