



SAFCOL

South African Forestry Company Limited

Annual Report 2011



GROWTH THROUGH PARTNERSHIP



vision

Our vision is being a world-class, global business engaged in multi-functional forestry, revolutionising the integration of forests and communities.

mission

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

- Implementing needs-driven interventions; and
- 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 the all-inclusive equitable transformation of the South African forestry sector
- Commitment to meaningful partnerships with stakeholders
- Practising transparent and fair marketing
- Developing the downstream value chain; and
- Being environmentally responsible.

Achieving these, we will therefore be providing a green heritage, growth and socio-economic justice.

core values

Passionate about our forests, communities, customers and people

Social and environmental consciousness

Trust founded on integrity and loyalty

Equality, fairness and empowerment

Respect for diversity

Focus on innovation and excellence.



GROWTH THROUGH PARTNERSHIP

Part 1

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1. Group Profile



1.1 Strategic Overview

Mandate

The mandate of the South African Forestry Company Limited (SAFCOL) is determined by the Management of State Forests Act, No. 128 of 1992, and it is to ensure the sustainable management of forests and other assets within the SAFCOL Group and to enhance the value of the SAFCOL Group and play a catalytic role in the realisation of the State's afforestation, rural development and economic transformation goals.

Strategic themes

Financial and commercial sustainability

- To achieve returns which are acceptable to the shareholders
- To manage the business and engage in projects that preserve the gearing and liquidity ratios.

Sustainable forestry management

- 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.

Enhanced developmental contribution

- 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.

Key strategic goals

The key strategic goals identified to support the strategic themes that have been included in the SAFCOL Group corporate plan for 2011 to 2015 are as follows:

- Position SAFCOL's operations as an attractive business partner
- Create economically vibrant forest communities where people desire to live and wish to return to
- Fully embrace all aspects of the sector's transformation charter and rise above it
- Build, attract and retain skills
- Increase financial value by 50% (in real terms) to current and future shareholders
- Practise world-class, sustainable forest management
- Increase forestry area under management
- Increase value-added services to customers and B-BBEE participation in the industry
- Develop solid brands (SAFCOL, KLF and IFLOMA)
- Develop and invest in the downstream processing industry.

1.2 Core Operations

The Group's main focus is on the management of state-owned commercial plantations and it performs through the following operational subsidiaries: Komatiland Forests (Pty) Ltd (KLF), Industrias Florestais de Manica, SA (IFLOMA), Mountains to Oceans Forestry (Pty) Ltd, Kamhlabane Timber (Pty) Ltd and Temba Timber (Pty) Ltd.

Komatiland Forests (Pty) Ltd

Forests

KLF owns and manages the prime softwood saw log forestry assets in the Mpumalanga, Limpopo and KwaZulu-Natal provinces of South Africa and consists of 18 plantations covering a total area of 187 320,27 ha. Its main business is the conducting of forestry, timber-harvesting, timber-processing and related activities. KLF is one of the largest producers of high-quality saw logs in South Africa. The plantation stock consists of about 91% Pine, 7% Eucalyptus and 2% Acacia.

KLF has a research centre and nursery that are currently managing various trial plots in several plantations across the Limpopo, Mpumalanga and KwaZulu-Natal provinces. The nursery produces plants for all of the plantations operated by KLF.

Processing

KLF owns a processing sawmill, Timbadola sawmill, situated in the Limpopo province. The company has custom-cut arrangements with Ringkink, John Wright Veneer and eMpuluzi sawmills. Its second source of revenue is the sales of sawn timber.

Industrias Florestias de Manica, SA

IFLOMA is a public limited-liability company, registered in Mozambique and originally established in the 1980s as a government initiative. As part of the privatisation of state-owned enterprises in Mozambique, 80% of the share capital of IFLOMA was sold to KLF in 2004, the remaining 20% shares are held by the government of Mozambique through the Institute for the Management of Government Shares (IGEPE). IFLOMA is 100% consolidated due to an irrevocable option to acquire the remaining 20% interest.

The total landholding area is 23 600 ha in extent of which 16 618 ha is plantable for commercial forestry. The operations are located in the Manica province, an ideal location from which to serve markets in Mozambique, Zimbabwe and South Africa. IFLOMA consists of processing facilities at Messica, three plantations at Penhalonga, Bandula and Rotanda as well as a warehouse in Maputo.

1.3 Group Key Performance Indicators

The following table reports the performance against targets as per the shareholder's compact entered into between the SAFCOL board and the Department of Public Enterprises (signed 28 - 09 - 2010).

Element strategic intent	Key performance area	Key performance indicators	Long-term targets (until 2015)	Targets for year 2011	Actual achieved 2011
Financial and commercial sustainability	Financial returns	EBITDA / Revenue (EBITDA: Profit / Loss from operations before depreciation, amortisation, profit on the sale of interest in businesses, impairment of assets, dividend received, post-retirement benefit obligation (cost) / income, fair-value adjustments, income / (loss) from associates and net finance costs.)	15% (2014)	3%	-4% ^{Note 1}
		Return on equity (Net profit after tax / equity) (Equity: average reported total of capital and reserves.)	10%	10%	-5% ^{Note 1}

Element strategic intent	Key performance area	Key performance indicators	Long-term targets (until 2015)	Targets for year 2011	Actual achieved 2011
Financial and commercial sustainability	Creditworthiness	Gearing ratio (interest-bearing liabilities divided by primary (issued) capital).	<50%	<50%	1%
		Cash interest cover (Cash generated from operations after working capital changes, divided by net finance costs (net finance costs include finance costs, finance income and capitalised borrowing costs from the cash flow statement)).	2	2	-1 ^{Note 2}
	Working capital management	Current ratio (Current assets divided by current liabilities).	≤3	≤3	4 ^{Note 3}
		Cash ratio (Cash or cash equivalents divided by current liabilities).	2	2	1 ^{Note 4}
Sustainable forest management	Area of forest under management	Total gross stocked area, in hectares, including temporarily unplanted areas, and all subsidiaries (subsidiaries of subsidiaries) in which SAFCOL has a controlling equity stake, but excluding associated companies. ^{Note 5}	140 000 ha ^{Note 6}	140 000 ha	139 000 ha
		Area, in hectares of the above, under saw log management objectives.	≥100,000 ha	≥100,000 ha	131 000 ha
		Temporarily unplanted area in South Africa. ^{Note 7}	3%	3%	2%
	Area of forest under management which is fully certified to Forest Stewardship Council or Programme for the Endorsement of Forests Certification Standard.	Percentage of area of forest under management in South Africa, and all subsidiaries in which SAFCOL has a controlling equity stake, but excluding associated companies.	100%	100%	100%
		Percentage of total forest area under management in Mozambique.	100% (2014)	0%	0%

Element strategic intent	Key performance area	Key performance indicators	Long-term targets (until 2015)	Targets for year 2011	Actual achieved 2011
Enhanced developmental contribution	Achievement of Forestry Charter transformation objectives	B-BBEE contributor level as defined in the Department of Trade and Industries (DTI) Code of Practice.	Level 2	Level 2	Level 2
	Enterprise development	Number of medium-sized businesses (as classified by the DTI) created by 31 March 2014.	Three medium-sized businesses (2014)	Plans for three enterprise development opportunities approved	Three plans approved
	Market access for small to medium enterprises as defined per Forestry Charter and new entrants	Percentage volume of round wood sales sold by a price competitive sales process and in accordance with revised marketing policy. This is defined as cubic meters sold by competitive auction, / tender or / bidding process open to all eligible bidders, under a contract which is of a fixed duration, as a percentage of total roundwood sales, including all subsidiaries in which SAFCOL has a controlling equity stake, but excluding associated companies.	100% (2012)	42,5%	84%
	Social compact implementation	Number of community groupings (i.e. communities, local and traditional authorities and land claimants) with signed social compacts. The baseline number of community groupings identified as of 1 September 2009 is 18.	18 (2013)	10	11
	Transformation	Socio-economic spend per year	>1% of net profit after tax excluding plantation valuation per year (R7 million per year)	>1% of net profit after tax excluding plantation valuation per year (R7 million per year)	R6 255 774 15% <small>Note 8</small>

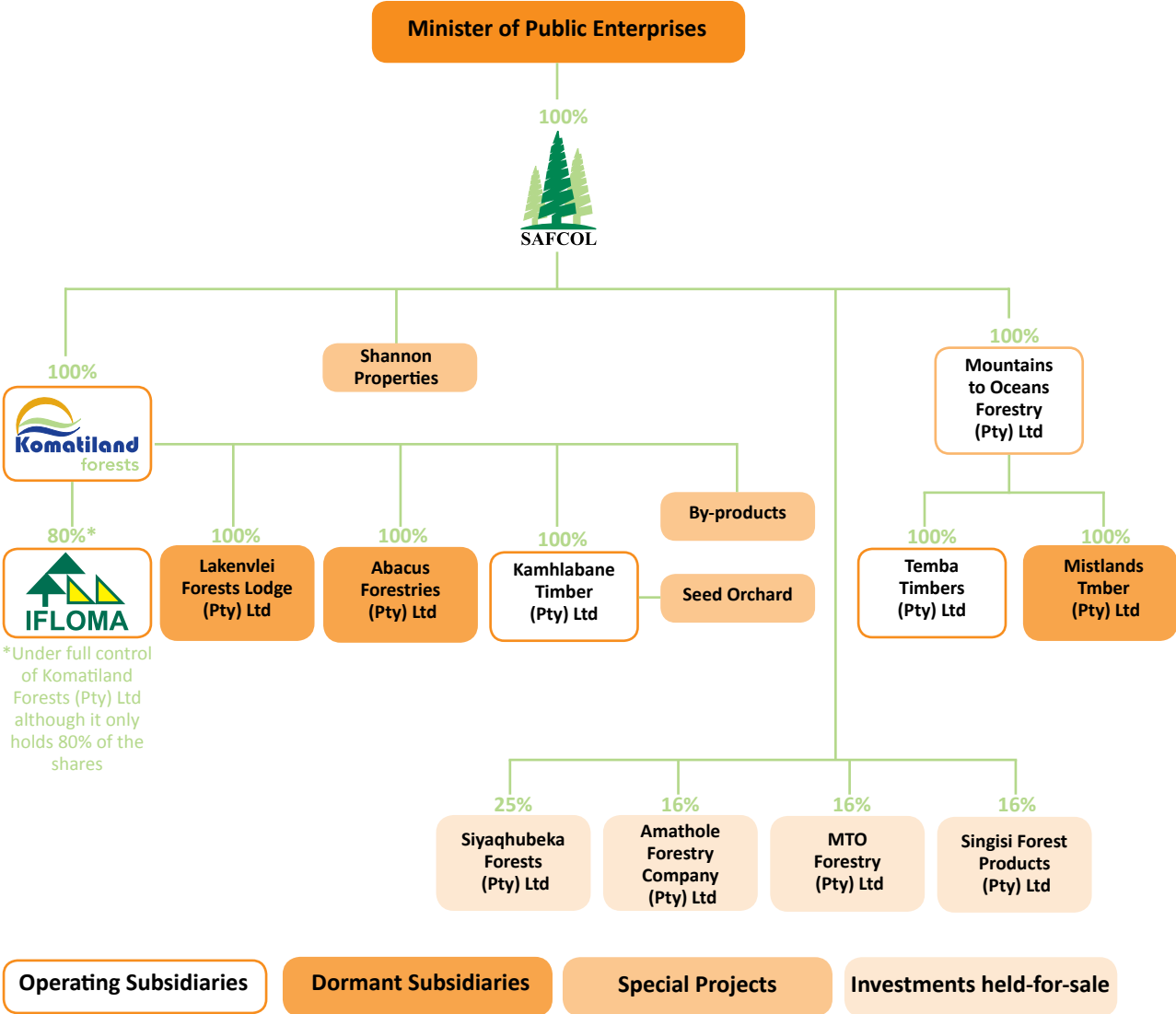
Note 1: The Group was not able to meet its financial target due to losses experienced during the period under review as result of lower revenue than anticipated. Although the Group did not meet its target, it has shown an improved performance against prior year.

Note 2: Negative cash flow from operations experienced during the current financial year due to the loss after taxation and increase in trade receivables as result of extended payment terms to customers and increased sales. It was anticipated that we will incur positive cash flows from operations that did not materialise.)

Note 3: Current ratio is higher than the target of ≤ 3 , mainly due to the increase in trade receivables as result of extended payment terms and increased sales.

- Note 4:** Cash ratio is influenced by cash and cash equivalents and current liabilities. Current liabilities is higher than anticipated, mainly due to: (a) the inclusion of the current portion of the ERP system liability; (b) provision for retentions and leave pay that was not anticipated; (c) increase in trade creditors at year-end; (d) rebate provision that was anticipated to be provided at the end of a 15 month period, but it was provided on a monthly basis. Although, the Group's cash balance amounted to R100.6 million as result of the cost saving initiatives implemented across the Group and improved sales, it is still lower than anticipated.
- Note 5:** The parties acknowledge that the land claims and the delineation (in terms of the National Water Act) processes currently under way might affect this in South Africa.
- Note 6:** Maintain during the course of the year the same area under management as per the closing balance of the previous financial year (subject to excisions required by legislation, environmental concerns or other regulatory process).
- Note 7:** As at 31 March 2011 (measured at year-end).
- Note 8:** The target of R7 million was not met due to some infrastructural projects which started close to the financial year end and was thus not completed. These projects are managed according to a project plan and will be completed in the next financial year.

1.4 Group Structure



1.5 Board of Directors



VN Magwentshu

Date of birth	25 May 1971
Service with SAFCOL	Appointed as Chairperson since 28 September 2010
Academic Qualifications	BSc (Mathematics and Statistics) BSc(Hons) (Statistics) MBA
Other boards on which the individual serves	Nampak Ltd – Non-executive Director Eastern Cape Development Corporation (ECDC) Peregrine Holdings Limited – Non-executive Director
Current employment	Self-employed



MJ Breed

Date of birth	30 July 1959
Service with SAFCOL	Appointed at SAFCOL as General Manager: Finance and CFO in April 1993 Appointed to the SAFCOL Board as Executive Director and CEO on 6 September 2002
Academic Qualifications	BCom (Hons) Chartered Accountant (SA)
Other boards on which the individual serves	Former Associate Companies Subsidiary Companies of SAFCOL Kindling Holdings (Dormant) RTP Trading (Dormant)
Current employment	SAFCOL



MM Manyama-Matome

Date of birth	18 April 1977
Service with SAFCOL	Appointed as Chief Financial Officer on 11 January 2010 Appointed to the SAFCOL Board on 28 September 2010
Academic Qualifications	BCom (Hons) (Taxation) Chartered Accountant (SA) MBA
Other boards on which the individual serves	Former Associate Companies and subsidiaries of the Group SAFCOL Provident Fund Board of Trustees Johannesburg Metropolitan Bus Services (Pty) Ltd Rural Housing Loan Fund (RHLF)
Current employment	SAFCOL



M Kharva

Date of birth	7 December 1975
Service with SAFCOL	Appointed to the SAFCOL Board on 28 September 2010
Academic Qualifications	Chartered Financial Analyst (SA) BCom Masters in Chemical Engineering
Other boards on which the individual serves	None
Current employment	Research analyst – Nedbank Capital



K Njobe

Date of birth	06 July 1970
Service with SAFCOL	Appointed to the SAFCOL Board on 28 September 2010
Academic Qualifications	MSc (Zoology) Certificate in Managing Technology Enterprises
Other boards on which the individual serves	South African Weather Service Board (Chair) Sasol Inzalo Public Limited (Non-Executive Director) Sasol Inzalo Public Funding (Non-executive Director) Amandla Esizwe (Pty) Ltd (Executive Director) AmaKubu Amatsha (Executive Director)
Current employment	Aveng Water

**N Medupe**

Date of birth	22 September 1970
Service with SAFCOL	Appointed to the SAFCOL Board on 28 September 2010
Academic Qualifications	Bachelor of Accountancy Chartered Accountant (SA)
Other boards on which the individual serves	City Lodge Metrofile PetroSA
Current employment	Indybo Consulting

**Prof R Hassan**

Date of birth	22 February 1953
Service with SAFCOL	Appointed to the SAFCOL Board on 15 September 2006
Academic Qualifications	BSc MSc Agric Econ, Sudan PhD in Economics, USA
Other boards on which the individual serves	Human Sciences Research Council (HSRC) Independent Science & Partnership Council (ISPC) of the CGIAR Stockholm Resilience Centre (SRC)
Current employment	Professor and director, Centre for Environmental Economics and Policy in Africa (CEEPA), University of Pretoria

**F Blakeway**

Date of birth	28 August 1962
Service with SAFCOL	Appointed to the SAFCOL Board on 28 September 2010
Academic Qualifications	BSc (Hons) (Life Sciences) MSc (Plant Biotechnology) Management Development Programme (Graduate School of Business)
Other boards on which the individual serves	Committee member of South African Institute of Forestry Member of advisory and back-stopping committee of Mondi/SAAA/Gatsby East Africa Tree Biotechnology projects Board Member of Kilimo Trust Vice-chairperson of National Forestry Advisory Council (NFAC)
Current employment	CSIR (Natural Resources and Environment)

**Adv G Malindi**

Date of birth	16 July 1960
Service with SAFCOL	Appointed to the SAFCOL Board on 28 September 2010
Academic Qualifications	BA LLB Industrial Sociology Law
Other boards on which the individual serves	Trustee of : TJS Family Trust TJS Houghton Trust Tikela Family Trust Mvelaphanda Investment Trust
Current employment	Johannesburg Judicial Bar

**A Abdo**

Date of birth	28 December 1976
Service with SAFCOL	Appointed to the SAFCOL Board on 28 September 2010
Academic Qualifications	Bachelor of Business Science (Hons) Chartered Accountant (SA) MBA (Cum Laude)
Other boards on which the individual serves	Atcor (Pty) Ltd
Current employment	Atcor (Pty) Ltd

1.6 Executive Committee

MJ Breed
(Refer to 1.5)

MM Manyama-Matome
(Refer to 1.5)



F de Villiers

Designation	Senior Executive: Marketing
Date of birth	8 December 1960
Service with KLF	1 May 1994 to date
Academic qualifications	BEng (Electronics)
Other boards on which the individual serves	Subsidiary companies in SAFCOL Group RTP Trading (Dormant) Kindling Holdings (Dormant)



I Gricius

Designation	Senior Executive: Legal Services
Date of birth	3 May 1968
Service with SAFCOL	12 December 1988 to date
Academic qualifications	Bluris LLB
Other boards on which the individual serves	None



LC Mossop-Rousseau

Designation	Senior Executive: Corporate Services
Date of birth	7 January 1963
Service with SAFCOL	1 August 2006 to date
Academic qualifications	BA BA (Hons) (Geography) Higher Diploma in Education Bluris
Other boards on which the individual serves	Minority shareholding companies in SAFCOL African Forestry Forum (International NGO) External Advisory Group on Forests to the World Bank Food and Trees for Africa Subsidiary companies in SAFCOL Group



Dr SP Makhsha

Designation	Senior Executive: Transformation
Date of birth	19 October 1974
Service with SAFCOL	1 June 2009 to date
Academic qualifications	Public Relations Management – Unisa Programme in Development Management – UCT Executive Development Programme – Wits Strategy Formulation & Implementation - Harvard MBA (Business Administration) DBA (Business Administration)
Other boards on which the individual serves	Construction Industry Development Board (CIDB) National Film and Video Foundation (NFVF) South African Broadcasting Corporation (SABC)

**LN Mudimeli**

Designation	Senior Executive: Corporate Communication and Liaison
Date of birth	5 October 1974
Service with KLF	1 April 2003 to date
Academic qualifications	BSc Natural Sciences BSc (Hons) Zoology MDP
Other boards on which the individual serves	Forestry South Africa Minority shareholding companies in SAFCOL Group

**AA Mutshinya**

Designation	Senior Executive: Human Capital Management
Date of birth	31 March 1964
Service with SAFCOL	1 September 2006 to date
Academic qualifications	BAdmin BAdmin (Hons) Industrial Psychology Certificate Programme: Organisational Development Consulting
Other boards on which the individual serves	None

**JHR van der Sijde**

Designation	Senior Executive: Forests
Date of birth	15 June 1958
Service with KLF	3 January 1976 to date
Academic qualifications	BSc (Hons) Forestry MSc Forestry MBA
Other boards on which the individual serves	Subsidiary companies in SAFCOL Group

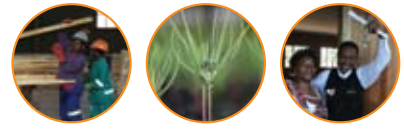
**Dr GJ Wessels**

Designation	Senior Executive: Strategy, Planning and ICT
Date of birth	6 September 1957
Service with SAFCOL	1 June 2006 to date
Academic qualifications	PhD (Mineral Economics) MSc (Applied Mathematics) BSc (Hons) Operations Research BSc Mathematics and Applied Mathematics BCom (Hons) Financial Accounting Certificate in the Theory of Accountancy Chartered Accountant (SA)
Other boards on which the individual serves	None

**P Chetty**

Designation	Senior Executive: Enterprise Development
Date of birth	5 December 1969
Service with SAFCOL	19 January 2009 to date
Academic qualifications	BCom CIA
Other boards on which the individual serves	Subsidiary companies in SAFCOL Group Minority shareholding companies in SAFCOL Group

2. Chairperson's Statement



I am pleased to report that the Group has shown signs of recovery despite the tough economic and market conditions experienced during the 2010 financial year.

Introduction

The review period marked the first year in which the Group mainly focused on restoring the shareholder value by ensuring that it returned to a financial and commercially sustainable position. The main focus was on putting strategies into place for improving the Group's financial performance while implementing all other strategic objectives outlined in the shareholder's compact as well as the strategic intent statement by the shareholder.

The economy and economic review

There were no significant improvements in the timber trading conditions; however, the domestic demands for timber have shown a slight improvement as demonstrated in the Group's performance. Log markets have not shown any improvement and the Group is considering various options to optimise returns from the lagging market. The Group's performance necessitated a revision of the original corporate and business plan with the view to assist the Group to move from a loss-making position to sustainable profitability in the next five years.

The Group's revenue in the current financial year continued to be under pressure; however, it has shown significant improvement as compared with the previous financial year. The year marked an end to a majority of long-term timber sales contracts which have been in place since the inception of SAFCOL, and the beginning of an open-market process for timber sales.

Management continued its focus on cost containment initiatives to ensure that the bottom line improves. This has resulted in a lower operational loss reported, as compared with the previous period, which clearly demonstrates the signs of recovery by business. There were no job losses to date and the employees, excluding the executive management, received a salary increase.

Transformation

We pride ourselves on the fact that the Group continued to deliver on its transformational goals despite the difficult trading conditions experienced during the period under review. The Group attained a level 2 B-BBEE contribution, based on the recent verification audit which demonstrates its leadership in transformation within the forestry industry. SAFCOL continued its focus on making a difference in the lives of the rural communities within its operational areas, and made noticeable progress in the implementation of socio-economic and economic development plans.

Corporate governance

The SAFCOL board was reconstituted during the year under review resulting in the appointment of seven new non-executive directors and a new executive director.

SAFCOL has adhered to the statutory duties and responsibilities imposed by the Companies Act and augmented by the Public Finance Management Act (1 of 1999). In addition, SAFCOL is guided on best practices by King III and the Protocol on Corporate Governance in the Public Sector, as well as international developments. SAFCOL's systems and processes are regularly reviewed to ensure that

compliance is monitored in this regard.

Some committees were restructured, as follows:

In addition to the existing Audit and Risk Committee; the Finance and Investment Committee, Human Resources and Remuneration Committee, the Transformation Committee (Transco) ceased to exist and its mandate has been split between Human Resources and Remuneration committee and the Finance and Investment Committee.

Further work is continuing with regards to the Memorandum of Incorporation which is being reviewed together with the Department of Public Enterprises.

A new shareholder's compact was signed at the annual general meeting by the outgoing board. A board induction was held with the new board whereby the shareholder's expectation, regulatory frameworks and operational matters were brought to the attention of the board.

SAFCOL has considered and implemented to the extent applicable to state-owned enterprises, the provisions of the Companies Act of South Africa, 1973 and the principles of King III.

Privatised entities

No changes occurred in the Group structure and investments held-for-sale in the year under review. SAFCOL still holds minority shares in Siyaqhubeka Forests (Pty) Ltd (25%), Amathole Forestry Company (Pty) Ltd (16%), MTO Forestry (Pty) Ltd (16%) and Singisi Forests Products (Pty) Ltd (16%). We are awaiting Government's policy decision for the disposal of the remaining shareholding of the investments held-for-sale in future.

Outlook

The board looks to the future of the Group with cautious optimism. The new corporate and business plan which includes initiatives to turn around the Group was submitted to the shareholder. The focus in the 2012 financial year will be the implementation of the turnaround plan and to continue the socio-economic programmes and the upliftment of rural communities. We will work tirelessly to turn the business around to a situation of sustainable profitability. We believe that SAFCOL operations are suitably positioned to advance government's mandate enshrined in the new growth path.

Clarity on the future role of SAFCOL by the Minister of Public Enterprise, following Government's decision taken in 2009 of putting the privatisation of SAFCOL on hold, will bring certainty to the entire Group and its employees and will assist the board and management in steering the Group back to its commercial viability.

The slow progress in the resolution of land claims continues to hamper operations and dampens the relationship between SAFCOL's main operational subsidiary, KLF, with claimant communities. Interventions from relevant government departments are crucial in finding resolution to the settlement or refusal of the pending land claims. We continue to offer the Department of Rural Development and Land Reform the well-needed technical support and resources that will assist in the finalisation of claims.

Acknowledgements

The board extends its appreciation to Minister Barbara Hogan, the former Minister of Public Enterprises, and Deputy Minister Enoch Godongwana for their direction and support, to the board to advise Government and provide oversight, direction and leadership to SAFCOL management during the year under review.

We are also grateful to the current Minister of Public Enterprises, Minister Malusi Gigaba, Deputy Minister B Martins and Director General T Matona and his team who came with a renewed and fresh look at the role of SAFCOL in the developmental state and the contributions it could make to the new

growth path initiative. As the board, we are committed to working together with the Minister, his Deputy Minister and their Department towards ensuring that the SAFCOL Group achieves its role in accordance with shareholder expectations and stakeholder requirements.

I would also like to express my gratitude to my fellow board members, management team and all the employees at SAFCOL for having shown their skills, resilience and dedication during these challenging times and very difficult trading conditions.



VN Magwentshu
Chairperson

3. Chief Executive's Report



The financial year under review is the second year since the privatisation of SAFCOL has been put on hold.

Overview

The Group has continued with its focus on repositioning itself to be able to respond to the growth and development opportunities that have been identified within the year-business plan, which ends in 2014. The year marked the end of the long-term sales contracts which have been in place since the inception of SAFCOL. The implication is that the volume uptake is no longer guaranteed and the new marketing process was introduced. Logs were sold on an open-market price basis. The delivered-to-mill strategy was started which ensured that saw logs were delivered to the clients in certain areas. The credit terms were also reviewed to ensure that the sawn-timber sales revenue is enhanced.

The detailed business process review was conducted in order to identify the ideal structure and possible consolidation of responsibilities. The output from the process was used in drafting the business turnaround plan which was presented to both the board and the shareholder during the period under review. The restructuring of the business processes as well as the upgrading our enterprise resource planning (ERP) systems is part of our continued improvement processes and implementation will start in the 2012 financial year.

Performance review

The Group focused on the implementation of its initiatives as identified in the corporate plan and a substantial part of the year was spent on exploring initiatives that can be introduced to turn the Group around to financial and commercial sustainability levels.

Financial and commercial sustainability

The Group's new marketing process and the cost containment initiatives that were put in place ensured that the Group's performance improved despite the harsh economic conditions.

The Group incurred a loss before taxation excluding the effect of the fair-value adjustments of R69 million compared with a loss of R246 million in the previous year. The loss to date has been positively influenced by the increase in external sales revenue of R274 million (2010: R425 million decline). Continued cost-saving initiatives implemented in the previous year also contributed positively to the Group's financial position. There were slight contributions to other income due to the dividend received from one of the minorities as well as a penalty income received for the failure to take up the volumes as per the agreement.

Sustainable forests management

The Group has continued to manage its South African forests on a sustainable basis and in a manner compliant with the requirements of relevant laws and regulations. This was evident from the retention of the FSC certification during the period under review.

Processing

The loss trend within the Group continued even within the processing divisions; however, it has improved as compared with the previous financial period. The processing divisions consists of Timbadola sawmill and three custom-cut operations. SAFCOL continued with its relationship for custom cut whereby the agreements with Ringkink, John Wright Veneer and eMpuluzi sawmills continued.

IFLOMA

IFLOMA also incurred a loss during the period under review. The company commissioned a post-capital investment review to assess the performance of IFLOMA against its original business plan and an action plan has been prepared from the report that was issued at the end of the review period. The focus has been the rehabilitation of plantations which were damaged at the stage of acquisition and further exacerbated by the 2007 cyclone damages and 2008 fires.

Enhanced developmental contribution

The Group continued with its focus of being a leader in transformation within the forestry industry, as envisaged in the Forestry Charter. This included the implementation of marketing policies which were aimed at improving access to supply to SMMEs, B-BBEE firms and new entrants.

I am proud to report that both SAFCOL and KLF achieved a Level 2 B-BBEE contribution level as per the Forestry Charter during the recent verification audit. The Group established two co-operatives during the period under review, as part of its enterprise development initiatives. The memorandum of understanding was renewed between SAFCOL and the Development Bank of South Africa and this will be instrumental in bridging economic and social gaps within our areas of operations and creating vibrant rural communities. Partnerships with rural communities were entered into through the signing of five social compacts (2010: six compacts). Various socio economic development (SED) projects have been implemented in areas where social compacts were signed. About R6 million was spent on SED projects (2010: R7 million).

Challenges

The major challenge during the year has been the Group business model which was not flexible enough to adapt to the changing economic circumstances. The land claims, which have not yet been resolved, continue to be a concern and might impose some risks to our operations. The loss of productive land has been experienced and remains a threat going forward. The natural disasters such as rain damage and baboon damage experienced during the year also remain a challenge.

Outlook

The focus ahead is on the implementation of the corporate plan and the business turnaround plan. I am comfortable that the initiatives identified will be realised during the period ahead and as stated earlier, the focus will be on the implementation of an ERP system which will be instrumental in improving the efficiencies within the Group and the business process renewal. Going forward, it will be critical that we put our efforts in continuously improving productivity in order to overcome the current challenges resulting from the difficult trading conditions.

Acknowledgements

I would like to thank management, operations and employees for their concerted efforts and willingness to work tirelessly in ensuring that as far as possible we have uninterrupted delivery of timber to our customers. Most importantly, the efforts by operations to empty our wet decks and to ensure that timber from the decks were delivered to our customers – it was a job well done.

As a Group, we are looking forward to working with our new board members in driving the business to success.

A handwritten signature in black ink, appearing to read 'MJ Breed', with a stylized flourish underneath.

MJ Breed

Chief Executive Officer

4. Chief Financial Officer's Report



The 2011 financial year has marked the second financial year since its inception in which the SAFCOL Group has experienced losses.

Introduction

The performance for the year under review has, however, improved compared with the 2010 financial period. The improved performance is mainly due to the new initiatives that were introduced during the year to enhance sales performance and the continued, concerted efforts in cost-saving initiatives. Revenue performance has continued to be below its sustainable levels since the global economic recession; however it has significantly improved compared with the previous financial year.

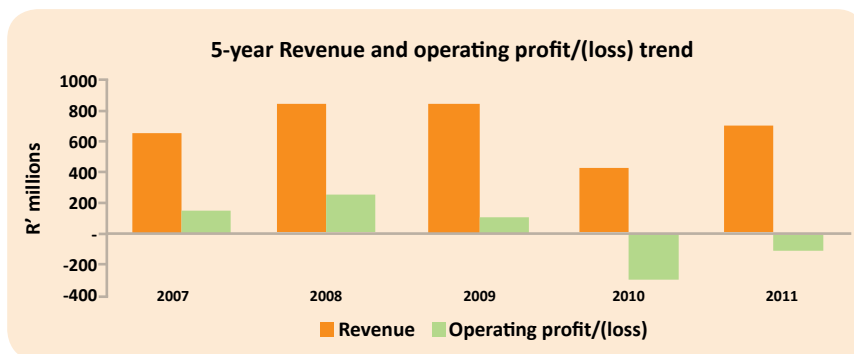
The focus for the year has been on restoring the Group's profitability, as well as on the close monitoring of the liquidity and gearing levels. This has resulted in the continuous assessment of the capital expenditure to ensure that the credit facility is utilised and the cash resources preserved as far as possible. The efforts implemented have resulted in an improvement in the loss before taxation of R486 million compared with the previous financial year.

The investment in the following former associates: Siyaqhubeka Forests, Amathole Forestry Company, MTO Forestry and Singisi Forest Products, are disclosed in the annual financial statements as non-current assets held for sale. The investments will continue to be disclosed as such until a directive by our shareholder is finalised in terms of the disposal of thereof. The value of the investment is R295 million (2010: R239 million).

Five-year financial overview

The trend over the five-year period is as follows:

Revenue and Operating Profit/(loss)



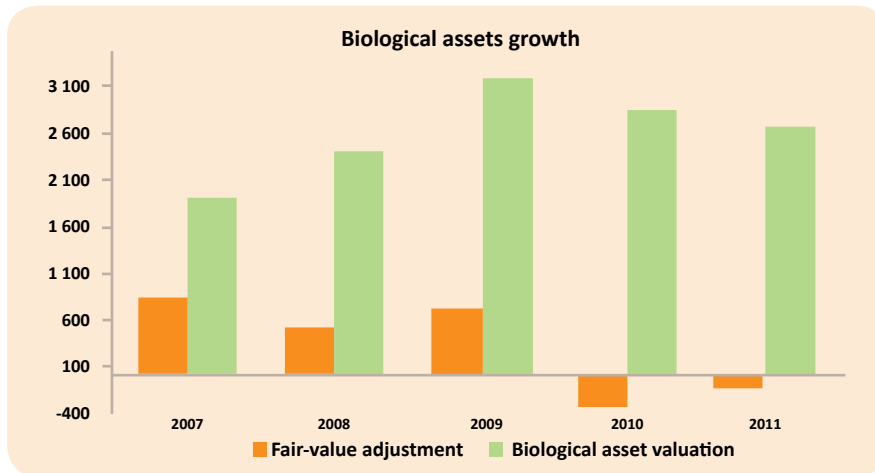
The trend for revenue over the past five years has been upward, except for the 2010 financial year. There was an improvement in the revenue performance during the current financial year as compared to the last 5 years yearly average of R696 million. The current financial year's recovery was mainly due to increases in volumes sold. The volumes sold during the financial year is 1 154 927 m³ of logs which

represent a year-on-year increase of 56%, while the lumber sold increased by 82% (61 495m³) to 136 096m³ compared with the 2010 financial year.

The operating loss has improved by 71% as compared with the R278 million experienced during the 2010 financial year; however, the performance is still lagging behind the yearly average performance of the past five financial years.

Biological assets growth

The Group's major asset is the biological assets which are the plantations within our forests operations. The biological asset has grown from R2 billion (2007) to R3 billion (2011) despite the consecutive negative adjustments experienced during the 2010 and 2011 financial years. The five-year trend for the fair-value adjustments and the biological asset value is as follows:

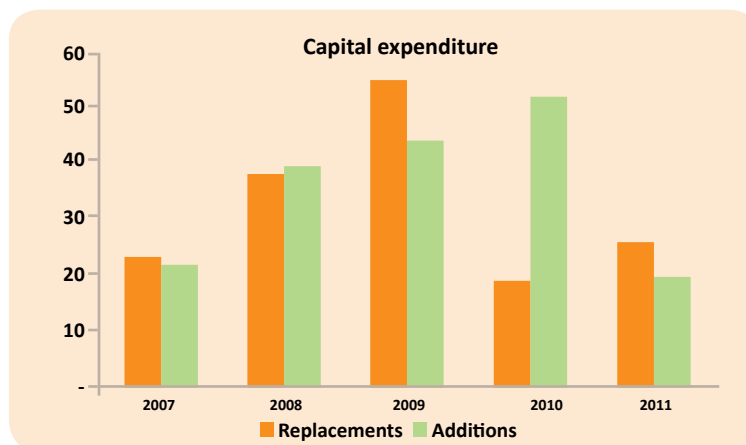


The fair-value valuation is performed using the discounted cash flow method. The following inputs are used in the calculation, namely: harvesting plans, timber prices, forestry costs, growth rates and discount rate.

The current year decrease in the biological asset valuation is attributed to the changes in the price assumptions, discount rate and costs used in the fair-value model.

Capital expenditure

The Group's capital expenditure approach over the past five years has been focused on additions and replacements of operational assets with an average yearly spend of R67 million.



The Group has embarked on an ERP business solution which aims at integrating the fragmented systems within the Group into a core ERP system. The software licences were acquired towards the end of the 2011 financial period and have been disclosed under the additions to intangible assets. The ERP system will provide the following benefits to the Group once it is fully implemented, namely: (a) enable strategic decision-making across teams; (b) improve operational decisions; (c) manage compliance and risk across the business; and (d) generate insight into internal and external data.

Operations

The Group has reported a loss before taxation of R103 million which has improved by 83% compared with the R589 million experienced during the 2010 financial period. The Group's improved results have been influenced by the following:

- An improvement of 63% on the revenue performance which amounted to R706 million for the year under review. The sales performance has been influenced by a year-on-year increase of 58% in sales volumes and higher than expected average lumber selling prices due to the product mix sold. The average selling prices of logs, poles and other were below the 2010 financial year levels.
- The fair-value adjustments on the biological assets were R83 million which represent a decline of 76% compared with the 2010 adjustments. The negative impact on the fair-value adjustment was mitigated by a positive adjustment of the fair value of non-current assets held for sale of R48 million and thus contributing positively to the loss.
- The key expenditure drivers for the Group have continued to be employment costs (32%); forestry contractors (21%); material management (20%) and asset management (13%). The employment costs for the year amounted to R256 million which represent an increase of 8% as compared with the previous financial period; and the current cost include adjustment contribution holiday of R14 million and other surplus adjustment which were aimed at the enhancements of benefits. The forestry contractors spending amounted to R166 million which represent a 4% year-on-year increase. Asset management of R99 million increased by 1% as compared with the previous financial period. The wet decks were cleared during the financial period upon selling of all timber that was stored due to the fires experienced in 2007 and 2008.
- R6 million was spent on socio-economic development initiatives which constitute 7% of the total operating expenditure for the Group.

The operating loss improved by 71% with a positive net cash flow from operating activities of R5 million compared with the negative cash flow of R104 million for the 2010 financial year.

Working capital management

The inventories have decreased by 28% compared with the previous financial period and this is mainly as a result of the aggressive drive by the Group to clear/sell the entire wet decks inventory by year-end. There was an insignificant portion which had to be written-off from the wet deck stock due to the deterioration of the timber.

The trade and other receivables of R131 million have grown significantly in line with the growth experienced on both the logs and lumbers sales. The balance consists of about 70% accounts receivables that are either current or 30 days old for both logs and lumber customers. The credit terms for the sawn timber/lumber customers were reviewed during the financial year, in order to promote increased sales. The provision for impairment on trade receivables is at 6% of the total trade receivables and has improved by 3% compared with the previous financial year's percentage. The other receivables have grown by 19% and had a closing balance of R17 million.

The current tax receivable has declined by 61% compared with the previous financial period and this is due to the tax refunds which relate to the 2009 tax year that both SAFCOL and KLF received.

The current liabilities have increased by 14% compared with the previous financial year, and this has been significantly influenced by the current portion of the ERP system liability which is payable by June 2011. The trade and other payables increased by 5% to R73 million compared with the 2010 financial

year and this is attributable to increased trade payables (14%) and accruals (51%). The provisions have decreased by 5% and consist mainly of: incentive bonuses, land lease and product claims.

Debt and maturity profile

The Group had outstanding debt (excluding the current portion) of R13 million at 31 March 2011 which is mainly related to the asset-based facility utilised on the operational assets acquired, as well as an obligation (vendor financing) for the ERP system which is payable within the next three years ending in 2014. The funding utilised is mainly on the capital portion, as the VAT portion is financed from the Group's own resources.

Cash flows

There have been indications of recovery in the business, which resulted in a positive net cash inflow from operating activities of R5 million. This is a major improvement compared with the cash outflow of R104 million realised for the 2010 financial period. The positive results are attributable to improved cash receipts from customers; taxation received; dividends received and less cash paid to suppliers and employees.

Investing activities have been significantly influenced by the cost-savings initiatives which were extended to operational capital expenditures. This has resulted in a year-on-year decline of 58% on the investment made in operational CAPEX. The Group put controls in place to ensure that only critical CAPEX was acquired during the period. The major acquisition made was the ERP software (intangible asset) which amounted to R16 million during the period under review.

Financing activities have shown a positive R19 million due to an increase in borrowings for the assets that qualified for the asset-based credit facility, as well as the vendor financing that was utilised for the ERP system.

In conclusion, all activities have resulted in the cash and cash equivalents balance of R101 million which represents a 20% (R26 million) year-on-year decline.

Outlook

The focus going forward will continue to be cost containment and the achievement of all the targets set within the corporate plan which will ensure that the Group is returned to a financially and commercially sustainable position. The funding strategy will be revisited to ensure that appropriate funding is obtained for significant projects that will be approved by the shareholder during the 2012 financial year. The implementation of the ERP system will be under way and as such the focus will be to ensure that all the financial obligations of the Group are honoured both on the software, implementation and change management agreements. The preservation of cash, as far as possible, will continue to be a focal point within the Group.



MM Manyama-Matome
Chief Financial Officer

5. Operational Performance Review



Review of the performance of the Group with reference to the operations under Komatiland Forests and IFLOMA as main operating subsidiaries of SAFCOL.

5.1 Forestry Operations

Forestry operations process model



Continuous focus on fire management and fire awareness resulted in a minimal area damaged by fire. Silvicultural activities received dedicated attention, and weeding, tending, pruning and thinning were carried out in accordance with the year plan. Replanting of burnt areas and temporary unplanted areas (TUP) was done and at year-end, the TUP was reduced.

Fire management and fire damage

The Mlilo fire awareness campaign road show visited 69 schools in 2010 calendar year (2009: 47 schools) in the communities surrounding KLF plantations. The “0860 NO FIRE” telephone number, together with the “bokkie” mascot, ensures that the public reports fires

and is more conscientious with regard to the dangers of wild fires and their own safety.

Management remains positive that the focus on weeding, fire management programmes, under-canopy burning, the Mlilo fire awareness campaign and especially closer interaction with neighbouring communities through formal social compacts will reduce the risk of hectares of land being lost due to fires.

Pests and diseases

Damage to pine trees by the wood wasp *Sirexnoctilio* was found at the Ngome, Uitsoek, Belfast and Redhill plantations. Monitoring of dying trees and the deployment of biological control agents were done in the Ngome and Belfast plantations. After a number of years of the release of nematodes in Ngome, a very high background parasitism was achieved. The Sirex control programme is managed by a steering committee consisting of members appointed by the forestry companies, the Department of Agriculture, Forestry and Fisheries (DAFF), representatives from Forestry and Agricultural Biotechnology Institute (FABI) and the Institute for Commercial Forestry Research (ICFR).

This committee is focused on coordinating four main components aimed at ensuring that appropriate measures are developed and implemented to minimise the threat of Sirex:

- Operational control of Sirex through the deployment of biological control agents
- Monitoring the extent and spread of Sirex in South Africa
- Communication to all stakeholders
- Research.

Pitch Cancer caused by the fungus *Fusarium circinatum* which resulted in high mortalities in *P. patula* compartments was minimised in the previous year by the use of the resistant hybrid *P. patula* x *P. tecunumanii*. All this was made possible by our membership of and participation in Central America and Mexico Coniferous Resources Cooperative (CAMCORE), FABI and the ICFR.

The latest serious threat to Eucalyptus trees in South Africa, *Leptocybe invasa* (gall-inducing wasp) spread rapidly through the country and recently became active at our IFLOMA plantations. The best available option to deal with the growing *L. invasa* invasion is via biological control. A team from the tree protection cooperative programme (TCP) recently collected a very promising parasitoid wasp (*Selitrichodes*) that can be used for this purpose. It is under quarantine at the University of Pretoria (UP) experimental farm with a planned release by mid-2011.

Baboon damage

The escalation of baboon damage to pine plantations in the Sabie area continues to be a serious concern. New baboon damage was recorded at Bergvliet, Brooklands, Uitsoek, Berlin and Nelshoogte plantations. The management of baboon damage has necessitated

management interventions geared at the reduction of damage levels. By using the latest technology in remote sensing, KLF is gathering information on the habitat utilisation and movement of specific baboon troops damaging plantations. An in-house research and monitoring programme is in place to gather scientific data that guides management decisions and grants insights into possible solutions to this problem.

KLF participates in the baboon damage working group (BDWG), an industry forum with the objective of finding a sustainable solution to baboon damage. Initiatives are under way for the appointment of a dedicated scientist to lead a new programme under the auspices of the ICFR that would focus on the management of damage-causing animals in plantations. Forestry South Africa is sponsoring this initiative and the initial focus will be on baboons as a damage-causing animal group.

Sabie Research Centre

The Sabie Research Centre is situated at the Tweefontein Plantation and its successes are achieved by means of a well-structured tree breeding programme for different species and hybrids.

The hybrid programme has successfully used the hybrid *P. patula* x *P. tecunumanii* on a commercial basis. This hybrid has proved to be excellent in terms of volume growth and tolerance to *Fusarium*. The centre also manages the Palm Ridge research farm in Natal and since 2008 *P. elliottii* seed orchard and two progeny trails were established.

The main activity at the centre revolves around tree improvement, focusing on increased volume growth, improved stem form and branching characteristics, disease tolerance and good wood properties. Other activities include production, storage, testing and distribution of improved seed, as well as research into somatic embryogenesis, new nursery practices and growth and yield modelling.

5.2 Processing Operations

Processing operations process model



Custom cut

The current custom-cut operations, which include John Wright Veneer, eMpuluzi and Ringkink sawmills, have experienced a tough year in the difficult market conditions which affected the timber industry overall. Despite these challenging circumstances, the combined custom-cut log intake contribution amounted to around 170 000 m³ and R140 million in chips and lumber sales turnover.

KLF's intention is to provide employment and help improve socio-economic conditions in these very poor rural areas by means of this custom-cut arrangement.

Timbadola sawmill

The intake volume for the year was 107 997 m³ versus a budget of 120 000 m³. The net recovery was 47% compared with a budget of 48%, with wet mill recovery of 53% and dry mill recovery of 89%.

The sales volume for the year at Timbadola Sawmill was 100% of the budgeted volume. Lumber sales started improving towards the middle of the financial year

resulting in lumber stock decreasing from 32 000m³ to just above 20 000 m³. In the year under review, there was an improvement in the sale of chips and shavings respectively.

Off-site storage of products at Green Gold in Babelegi, Shefeera and at Blyde Sawmill was still required to relieve pressure on available storage space at Timbadola. Additional capacity was built at Timbadola to store the finished product and to prevent further hiring of stores. We envisage that both the Shefeera and Babelegi stores will be emptied in the next financial year. During December 2010 we experienced heavy rains at the Babelegi stores resulting in the flooding of the buildings, damaging 1 100 m³ of lumber.

A slowdown in the building market resulted in a management decision to reduce overtime in order to save costs and to balance production with sales, thereby avoiding the build-up of lumber stock. However, with the market improving, we concentrated again on cutting at full production and also cutting products in demand. Our cutting strategy resulted in

achieving higher recoveries but lower throughput. A major breakdown in the frame saw took three weeks to repair.

In the year under review, we successfully completed the upgrading of the wet and dry mill waste programmable logic controllers (PLC) and the chipper-canter PLC.

Best operating practices were developed for the sawmill processes to ensure that our workforce is more compliant in terms of safety and production standards.

5.3 Marketing Performance

Round wood logs

During the year under review, the market for round logs was extremely challenging, but despite this, KLF managed to sell 1 384 482 m³ of round wood (including internal transfers of logs to own and custom-cut processing plants) compared with 945 040 m³ in the previous financial year.

The board approved a 15-month penalty guarantee deal and this, as well as the rebate package deal, resulted in improved performance. Not only did these schemes play a role in achieving the annual volumes, but they also ensured consistent off-take from customers.

During 2011 the wet decks were emptied. Less than 5% of the initial volume stored under wet decks after the 2007 and 2008 fires were written off due to timber quality deterioration and breakages.

At the end of March 2011, KLF had only one long-term contract remaining which will also terminate during the first half of 2011.

Lumber

KLF managed to achieve its best lumber sales volume and turnover in its existence in the year under review as a total volume of 134 335 m³ (2010: 71 542 m³) was sold.

These records were achieved under very difficult trading conditions resulting from a depressed construction (especially domestic home construction) market. The volume budget was exceeded but the average selling price did not materialise due to market conditions.

Direct lumber sales to customers remained at 82% of the total sales.

Credit management

The slowdown of several markets required that the sales and credit section put concerted efforts in recovering money. New clients had to be thoroughly credit vetted and the credit insurance company raised the bar on credit requirements to ensure minimum risk and avoid reckless credit lending per the National Credit Act.

5.4 Procurement of Goods and Services

As a state-owned entity, the Group strives to ensure that when procuring goods and services, it receives value for money at all times, that the suppliers are treated in a fair manner, and at the same time, it maximises economic empowerment and participation by small micro and medium enterprises in the procurement process.

In terms of economic empowerment, the Group ensures that the promotion, development and support of businesses from historically disadvantaged South Africans, in particular women, and people with disabilities, are enhanced. The Group is also sensitive to the need by establishing and supporting local and regional suppliers.

The Group has sought to establish a framework of acquiring goods and services for its use through the application of best-practice procurement strategies in order to assist the Group to meet its mandate.

The procurement section seeks to contribute to the containment and/or reduction of cost for the Group and ultimately its customers through competitive buying.

The procurement committee

A procurement committee has been established and meets regularly to consider procurement issues. The main purpose of the committee is to ensure that the following objectives of procurement are achieved:

- Broad-Based Black Economic Empowerment
- Value for money
- Open and effective competition
- Ethical and fair dealings
- Accountability and reporting.

B-BBEE and preferential procurement

The Public Finance Management Act (PFMA) and the Preferential Procurement Policy Framework Act, together with the Broad-Based Black Economic

Empowerment Act, provide for preference being given to individuals from historically disadvantaged categories of society (HDIs) in the procurement of goods and services, and the Group adheres to this legislation.

The Group is committed to the social and economic transformation of South Africa. It therefore supports government's objectives and initiatives as captured in various pieces of legislation, strategies and frameworks. It is further committed to finding creative ways to support government's Broad-Based BEE Strategy insofar as procurement is concerned.

The Group actively promotes and significantly increases procurement from BEE enterprises and Small Micro Medium Enterprises (SMMEs). This is achieved through the application of several strategic interventions, which also includes but is not limited to the development of forestry service providers and SMMEs through its enterprise development section.

Through various interventions, we are pleased to report that SAFCOL achieved a maximum of 20 points out of 20 points for Preferential Procurement according to the Department of Trade and Industry's Scorecard for B-BBEE during this financial year.

5.5 Human Capital Management

The main focus of the Group's Human Capital Division was to drive measures and implement strategies aimed at achieving one of the Group's strategic goals that relates to building, attracting and retaining skills, thus creating a competent and talented workforce. The Group continuously strives to become the employer of choice through the application and implementation of the best human resources.

Employment Equity (EE)

The Group embraces the challenges to meet and exceed the transformation requirements of Employment Equity as enshrined in the Employment Equity Act, B-BBEE code, Forestry Transformation Charter and other related regulatory frameworks. From the recruitment point of view, the policy decision is aimed at ensuring the recruitment of employees from previously disadvantaged candidates, in particular black women at senior level and persons with disabilities.

In the year under review, not all the numerical targets were met due to a number of factors, such as the

financial constraints that the Group faced, as well as the slow economic recovery in the forestry and timber industry. Hence a moratorium on recruitment was introduced, with only critical roles and replacements considered for appointments. Despite those challenges, the following Employment equity targets were achieved:

- Black females (Paterson grading of Grade C1 and higher): the Group maintained the previous year's percentage of 22% of the total workforce (2010: 22%)
- Black people (Paterson grading of Grade C1 and higher): the Group achieved a 3% improvement, thus 60%, as compared with 57% in 2010
- People with disabilities: The Group achieved 1% against a target of 2% (2010: 0,7%)

SAFCOL remains committed to transforming into a fully representative Group in terms of employment. Employment equity forums were initiated within the organisation. It is at these forums that appropriate plans are developed, consulted, executed, monitored and continuously communicated to employees.

Specific attention has also been given to promoting and encouraging women to work in the Group's core business, namely forestry. Initiatives to establish Women in Forestry forum are currently being initiated.

A summary of the workforce profile (permanent employees) was as follows:

Element		2011	2010
		%	%
Race	Black employees at managerial level	60	57
	Black employees at all levels	93	93
Gender	Women at managerial level	34	33
	Women at all levels	20	19
People with disabilities	All groups	1	1
Appointments	Black employees at managerial level	85	83
	Women at managerial level	31	55
	Black women at managerial level	15	50
Promotions	Black employees at managerial level	79	79
	Women at management level	21	47
	Black women at management level	21	42

Employee complement

At year-end, the South African operations employee complement for the combined Group was as follows:

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.

The Mozambican subsidiary, IFLOMA, had the following employee complement:

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

** Actual number of IFLOMA employees excludes four expatriates

A summary of the composition of the Group's permanent staff per occupational level was as follows:

SAFCOL / KLF: Summary of the headcount of permanent employees, as at March 2011.

Race and gender distribution

Occupational levels	Male					Female					Grand total	People with disabilities
	Indian	African	Coloured	White	Subtotal	Indian	African	Coloured	White	Subtotal		
Top management (Grade E - F)	1	3	0	4	8	0	2	0	2	4	12	0
Senior management (Grade D4 - D5)	0	2	1	13	16	1	4	1	2	8	24	0
Middle management (Grade D1 - D3)	0	19	2	29	50	0	5	0	8	13	63	1
Technical and admin officers (Grade C1 - C5)	0	65	1	26	92	1	36	6	17	60	152	2
Semi-skilled and discretionary decision-making (Grade B1 - B5)	1	647	1	6	655	2	57	7	25	91	746	8
Unskilled and defined decision-making (Grade A1 - A3)	0	723	0	0	723	0	212	1	0	213	936	5
Total permanent	2	1 459	5	78	1 544	4	316	15	54	389	1 933	16

A summary of the composition of the Group's fixed-term contract employees per occupational levels was as follows:

SAFCOL/KLF: Summary of the headcount of fixed-term employees, as at March 2011.

Race and gender distribution

Occupational levels	Male					Female					Grand total	People with disabilities
	Indian	African	Coloured	White	Subtotal	Indian	African	Coloured	White	Subtotal		
Top management (Grade E - F)	0	0	0	0	0	0	0	0	0	0	0	0
Senior management (Grade D4 – D5)	0	1	0	1	2	0	0	0	0	0	2	0
Middle management (Grade D1 – D3)	0	1	0	0	1	0	1	0	0	1	2	0
Technical and admin officers (Grade C1 – C5)	0	1	0	3	4	0	0	0	2	2	6	0
Semi-skilled and discretionary decision-making (Grade B1 – B5)	0	9	1	0	10	0	5	0	0	5	15	0
Unskilled and defined decision-making (Grade A1 – A3)	0	7	0	0	7	0	20	0	0	20	27	0
Total fixed-term	0	19	1	4	24	0	26	0	2	28	52	0

Training, bursary and study assistance

The following is a summary of an analysis of trainees who attended training courses at the Platorand Training Centre:

Year	B(M)	B(F)	W(M)	W(F)	I(M)	I(F)	C (M)	C (F)	Disabled(M)	Disabled(F)	Total (M)	Total (F)
2011	2 101	412	95	50	1	3	8	14	5	1	2 210	480
2010	2 450	531	150	66	1	4	8	16	7	3	2 616	620

Total training man-days (excluding ABET) is summarised as follows:

	2011	2010
Total man-days	8 048	10 725
Total trainees	2 690	3 236

Bursaries and study assistance

The process followed in allocating study assistance to employees was guided by a strategy that focused on the development of individual employees in order to address identified critical skills within the organisation. Bursaries were specifically aligned with employment equity objectives as well as the upliftment of adjacent communities.

Group	Gender	Bursaries			Study assistance		
		Total 2011	%	Amount in rand	Total 2011	%	Amount in rand
African	Male	20	38	867 579	35	51	859 008
	Female	31	60	1 763 854	21	31	214 662
Indian	Male	0	0	0	1	1	0
	Female	0	0	0	0	0	0
Coloured	Male	1	2	38 640	1	1	4 364
	Female	0	0	0	2	3	51 734
White	Male	0	0	0	6	9	131 991
	Female	0	0	0	3	4	32 357
Totals		52	100	2 670 073	69	100	1 294 116

Field of study	Non-employees	Employees	Total	%
Forestry and related research	45	19	64	54
Processing	1	5	6	5
Engineering and artisans	1	12	13	11
Corporate services	1	7	8	7
Environmental management	1	1	2	2
Planning	0	0	0	0
Human resources	0	15	15	12
Finance and administration	3	7	10	7
Marketing	0	3	3	2
Total	52	69	121	100

Skills development

SAFCOL focuses on building competencies and enhancing leadership capabilities of employees that are essential in the achievement of business excellence as well as on building skill and talent for the future staffing need.

The learning and development unit of the Group facilitates a range of development programmes aimed at equipping employees with the skills necessary to compete in a demanding and challenging environment. The programmes are in the form of learnerships, bursary and study assistance, coaching and mentorship, technical assistance, artisan training and Adult Basic Education Training (ABET).

SAFCOL continues to foster a relationship with professional education, training and development service providers to ensure that learning and development interventions provided are of a high quality and accredited by applicable regulatory bodies and Sector Education Training Authorities (SETAs). The continued partnership with the Forest Industries Education and Training Authority (FIETA) has been beneficial and resulted in the registration of 15 new candidates in General Education and Training in the year under review. Financial constraints resulted in no bursaries for new learners being offered and no recruitment being done for the General Education Training Certificate programme for the 2011 academic year.

Learnership	NQF	Current	Total
General Education and Training Certificate	Level 1	15	15
Harvesting certificate	Level 3	21	21
Silviculture certificate	Level 3	21	21
Processing certificate	Level 1	34	34
Total		91	91

(NQF level 1 is equivalent to grade 9 which is the entry to further education and training institutions and it is also equivalent to ABET level 4. NQF level 3 is equivalent to the National Senior Certificate.)

Internship programme

FIETA was also instrumental in assisting SAFCOL to introduce an internship programme. In the year under review, eleven unemployed graduates were placed on twelve-month contract programmes with a view to providing the interns with on-the-job learning opportunities and creating an environment where they could acquire the requisite skills and competences.

Interns have since been appointed and placed as follows:

Division	Number of interns
Finance	2
Marketing	1
Corporate Services (Procurement)	2
Human Capital Management	2
Processing	2
Communication	1
Strategy	1

Orientation and induction of the mentor and intern training was conducted at Platorand Training Centre from 15 February 2011 to 18 February 2011.

ABET

SAFCOL started with the ABET programme for own employees and has also extended the programme to accommodate candidates from communities living adjacent to its plantations.

ABET attendance is summarised as follows:

ABET: Number of trainees						
Level	Male		Female		Total	
	2011	2010	2011	2010	2011	2010
1	9	1	7	0	16	1
2	15	3	2	5	17	8
3	16	8	11	13	27	21
4	58	17	24	15	82	32
Total	98	29	44	33	142	62

ABET (community)

The ABET programme funded by FIETA started on 14 February 2011. A total of 500 learners are being funded through FIETA programme over a period of 18 months. A total of 496 community members from KwaZulu-Natal, Mpumalanga and Limpopo were assessed and placed according to the Independent Examinations Board ABET Placement Assessment Tool.

Artisan training

The Group is participating in the broad SOE initiatives of artisan development and training. Eight learners have been enrolled on the programme for diesel mechanics, millwrights, fitters, electricians and boilermakers.

Employee health and wellness

The implementation of wellness services was successfully executed through the external services provider and the following services were delivered:

Wellness services		Occupational health services	
Primary health (Production employees)	Employee assistance programme (All employees)	Incapacity management	Periodical medicals

As part of the rollout process, on-site clinic facilities established at eight plantations made it easier for employees to access medical health services.

In the year under review, the Group continued to manage the programmes aimed at addressing the challenges caused by the impact of HIV/AIDS at the workplace. The wellness programme provided opportunities and encouraged employees to undergo voluntary counselling and testing.

Employee relations

The relationship between SAFCOL and its employees, including trade unions, remained relatively stable during the year under review. The parties made use of the existing partnership structures where regular meetings were convened to address issues of mutual interest and adopt a joint problem-solving approach.

The annual wage and substantive negotiations around conditions of employment were successfully concluded with the two recognised trade unions, namely, FAWU and NEHAWU. This resulted in the implementation of wage increases for employees with the exclusion of the senior executive group who did not receive any salary increase in the year under review.

5.6 Safety, Health and Environmental Management Performance

Employee health and safety

The Group is fully committed to the continued improvement of occupational health and safety performance in all its business activities by complying with the Occupational Health and Safety Act and the regulations as well as international protocols and codes ratified by the Republic of South Africa. These are the absolute minimum standards applied in all our operations, including the provision for all employees of a working environment that is safe from injury and work-related diseases.

Internal risk assessments, audits and controls as stipulated by our integrated management system (IMS) were implemented in the year under review. In addition, the external NOSA audit confirmed that operations conformed to our minimum health and safety standards and complied with applicable legal requirements.

Environmental management

Internal operational audits were carried out in all 18 plantations. These audits are conducted against a comprehensive environmental management audit checklist that is reviewed annually as part of the auditing programme for KLF. Internal corrective action requests (CAR) were raised during audits and the effective close-out of these CARs is closely monitored by the operations and environmental practitioners.

The Forest Stewardship Council (FSC) Third-Party Surveillance Audit for KLF operations was conducted in October 2010 by an external audit firm, SGS South Africa. The audit confirmed compliance to FSC certification requirements with a few corrective action requests issued. Timbadola sawmill is certified in terms of the FSC Chain of Custody standards.

KLF has implemented an IMS for forest operations. The IMS is the platform for compliance with all relevant legislation and conformance to FSC, NOSA and internal standards.

5.7 Transformation Imperatives

The nature and cycle of the forestry industry require a harmonious relationship and co-existence of the Group and the communities adjacent to its operations. It is that relationship which is characterised by the spirit of mutual benefit, trust and transparency between and among the parties. The transformation efforts that the Group has already embarked upon have created a platform that can lead to even more meaningful relationships and lend credibility to an integrated transformative community.

There is goodwill among stakeholders and a willingness to partner towards a better future. The Group is well positioned to broker exemplary and sustainable relationships with communities. It is sometimes stated: "If you want success for a year, grow mealies; if you want success for a generation, grow trees, but if you want enduring lifetime success, grow people".

SAFCOL operations, especially KLF plantations, are well positioned to deliver both generational and lifetime success. It is up to the leadership and the employees of the Group to make it a reality. In this way, it would breathe life into its "Growth through Partnership" slogan.

The following are the Group's results for all six pillars as per the score by an external Association of BEE Verification Agency (ABVA) accredited verification company, Inforcomm Verification Agency:

	2011	2010
Management control	15	11
Employment equity	8	6
Skills development	16	15
Preferential procurement	20	20
Enterprise development	9	6
Socio-economic development	18	18
Total score	86	76

5.8 Socio-Economic Development and Enterprise Development Initiatives

Socio-economic development performance

A total amount of R9 million was approved in 2010 for SED projects. This included an amount of R2 million related to the completion of projects started in the previous financial year. In addition, the new projects were identified and prioritised and aligned with the requirements of the signed social compacts within the different clusters. In terms of these accords, projects were prioritised by the joint community forums and supported by the SED forum.

The implementation of social compacts has improved and formalised the relationship between KLF and the communities. This also assists in ensuring that real, critical needs are being addressed to reduce poverty and improve the living conditions and develop skills within the rural communities adjacent to, or within the Group's operations. Main focus areas have been identified in terms of the Vision, Mission and Development Charter of each cluster. All projects are evaluated in terms of various dimensions and monitored to ensure that real and meaningful outcomes are achieved.

Since 2006 financial year, 25 infrastructural projects were completed and handed over to the communities. During the 2011 financial year, ten infrastructural projects were completed and handed over.

To date the following social compacts have been signed with the following community clusters:

- Redhill Cluster in the Albert Luthuli Municipal District surrounding Jessievale Plantation

- Blairmore Cluster in the Albert Luthuli District surrounding Blairmore Plantation
- Roburnia Cluster in the Mkhondo District surrounding Roburnia Plantation
- Mphephu Entabeni Cluster in Makhado and Thulamela districts surrounding the Entabeni, Hangklip and Roodewal Plantations
- Tshivhase Cluster in Thulamela district including all communities surrounding Thathe Vondo
- Mantjolo Cluster in the Albert Luthuli District near Nelshoogte Plantation
- Ngome Cluster covering all communities and claimants adjacent to and involved at Ngome Plantation
- Palm Ridge Cluster covering two communities adjacent to the seed orchard
- Berlin Cluster covering the communities and claimants involved in and adjacent to Berlin Plantation
- Hebron Cluster covering the communities and claimants adjacent to the Wilgeboom and Bergvliet Plantations; and
- Mapulana Cluster covering the communities and claimants adjacent to the Tweefontein, Blyde and Morgenzon Plantations.

Summary of projects on page 31.

Partnerships

Through our SED section, a substantial amount of work focused on the establishment of partnerships with role players that could assist the Group with projects. This is in line with our vision to facilitate the sustainable economic empowerment of communities and the alleviation of poverty. Following is a list of some of the key organisations and government entities that partnered with us and provided assistance in realising socio-economic development in the year under review.

- Waterforall
- Penreach
- Ecolink
- Development Bank of South Africa (DBSA)
- FIETA
- Various Government Departments and Municipalities
- Various suppliers, e.g. PG Bison, Dell Development, Massmart Group, Cashbuild.

We will continue to cultivate the relationships established with the organisations listed above and at the same explore new relationships with organisations that are willing to partner with the Group in its efforts towards rural development and poverty alleviation.

Summary of Socio-economic development projects

Project description	Actual
Support investments	
Information and communication technology for schools, equipment and furniture	R943 619
Information and communication technology for the communities; equipment and furniture	R12 022
Maths and Science enhancement	R233 266
Information centres; books and equipment	R23 070
Environmental education	R113 050
Health care support (buildings excluded)	R35 113
Infrastructure Investments	
Early childhood development centres	R2 186 285
Information and communication technology centres	R268 693
School classroom buildings	R985 414
Information centres	R358 441
Youth development (Car wash)	R107 622
Plunge dips	R193 680
Small business development; gardening	R209 180
Small business development; women empowerment	R45 078
Water supply; boreholes, tanks and installations	R257 349
Social compacts and handing-over ceremonies	R283 892
Total	R6 255 774

Enterprise development performance

During the year under review, some of the initiatives identified by the Enterprise Development (ED) department progressed significantly. A total of 302 jobs were created through the programmes undertaken by ED under difficult trading conditions. In addition, the partnership between SAFCOL and its strategic partner, DBSA, has been enhanced through the development of a value proposition model and signing of a new memorandum of understanding (MOU).

Beekeeping project

This project started in 2010 and currently twelve fully trained beekeepers operate at our Hanglip and Roodewal plantations. We have completed the first harvests. In order to improve on the honey flow, we are exploring opportunities for pollination services with local farmers and expanding the project to DAFF plantations in the area.

DBSA and SAFCOL each contributed R750 000 to fund phase 1 of the project. SAFCOL's contribution was utilised for operating purposes. This included, but was not limited to, the purchase of hives, operating expenses and salaries for beekeepers until production starts. DBSA focused its funding on the training of beekeepers.

Timber frame housing

During a work session with DBSA, the investigation of alternative housing methods to assist with reducing

the current housing shortage in South Africa, especially with regard to low-cost housing development was identified.

To date, two show units have been built, one in Grabouw and the other one in Rustenburg at the request of the Royal Bafokeng Institute. In addition, there were several discussions with various municipalities and local government agencies. We are fairly confident that a housing project will emanate from these efforts in the near future.

In order to exhibit the benefits of timber and timber-framed construction, the infrastructure projects undertaken by SED have been built in timber, and these structures will be utilised as "show structures" going forward.

Bio mass (green energy project)

In 2009, a prefeasibility study was concluded into the use of forestry waste (biomass) for the production of energy. Given these results, SAFCOL commissioned a full feasibility study to be undertaken. This will provide us with a greater degree of confidence about the resources available, technology to be used, project returns and financial model as well as logistical aspects around undertaking such a venture.

The feasibility study will be completed in the 2012 financial year and we are looking at one of our strategic partners, DBSA, to partly fund the study.

Enterprise development contractors

One of the objectives of ED is to develop forestry contractors from previously disadvantaged communities. Four new contractors, who have been actively involved in the forestry sector and exhibited suitable levels of entrepreneurial skills, were identified as business owners during the year under review. At the same time, the seven contractors that were established in previous years were developed further. The Group has focused on establishing the new ED contractors in the form of a cooperative. This decision has worked out well with the newly established contractors performing at the required standards of the Group.

DBSA and SAFCOL partnership

The MOU between SAFCOL and the DBSA was renewed in the 2011 financial year and a value proposition model was developed between DBSA and SAFCOL to support the MOU. The value proposition model and MOU emphasise the attractive attributes that make the partnership between these two organisations worthy of formalising, with the intention of getting the relevant stakeholders' (Department of Public Enterprises, National Treasury, DBSA board and SAFCOL board) approval and buy-in for all aspects of the partnership.

In response to the above, this document provides an analysis and agreed recommendations for the following:

- Commonalities and complementary areas of the two SOEs
- Effective working structure, decision-making process and funding protocol
- Parameters for the selection of projects that will be pursued within this partnership and a defined approach for project progression
- The total value of work to be engaged in between SAFCOL and DBSA
- A process to elevate the relationship between DBSA and SAFCOL to an organisation-wide approach.

5.9 Land Management

SAFCOL or KLF does not hold the title deeds for the majority of the land that it operates on. The State holds the title deeds to the claimed land on which KLF operates. SAFCOL has been instructed by the shareholder to facilitate the speedy resolution of land claims. The process of resolving land claims rests with the Department of Rural Development and Land Reform.

The impact of land claims on SAFCOL business

According to our records, 61% of the forests under KLF's management are subject to land claims. Shareholder representatives gave instructions to SAFCOL and KLF to be actively involved in the settlement of land claims. To this effect, SAFCOL and KLF have since reinforced the responsibility to contribute successfully to resolving claims that affect its land.

Land claim management

Following the instruction to proactively engage in the resolution of land claims, SAFCOL has since been restructured to specifically focus on the facilitation of the resolution of land claims. The following efforts have been made in an attempt to expedite the resolution of claims:

- Participation in the forestry task team where both SAFCOL and other commercial forestry claims were given priority
- SAFCOL initiated operational-specific meetings where officials from SAFCOL and Regional Land Claims Commission (RLCC) offices discuss specific claims
- Various mapping resources have been offered to RLCCs in an effort to fast-track the resolution of the claims
- SAFCOL, in conjunction with a team from the Department of Rural Development and Land Reform, drafted a framework for cooperation to be signed by both parties
- SAFCOL has continued to engage the relevant role players in developing a preferred settlement model
- Through the socio-economic development unit, SAFCOL has continued to engage the land claimants to clarify issues relating to land claims on SAFCOL land; and to ensure that SAFCOL is positioned as a preferred partner of choice to successful land claimants.

Challenges

- In spite of all the efforts and progress in facilitating land claims resolution, progress was very slow in all the three provincial land reform offices. Claimants are starting to build structures on KLF-managed land within plantation compartments.
- No agreed settlement model for the settlement of claims on KLF-managed land has been developed or agreed
- SAFCOL being the operating entity on State land does not have the delegated mandate on the resolution of the land claims
- The State land disposal process is slow and

complicated

- Disgruntled land claimants tend to raise their frustration regarding the protracted land claims process by threatening to burn KLF plantations.

5.10 Stakeholder Engagement

Part of SAFCOL's strategic objectives and main focus is to proactively engage with all stakeholders in a structured way and to assess the current reputation of the Group among its stakeholders. The stakeholder engagement project involves the following steps:

- Identification of stakeholders (stakeholder mapping)
- Establishment of current reputation and relationship with identified stakeholders
- Implementation of communication strategies
- Evaluation of the effectiveness of the implemented communication strategy.

During the year under review, the first step, stakeholder mapping, was completed. The second step of the process, namely the establishment of reputation and relationships, was initiated and it will be completed in the next financial year.

5.11 IFLOMA

Plantations

IFLOMA manages three plantations, Penhalonga, Bandula and Rotanda plantations. Temporary unplanted areas reduced from 6 014 ha (2010) to 4 376 ha in the year under review. Plantation areas planted are as follows:

Plantation	Planted area (ha)
Bandula	1 882
Penhalonga	3 786
Rotanda	4 936
Total	10 604

Treatment plant

The focus for the year under review was to rehabilitate the treatment plant; the rehabilitation is still in process. In the year under review, the possibility of making poles for local building and fence-making markets in Mozambique was investigated.

Bush mills

Two bush millers were contracted to process timber within the plantations, which remained the primary mechanism through which timber was harvested and processed for sale in the local market. This was not successful due to physical control and reconciliation of harvested volumes at processing conversion rates with actual timber deliveries. One contract was terminated and the second contractor is currently operating at the Messica Mill site.

Messica complex

The complex serves as the administrative hub for the forestry operations and also includes the Messica Sawmill and a pole treatment plant. Work was done during 2010 and 2011 to recommission the sawmill and pole treatment plant and both facilities are expected to be operational during 2011 to 2012.



Part 2

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



GROWTH THROUGH PARTNERSHIP

SAFCOL

Part 2

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Consolidated Annual Financial Statements for the year ended 31 March 2011

1. Directors' Approval

The directors are required in terms of the Companies Act of South Africa and the Public Finance Management Act 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 year 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 consolidated 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 judgments and estimates.

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 year to 31 March 2012 and, in the light of this review and the current financial position, they are satisfied that the Group has, or has access to, adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing 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 41 to 42.

The consolidated annual financial statements set out on pages 41 to 115, which have been prepared on the going concern basis, were approved by the board on 12 July 2011 and were signed on its behalf by:

VN Magwentshu

MJ Breed



(Registration number 1992/005427/06)

Consolidated Annual Financial Statements for the year ended 31 March 2011

2. Company Secretary's Certificate - 31 March 2011

Declaration by the Company Secretary in terms of Section 268G (d) of the Companies Act, 1973:

In my capacity as company secretary, I hereby confirm, in terms of the Companies Act of South Africa, that for the year-ended 31 March 2011, the Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act and that all such returns are true, correct and up to date.

A handwritten signature in black ink, appearing to be "R Shirinda", written over a horizontal line.

R Shirinda
Group Company Secretary



3. Audit and Risk Management Committee Report

We are pleased to present our report for the financial year ended 31 March 2011.

The audit and risk committee (audit committee) is an independent statutory committee appointed by the shareholder. Further duties are delegated to the audit committee by the board of directors of the company. This report includes both these sets of duties and responsibilities.

The audit committee terms of reference

The audit committee has adopted formal terms of reference that have been approved by the board of directors. The committee has conducted its affairs in compliance with its terms of reference and has discharged its responsibilities contained therein.

Audit committee members, meeting attendance and assessment

The audit committee is independent and consists of five independent, non-executive directors. It meets at least three times per year as per its terms of reference. The chairperson of the board, chief executive officer, chief financial officer, chief audit executive, external auditor and other assurance providers (legal, compliance, risk, health and safety) attend meetings by invitation only.

During the year under review three meetings were held and attended as indicated:

With effect from 31 March 2010 to 28 September 2010

Name of member	Qualifications	Appointed	12 May 2010	7 July 2010
Mr S Radebe (Chairperson)	CA (SA), BCom	1 July 2009	Present	Present
Dr M Diaho	MB BS, MBA	1 April 2005	Absent*	Present
Ms E Alexander	BA Law, BSc Chemistry and management	1 July 2009	Absent*	Present
M Bhabha	BProc	1 April 2005	Present	Present

With effect from 28 September 2010 to 31 March 2011

Name of member	Qualifications	Appointed	6 December 2010	28 January 2011
Ms N Medupe (Chairperson)	Bachelor of Accountancy, Post-Graduate Diploma in Accountancy and CA (SA)	11 November 2010	Present	Present
Mr A Abdo	Bachelor of Business Science (Hons), CA (SA), MBA Cum Laude	11 November 2010	Present	Present
Mr M Kharva	CFA (SA), BCom, BSc (Chemical Engineering), Masters in Chemical Engineering	11 November 2010	Present	Present
Adv G Malindi	BA, LLB, Industrial Sociology Law	11 November 2010	Present	Present
Ms K Njobe	BSc (Biology), MSc (Zoology), Certificate in Managing Technology Enterprises	11 November 2010	Absent*	Absent*

*Apologies received



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Consolidated Annual Financial Statements for the year ended 31 March 2011
AUDIT AND RISK MANAGEMENT COMMITTEE REPORT CONTINUED

The effectiveness of the audit committee and its individual members is assessed annually.

Role and responsibilities

Statutory duties

The audit committee's role and responsibilities include statutory duties per the Companies Act of South Africa, 1973, the Public Finance Management Act of 1999 and further responsibilities assigned to it by the board. The audit committee executed its duties in terms of the requirements of King III.

External auditor appointment and independence

The audit committee has satisfied itself that the external auditor was independent of the Group, as set out in the Companies Act of South Africa, 1973, which includes consideration of previous appointments of the auditor, the extent of other work undertaken by the auditor for the Group and compliance with criteria relating to independence or conflict of interest as prescribed by the Independent Regulator Board for Auditors (IRBA). The auditor sought and provided requisite assurance that internal governance processes within the audit firm support and demonstrate its claim to independence.

The committee ensured that the appointment of the auditor complied with the Companies Act of South Africa, 1973, and any other legislation relating to the appointment of auditors. The committee, in consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the 2011 year.

The committee has nominated, for election at the annual general meeting, PriceWaterhouseCoopers Auditors, the external audit firm, and Mr M Saboor Auditor as the designated auditor responsible for performing the functions of auditor for the 2012 year.

Financial statements and accounting practices

The audit committee has received the accounting policies and the financial statements of the Group and is satisfied that they are appropriate and comply with International Financial Reporting Standards.

An audit committee process has been established to receive and deal appropriately with any concerns and complaints relating to the reporting practises of the company. No matters of significance have been raised in the past financial year.

Internal financial controls

The audit committee has not yet overseen a process by which internal audit performed a written assessment of the effectiveness of the company's system of internal control and risk management, including internal financial controls. The process is still in progress and will be implemented in the 2012 financial year.

Fraud prevention and detection

The audit committee receives and deals with any concerns or complaints, whether from within or outside the Group, relating to the affairs of the Group.

Duties assigned by the board

In addition to the statutory duties of the audit committee, as reported above, and in accordance with the provisions of the Companies Act of South Africa, 1973, the board of directors has determined further functions for the audit committee to perform, as set out in the audit committee's terms of reference. These functions include the following:

Going concern

The audit committee has reviewed a documented assessment, including key assumptions, prepared by management of the going-concern status of the Group and has made recommendation to the board



(Registration number 1992/005427/06)

Consolidated Annual Financial Statements for the year ended 31 March 2011
AUDIT AND RISK MANAGEMENT COMMITTEE REPORT CONTINUED

accordingly. The board's statement on the going-concern status of the Group, as supported by the audit committee, with specific reference to page 53.

Governance of risk

The board has assigned oversight of the Group's risk management function to the audit and risk committee. The audit committee fulfils an oversight role regarding financial reporting risks, internal financial controls, fraud risk as it relates to financial reporting and information technology risks as these relate to financial reporting.

Internal audit

The audit committee is responsible for ensuring that it is independent and has the necessary resources, standing and authority within the Group to enable it to discharge its duties. Furthermore, the committee oversees cooperation between the internal and external auditors, and serves as a link between the board of directors and these functions.

The audit committee considered and recommended the internal audit charter for approval by the board. The internal audit function's annual audit plan was approved by the audit committee.

The internal audit function reports centrally with responsibility for reviewing and providing assurance on the adequacy of the internal control environment across all of the Group's operations. The chief audit executive is responsible for reporting the findings of the internal audit work against the agreed internal audit plan to the audit committee on a regular basis.

The chief audit executive has direct access to the audit committee, primarily through its chairperson.

The audit committee is also responsible for the assessment of the performance of the chief audit executive and the internal audit function. In August 2010, Ernst and Young Advisory Services Ltd performed an external effectiveness review, reporting positive results and rating the internal audit function as adequate.

The audit committee is satisfied that it complied with its legal, regulator or other responsibilities.

The audit committee has satisfied itself that the chief financial officer has appropriate expertise and adequate resources for the finance function and that the senior members of management responsible for the financial function have appropriate and adequate experience.

N Medupe

Chairperson of the Audit and Risk Management Committee



4. Independent Auditor's Report

To Parliament on South African Forestry Company Limited Report on the Consolidated Annual Financial Statements

Introduction

We have audited the accompanying consolidated and separate financial statements of the South African Forestry Company Limited, which comprise the consolidated and separate statement of financial position as at 31 March 2011, and the consolidated and separate statement of financial performance, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, and the directors' report, as set on pages 43 to 115.

Directors responsibility of the consolidated financial statements

The Company's directors, which constitute the accounting authority, are responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards and in the manner required by the Public Finance Management Act of South Africa and Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditors responsibility

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the South African Forestry Company Limited and its subsidiaries as at 31 March 2011, and their financial performance and cash flows for the year then ended in accordance with International

Financial Reporting Standards and in the manner required by the Public Finance Management Act of South Africa and Companies Act of South Africa.

Other matters

We draw attention to the matter below. Our opinion is not modified in respect of this matter:

Unaudited supplementary schedules

The supplementary information set out on pages 1 to 40 and 116 does not form part of the annual financial statements and is presented as additional information. We have not audited these schedules and accordingly we do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of *General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010*, we include below our findings on the annual performance report as set out on pages 2 to 5 and material non-compliance with laws and regulations applicable to the company.

Predetermined objectives

There were no material findings on the annual performance report.

Compliance with laws and regulations

There were no findings concerning non-compliance with material matters in laws and regulations applicable to the company.

INTERNAL CONTROL

In terms of *General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010*, we considered internal control relevant to our audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. There are no significant deficiencies in internal control that resulted in a qualification of the auditor's opinion on the financial statements and/or findings on predetermined objectives and/or material non-compliance with laws and regulations.



PricewaterhouseCoopers Inc

Director: M Saboor

Registered Auditor

Johannesburg

15 August 2011



(Registration number 1992/005427/06)

Consolidated Annual Financial Statements for the year ended 31 March 2011

5. Directors' Report

The directors hereby present their report for the year ended 31 March 2011.

The South African Forestry Company Limited (SAFCOL) was established in 1992 as per the Management of State Forests Act, No. 128 of 1992. It is a registered public company in terms of the Companies Act of 1973 as amended and a schedule 2 listed entity in terms of the PFMA. The report presented is in accordance with the provisions of the prescribed legislation and related regulations, and addresses both the performance as well as the statutory information requirements. The board of directors is the accounting authority as prescribed by the PFMA.

5.1 Corporate Governance and PFMA

Shareholding

The Government of the Republic of South Africa, through the Minister of Public Enterprises, is the sole shareholder of SAFCOL.

Nature of business

The main SAFCOL business is the development in the long term, of the South African Forestry industry and the optimising of its assets according to accepted commercial management practices and conservation principles. The Group operates mainly in the forestry and forest products industry, which is mainly processing business.

The Group mainly conducts its business through its subsidiaries namely:

- Komatiland Forests (Pty) Ltd (KLF)
- Industrias Florestais de Manica, SA (IFLOMA).

The Group employs about 1 985 (2010: 2 120) people in South Africa and 698 (2010: 699) people in Mozambique.

Code of Corporate Practices and Conduct (the code)

The directors endorse the code as set out in the King III Report and have adopted it as far as possible. By supporting the code, the directors confirm the need to conduct the business with integrity and in accordance with generally accepted corporate practice. This ethos is further supported by the Group's code of ethics setting out the obligations of directors and employees relating to ethical standards applicable within the SAFCOL Group.

Public Finance Management Act, 1999 (PFMA)

The PFMA became effective on 1 April 2000 and SAFCOL and its subsidiaries are listed as public entities in terms of Schedule 2 of the Act. As part of the implementation of the PFMA, there is an ongoing process of awareness, education, instruction and advice to the board and employees.

SAFCOL complies with the PFMA and Treasury Regulations in all material respects with regard to the provisions applicable to public entities.



(Registration number 1992/005427/06)

Consolidated Annual Financial Statements for the year ended 31 March 2011

DIRECTOR'S REPORT CONTINUED

5.2 Board Functions

The board provides strategic direction as well as leadership, and formally delegates duties to management through various structures, including responsibility and accountability for operations to the executive committee, as well as other structures such as the audit and risk management committee, the remuneration committee and the finance, investment and transaction committee. The members of board committees are selected according to the skills sets required so that they are able to fulfil their functions and obligations.

The board acts as the accounting authority of the Group in terms of the PFMA. With the guidance of the company secretary, the board also has the duty of ensuring that the Group complies with all the relevant laws, regulations and codes of good business practice. The board approves the mission, strategy, goals, operating policies and priorities of the Group and monitors compliance with policies and achievement against objectives.

The directors comply with their fiduciary duties, which include among other things:

- Exercising the duty of utmost care and skill to ensure reasonable protection of the assets and records of SAFCOL and its subsidiaries
- Managing the financial affairs of SAFCOL with fidelity, honesty, integrity and in the best interests of SAFCOL and its stakeholders.

It must be noted that since its inception in 1993, SAFCOL has followed a policy of good corporate governance, sound accounting principles and internal control. As a result, comprehensive accounting policies, accounting procedures, internal control procedures, conditions of employment and disciplinary procedures, including a code of conduct, have been prepared and documented and are well entrenched in the operations of the Group.

Board committee's

The following directors were in office at 31 March 2011:

With effect from 1 April 2010 to 28 September 2010

Directors	Committees
G Moloji (chairperson)	F
MJ Breed (chief executive officer)	None
E Alexander	C, R, T, F
M Bhabha	C, R, T
DJ Bills*	C, F (chairperson)
PJ Derman	R, T (chairperson)
M Diaho	C, T, R (chairperson)
R Hassan	F
S Radebe	R, T, F, C (chairperson)
RPM Sedibe	R, T

*Australian citizen

F = Finance, Investment and Transaction Committee

R = Remuneration Committee

T = Transformation Committee

C = Audit and Risk Management Committee



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DIRECTOR'S REPORT CONTINUED

With effect from 28 September 2010 to 31 March 2011

Directors	Committees
VN Magwentshu (chairperson)	None (R member up until 10 February 2011)
MJ Breed (chief executive officer)	None
MM Manyama-Matome (chief financial officer)	None
A Abdo	F, C (chairperson)
G Malindi	C, R
F Blakeway	F, R
K Njobe	C, R (chairperson)
R Hassan	R
N Medupe	C, F (Chairperson)
M Kharva	F, C

F = Finance, Investment and Transaction Committee

R = Remuneration Committee

T = Transformation Committee

C = Audit and Risk Management Committee

With the exception of the chief executive officer and chief financial officer, all board members are independent non-executive directors.

Changes to the board of directors during the year under review were as follows:

Appointments with effect from 28 September 2010

- VN Magwentshu (chairperson)
- N Medupe
- A Abdo
- M Kharva
- K Njobe
- F Blakeway
- G Malindi

Resignation with effect from 28 September 2010

- G Moloi (chairperson)
- E Alexander
- M Bhabha
- PJ Derman
- M Diaho
- S Radebe
- RPM Sedibe
- DJ Bills

Board committees

Board committees assist the board in discharging its responsibilities. This assistance is rendered in the form of recommendations and reports submitted to board meetings, ensuring transparency and full disclosure of board committees' activities. Each committee operates within the ambit of its defined terms of reference that sets out the composition, roles, responsibilities, delegated authority and requirements for convening meetings.



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DIRECTOR'S REPORT CONTINUED

Human resources and remuneration committee

The purpose of the human resources and remuneration committee is to establish a formal and transparent procedure for developing human resources policies, policies for executive remuneration and for fixing the remuneration packages of the executive and senior management within agreed terms of reference.

The role of the committee is to work on behalf of the board and be responsible for its recommendations and will, within these terms of reference:

- Determine, agree and develop the Group's general policy on executive and senior management remuneration
- Determine specific remuneration packages for executive directors of the Group, including but not limited to basic salary, benefits in kind, any annual bonuses, performance-based incentives, share incentives, pensions and other benefits; and
- Determine any criteria necessary to measure the performance of executive directors in discharging their functions and responsibilities.

The committee aims to give the executive directors every encouragement to enhance the Group's performance and to ensure that they are fairly, but responsibly rewarded for their individual contributions and performance.

Transformation committee

This committee was dissolved during the new board's first sitting on 11 November 2010 and the committee's mandate was taken over by the finance and investment committee as well as the human resources and remuneration committee.

The primary objective of the transformation programme (programme) was to ensure that the Group aligned its operations with the objectives and goals set out by Government with regard to transformation.

Transformation in SAFCOL is defined as the process of change to which all South Africans aspire and of embracing the human rights and values as enshrined in the Constitution of the Republic of South Africa. Transformation in SAFCOL addresses the following areas:

- Diversity of all stakeholders
- The value system of the organisation
- Structures; and
- Policies and procedures.

The committee's secondary objective was to develop strategies that would create an organisational culture, structures and processes that sought to support Government's transformation drive, including the development of people and the optimisation of their potential. The programme forms part of the business plans of the divisions. The senior executive: transformation is responsible for enforcing, monitoring and auditing development and progress. The exclusion of any person capable of contributing to the Group's affairs is not sound business practice and accordingly, a secondary but equal objective is the need to address all existing inequalities in staff profiles and organisational practice. Members of staff who have been previously disadvantaged are given the appropriate support and access to opportunities so that they, too, will be equipped for successful careers in the Group.

Finance, investment and transaction committee

The finance, investment and transaction committee executes its mandate without derogating from the provisions of the PFMA. All decisions of the committee are recommended to the board for approval.



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DIRECTOR'S REPORT CONTINUED

The finance, investment and transaction committee is to:

- Consider and recommend to the board an appropriate delegation of authority framework enabling the Group to operate efficiently
- Procure and review the long-term and short-term funding plans for consideration by the board
- Monitor the current funding plan of the Group
- Monitor the financial performance of the Group every quarter
- Consider and recommend the annual capital and operating budget to the board
- Consider and recommend the Treasury mandate to the board
- Review the capital investment process and monitor total Group capital expenditure
- Review and recommend to the board any capital project or the procurement of any capital item, or the start of any capital project, the cost of which exceeds the limit of approval delegated to the chief executive from time to time
- Review and recommend to the board any sale or disposal of assets not provided for under the chief executive delegation
- Review and recommend to the board new projects not included in the approved annual budget, as well as the funding thereof
- Review and recommend to the board an increase in estimated total costs of projects included in the approved budget
- Consider and recommend to the board the write-off of bad debt(s) or settlement or abandonment of legal actions not accommodated within the CEO delegation
- Consider and recommend to the board any write-off resulting from the impairment of assets not within the chief executive delegation
- Consider and recommend the disposal or closure of any business to the board
- Consider the quarterly report to DPE
- Consider and recommend any matter to be dealt with in terms of section 54 of the PFMA to the board
- Investigate and make recommendations to the board on any subject that could have a financial impact on the business of the Group and requested to do so by the board or a board subcommittee
- Consider all contractual matters relating to the Group's relationship with the shareholder and recommend to the board actions; and
- Where necessary, investigate alternatives regarding the privatisation of KLF and winding up of SAFCOL. Recommend preferred options and actions to be taken and report back on progress.

Audit and risk management committee

The audit and risk management committee is an important element of the board's system of monitoring and control.

The responsibilities of the committee are:

- To provide the chief financial officer, the external auditor and the head of the internal audit function access to the chairperson of the committee or any other member of the committee as is required in relation to any matter falling within the responsibility of the committee
- To ensure coordination of internal and external audit activities
- To oversee any investigation of activities which are within its terms of reference and act as a court of last resort; and
- To consider other relevant matters referred to it by the board.

This committee considers the Group's risk management policy and strategy and reviews the integrity of the risk management process and significant risks facing the Group. It monitors the integrity of the annual and interim statutory accounting reports, including operating and financial reviews, and corporate governance statements relating to audit and risk management, before submission to the board. After its review, the committee reports its views to the board if the committee is not satisfied with any aspect of the proposed financial reporting by the Group.



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DIRECTOR'S REPORT CONTINUED

The committee monitors compliance with relevant legislation and ensures that an appropriate system of internal control is maintained to protect the Group's interests and assets. It reviews the activities and effectiveness of the internal audit function. It is also responsible for evaluating the independence, objectivity and effectiveness of the external auditors and for reviewing accounting and auditing concerns identified by internal and external audit. The head of the internal audit department and external auditors have unrestricted access to the chairperson of this committee and chairperson of the board.

Board performance

The following meetings were held and attended by the board of directors and its subcommittees for the period under review:

With effect from 1 April 2010 to 28 September 2010

SAFCOL Board		Non-executives									Executives
		G Moloi Chair	PJ Derman	RPM Sedibe	R Hassan	M Bhabha	M Diaho	DJ Bills	E Alexander	S Radebe	MJ Breed
13-05-2010	Scheduled	Y	Y	Y	X	X	X	Y	Y	Y	Y
08-07-2010	Scheduled	X	Y	Y	Y	Y	Y	Y	Y	Y	Y
28-09-2010	AGM	X	Y	X	Y	Y	X	X	Y	Y	Y
Attendance	Scheduled	33%	100%	66%	66%	66%	33%	66%	100%	100%	100%

With effect from 28 September 2010 to 31 March 2011

SAFCOL Board		Non-executives								Executives	
		VN Magwentshu Chair	R Hassan	G Malindi	A Abdo	M Kharva	FC Blakeway	K Njobe	N Medupe	MJ Breed	MM Manyama- Matome
01-11-2010	Induction	Y	Y	X	Y	X	Y	Y	Y	Y	Y
11-11-2010	Scheduled	Y	X	Y	Y	Y	Y	Y	X	Y	Y
10-02-2011	Scheduled	Y	Y	X	Y	Y	Y	X	Y	Y	Y
10-03-2011	Special	Y	Y	X	Y	Y	X	Y	Y	Y	Y
Attendance	Scheduled	100%	75%	25%	100%	75%	75%	75%	75%	100%	100%

The members' attendance of relevant committee meetings can be summarised as follows:

With effect from 1 April 2010 to 28 September 2010

Human resources and remuneration committee		M Diaho Chair	RPM Sedibe	M Bhabha	PJ Derman	E Alexander	S Radebe
12-05-2010	Scheduled	X	Y	Y	Y	X	Y
07-07-2010	Scheduled	Y	Y	Y	Y	Y	Y
Attendance		50%	100%	100%	100%	50%	100%

With effect from 28 September 2010 to 31 March 2011

Human resources and remuneration committee		K Njobe Chair	FC Blakeway	R Hassan	G Malindi
28-01-2011	Scheduled	Y	Y	Y	Y
Attendance		100%	100%	100%	100%



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DIRECTOR'S REPORT CONTINUED

With Effect from 1 April 2010 to 28 September 2010

Transformation committee		PJ Derman Chair	M Bhabha	RPM Sedibe	M Diaho	E Alexander	S Radebe
12-05-2010	Scheduled	Y	Y	Y	X	X	Y
07-07-2010	Scheduled	Y	Y	Y	Y	Y	Y
Attendance		100%	100%	100%	50%	50%	100%

With effect from 1 April 2010 to 28 September 2010

Finance, investment and transaction committee		DJ Bills Chair	R Hassan	G Moloji	E Alexander Appointed	S Radebe Appointed
12-05-2010	Scheduled	Y	X	Y	X	Y
07-07-2010	Scheduled	Y	Y	x	Y	Y
Attendance		100%	50%	50%	50%	100%

With effect from 28 September 2010 to 31 March 2011

Finance, investment and transaction committee		A Abdo Chair	N Medupe	FC Blakeway	M Kharva
28-01-2011	Scheduled	Y	Y	Y	Y
Attendance		100%	100%	100%	100%

With effect from 1 April 2010 to 28 September 2010

Audit and risk management committee		D Bills Chair	M Bhabha	M Diaho	E Alexander Appointed	S Radebe Appointed Chair
12-05-2010	Scheduled	Y	Y	X	X	Y
07-07-2010	Scheduled	Y	Y	Y	Y	Y
Attendance		100%	100%	50%	50%	100%

With effect from 28 September 2010 to 31 March 2011

Audit and risk management committee		N Medupe Chair	A Abdo	M Kharva	G Malindi	K Njobe
6-12-2010	Scheduled	Y	Y	Y	Y	X
28-01-2011	Scheduled	Y	Y	Y	Y	X
Attendance		100%	100%	100%	100%	0%

Y – Attended / X – Did not attend

5.3 General Review

Performance management

The SAFCOL Group's performance indicators are reflected in the corporate plan and other regulatory frameworks such as the shareholder's compact. The focus for the year under review has been:

- To ensure that the Group is financially and commercially sustainable
- To ensure the sustainable management of forests and other assets within the SAFCOL Group
- To play a catalytic role in the realisation of the State's afforestation, rural development and economic transformation goals. This required:
 - Active support in the finalisation of the land claims on the operating lands.
 - Proactive engagement of rural communities with an aim of enabling multi-function forestry activities.



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DIRECTOR'S REPORT CONTINUED

- Pursuit of leadership in the implementation of the Forestry Charter and to contribute to economic transformation as per the BBBEE scorecard.

The Group has performed as per the KPIs (key performance indicators) outlined in the shareholder's compact in the following areas:

- Sustainable forest management KPIs that deal with the "Area of forests under management" and "Area under management, which is fully certified, to FSC or PEFC standard"
- Enhanced developmental contribution KPIs which deal with the "achievement of charter transformation objectives" and social compact implementation.

The Group's performance lagged behind on the financial and commercially sustainable KPI especially on the financial returns due to the losses experienced; creditworthiness – cash interest cover; and working capital management. The financial performance is reviewed in detail below:

Financial performance review

The annual financial statements set out on pages 58 to 62 reflect the financial performance, position and cash flow results of the Group and Company's operations for the year ended 31 March 2011.

The Group has realised a loss before taxation of R103 million which has improved against a R589 million loss for 2010. The results include a negative R83 million fair-value adjustment of the plantation valuation (2010: R343 million decrease) and the full explanation is included in Note 9 to the annual financial statements.

The total capital expenditure (CAPEX) for the year under review was R44 million (2010: R69 million). The Group managed to save R32 million (2010: R74 million) on the budgeted CAPEX, due to the cost-savings initiatives that were introduced during the period under review. The capital commitments at year-end amount to R11 million (2010: R32 million) (note 33 to the annual financial statements).

Subsidiaries

The Group's interest in the losses before taxation of its subsidiaries can be summarised as follows:

Amount in rand millions	2011	2010
Komatiland Forests (Pty) Ltd Group	(168)	(606)
Mountains to Oceans Forestry (Pty) Ltd Group	0	0

Material losses recovered or written off

The following material losses were recovered or written off in the period under review:

- The Group received an amount of R1 million (2010: R5 million) as settlement for fire claims
- R3 million relating to the Babelegi insurance claim and R2 million loss of production insurance claim were provided for (2010: R0 million)
- The estimated impairment of the carrying value of standing timber is R129 million (2010: R119 million).

Expenditure relating to 2010 Soccer World Cup

The directors are not aware of any expenditure incurred in regards to apparel, travel or ticket purchases for the Soccer World Cup during the current financial year.

Expansion into Mozambique

As reported in the previous year the acquisition of ± 70 000 ha of land has been approved at Provincial level and approval by Central Government is in the final phases of submission to the Council of Ministers



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DIRECTOR'S REPORT CONTINUED

in Maputo. As soon as approval has been granted, operations may start at ground level. The total area to be planted amounts to $\pm 30\,000$ ha, the balance being villages, indigenous forests, rivers and swamp land. Two adjacent areas of $\pm 20\,000$ ha plantable land have been earmarked for further expansion.

Land lease

KLF currently operates on the land on which its plantations are situated in terms of arrangements entered into with the then Minister of Water Affairs and Forestry as part of the establishment of SAFCOL as a state-owned entity (SOE).

Land claims

SAFCOL has continued to proactively engage the relevant role players in an attempt to expedite the resolution of claims. A team has been formed consisting of DAFF officials, Limpopo and Mpumalanga regional land claims commissioner's officials and SAFCOL. Several meetings have been held with regional forestry task teams established in both Limpopo and Mpumalanga to discuss each claim in detail. The Provincial Land Reform Office together with the Department of Public Works has been identified as key stakeholders for the unbundling of certain aspects of the claims such as the vesting of land rights and labour tenant claims.

There is no agreed settlement model for settlement of claims on KLF-managed land. SAFCOL has therefore taken an initiative to liaise with parties involved in the settlement of claims and made proposals on the type of settlement package preferred.

Through the socio-economic development unit, SAFCOL has continued engaging the land claimants to clarify issues relating to land claims on SAFCOL land; and to ensure that we position SAFCOL as a preferred partner of choice to successful land claimants.

Risk management

The Group has adopted the enterprise-wide risk management approach throughout the organisation in order to holistically identify and manage its risks. The Department of Public Enterprises (DPE) Risk Management Framework and the International AS/NZS4360:2004 and HB 436:2004 Guidelines have been accepted and approved by the board and subsequently implemented. The Group has also taken cognisance of the new requirements of the King III Report, and adapted its risk management practices to comply with King III requirements.

The risk management strategy, which addresses the overall administration, framework, policy, plans and monitoring has been adopted with the principal objective being the provision of guidelines to the organisation for the management of risk.

Risk management is applied in the Group at strategic, management and operational levels, per identified function or department and per activity or project. The risk management department monitors the process and communicates with the responsible managers on the responsibilities and actions to be taken.

Line management monitors the treatment of risks identified and listed in the risk register on an on-going basis. The risk management section initiates changes and reviews the risk management process and the treatment of risks on a quarterly basis. The evaluation of risks and their treatment at operational level are addressed by the Group risk management meeting every quarter. The risk management process is audited by our internal audit section as per its auditing plan.

The board bears the following responsibilities concerning risk management:

- Identifying significant risks that face SAFCOL



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DIRECTOR'S REPORT CONTINUED

- Maintaining and reviewing an effective system of internal control to manage these risks
- Formulating and communicating risk control policies within SAFCOL; and
- Communicating risk control policies to subsidiaries and associates and assisting them in the implementation of an effective risk management strategy.

The board is aided in its task by the audit and risk management committee. Executive board members or a designated senior manager also serves on the boards of companies in which SAFCOL owns a controlling or significant interest. In this capacity, they assist these companies in formulating and maintaining an effective risk management and transformation strategy.

Risk management in the Group is managed according to the Group's risk management framework based on the Australian/New Zealand Risk Management Standard AS/NZS4360: 2004 and the guidelines HB 436: 2004, indicating the overall process and responsibilities applied in the organisation.

Government's initiative to privatise its shareholding in KLF and the related decision to discontinue with SAFCOL by March 2009 created new risks and challenges that had to be discounted in the risk management process.

The board is responsible for the total process of risk management in the Group. Operational functionaries manage identified risks, including risk treatment plans and the mitigation of risks. The risk management section coordinates, guides, monitors, advises and assists line management with risk-related issues. The new approach to risk management in the Group necessitated the development of risk mitigation actions by operational staff to reduce the impact, probability or frequency of any event posing a risk. These mitigation actions will be monitored and revisited on a regular basis to ensure that the risk is addressed acceptably.

Audit

The function of internal audit within the framework of SAFCOL is to evaluate the functioning of the risk management process and internal control system and to report to the board through the audit and risk management committee on any control inadequacies and suggest actions to remedy the control deficiencies.

Due to limited internal resources, the internal audit department is assisted by outside firms of internal auditors in the execution of its duties. The internal audit department functions independently and enjoys the full support of the board, as well as unlimited access to all records and other sources of information.

The function of the external auditors is to perform an audit according to the principles of International Auditing Standards and to provide reasonable assurance of the fair presentation of the financial statements.

Remuneration philosophy

The Group recognises that remuneration is a business issue, as it has a direct impact on operational expenditure, company culture, employee behaviour and ultimately the sustainability of the organisation. As such, the reward strategies are consistent with the organisations business objectives and strategic value drivers. The philosophy will fit in with the employee value model as part of a holistic and integrated approach.

The objective of the remuneration strategy is to assist the Group to achieve the following:

- Compete for talent in an increasingly competitive labour market
- Attract and retain competent employees who enhance business performance
- Motivate and reward individual and team performance that drives stakeholder value for the business



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DIRECTOR'S REPORT CONTINUED

- Manage the total cost of employment
- Achieve the most effective returns (employee productivity) for total employee cost
- Be sensitive to diverse employee needs
- Promote Employment Equity
- Ensure both internal and external equity and fairness.

To achieve this, employees are rewarded in a way that reflects the dynamics of the relevant target markets and the context in which they operate. All five components of an integrated remuneration strategy (guaranteed pay portion, variable pay, performance management, learning and personal growth, as well as the work environment) are at all times aligned to the strategic direction, business objectives, and specific value drivers of the Group. The remuneration strategy is therefore not a stand-alone process, but integrated into other management processes. In this context, the Group is committed to maintaining the following:

- A remuneration policy that is aligned to the Group's business strategy, performance objectives and results
- Pay practices that encourage individuals to consistently and effectively apply their skills to enhance business performance
- Pay levels, preferably on a total guaranteed package basis linked to incentive payments (referred to as total potential remuneration) that reflects an individual's worth to the Group
- A performance management system that serves both to differentiate individual and/or team performance, as well as providing a link to training and development of employees
- Incentive (variable pay) systems which consider both the diverse needs of different categories of employees (e.g. management vs. production employees), as well as ensuring alignment with strategic goals and value drivers as part of a fully integrated approach
- Internal equity that eliminates all forms of unfair discrimination. Differentiation is based on fair and defensible criteria such as: (a) performance ratings derived from a proper performance management process, (b) critical segment analyses;
- External equity through periodic salary surveys, revision of gradings and updating of structures for approval by the board
- A structured and open communication approach regarding the Group's reward practices and operational performance that enables any employee to have an informed opinion, and which equips line management to adequately deal with the vast majority of remuneration questions and issues arising in the workplace.

Post-balance sheet events

Dividends

No dividends have been proposed, declared or paid during the period under review.

Enforcement investigation by Competition Commission

The commissioner had initiated an enforcement investigation during May 2011 into the alleged abuse of dominance conduct by Komatiland Forests (Pty) Ltd in terms of Section 49B(1) of the Competition Act of 1998.

Going concern

The directors have reviewed the Group's financial position and believe that the Group is a going concern and has adequate resources to continue in operation and existence for the foreseeable future. The use of a borrowing facility was approved during the 2010 financial year by the directors. The Group had a total funding of R256 million which consisted of the Group's own cash resources; asset-based/revolving credit facility and multi-option facility which could be utilised for guarantees, an overdraft or overnight facility as at 31 March 2011. The consolidated financial statements have been prepared on the going-concern basis.



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DIRECTOR'S REPORT CONTINUED

5.4 Directors and Executive Committee Remuneration

Increase in non-executive remuneration

It was noted that the no director, executive and non-executive, received a remuneration increase with effect from 1 April 2010.

	Managerial services				
	Fees for services as Directors R	Salary R	Retirement fund & medical aid contributions R	2011 Total R	2010 Total R
Executive Directors of SAFCOL	-	2 905 100	387 862	3 292 963	2 918 420
MJ Breed ^A <i>Chief Executive Officer</i>		2 265 397	340 236	2 605 633	2 918 420
M Manyama-Matome ^{A,B} <i>Chief Financial Officer</i>		639 704	47 626	687 330	-
Non-executive Directors of SAFCOL 01 April 2010 to 28 September 2010	1 588 525	-	-	1 588 525	3 180 717
G Moloi ^B <i>Chairperson of the Board of Directors</i>	334 049			334 049	668 097
E Alexander ^B <i>Member of the Board of Directors</i>	178 070			178 070	356 125
M Bhabha ^B <i>Member of the Board of Directors</i>	154 981			154 981	309 542
DJ Bills ^{B,D} <i>Member of the Board of Directors</i>	211 646			211 646	424 555
PJ Derman ^B <i>Member of the Board of Directors</i>	131 845			131 845	263 691
M Diaho ^B <i>Member of the Board of Directors</i>	165 732			165 732	331 464
R Hassan ^B <i>Member of the Board of Directors</i>	95 739			95 739	191 478
RPM Sedibe ^B <i>Member of the Board of Directors</i>	119 626			119 626	239 251
S Radebe ^B <i>Member of the Board of Directors</i>	196 838			196 838	396 513
Non-executive Directors of SAFCOL 28 September 2010 to 31 March 2011	928 724	-	-	928 724	-
VN Magwentshu ^B <i>Chairperson of the Board of Directors</i>	341 586			341 586	-
A Abdo ^B <i>Member of the Board of Directors</i>	127 533			127 533	-
M Kharva ^B <i>Member of the Board of Directors</i>	118 075			118 075	-
R Hassan ^B <i>Member of the Board of Directors</i>	90 332			90 332	-
PG Malindi ^B <i>Member of the Board of Directors</i>	118 075			118 075	-
N Medupe ^B <i>Member of the Board of Directors</i>	133 122			133 122	-
FC Blakeway ^B <i>Member of the Board of Directors</i>				-	-
K Njobe ^B <i>Member of the Board of Directors</i>				-	-



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	Managerial services				
	Fees for services as Directors R	Salary R	Retirement fund & medical aid contributions R	2011 Total R	2010 Total R
Executive Committee	-	11 031 874	1 349 063	12 380 937	13 782 970
LC Mossop Rousseau <i>Senior Executive: Corporate Services</i>		838 274	121 156	959 430	1 018 724
HM Manyatsa ^C <i>Chief Financial Officer</i>		-	-	-	1 271 683
P Chetty ^A <i>Senior Executive: Enterprise Development</i>		919 741	128 000	1 047 741	1 226 366
GJ Wessels <i>Senior Executive: Strategy, Planning and ICT</i>		1 388 764	247 785	1 636 549	1 843 080
AA Mutshinya <i>Senior Executive: Human Capital Management</i>		1 204 315	177 199	1 381 513	1 490 000
I Gricius <i>Senior Executive: Legal Services</i>		532 737	52 020	584 757	590 490
F de Villiers <i>Senior Executive: Marketing</i>		1 170 556	140 650	1 311 206	1 381 157
LN Mudimeli <i>Senior Executive: Corporate Communication and Liaison</i>		1 048 953	72 867	1 121 820	1 128 032
JHR van der Sijde ^A <i>Senior Executive: Forests</i>		1 429 144	201 105	1 630 250	1 679 187
TCZ Molelle <i>Group internal auditor</i>		695 100	85 655	780 754	756 942
SP Makhesha <i>Senior Executive: Transformation</i>		1 160 294	75 000	1 235 294	1 082 436
M Manyama-Matome ^{A,B} <i>Chief Financial Officer</i>		643 997	47 626	691 623	314 873
Total	2 517 248	13 936 975	1 736 925	18 191 148	19 882 106

Notes:

^A Member of the Board of Directors of one or more SAFCOL subsidiaries

^B Remuneration for part of the year

^C Resigned / Retired in the prior year

^D Foreign Director and receives an additional international allowance

5.5 Privatisation, Corporatisation and Restructuring

In order to facilitate the restructuring of the State's commercial forestry assets, SAFCOL corporatised its core forestry assets into five wholly owned subsidiaries established solely for privatisation purposes. As at 31 March 2011, the disposal of the majority shareholding of four of these packages was completed.

Due to the complexity of the land claims against KLF and the competition concerns that were likely to have a material bearing on the timeframe set for the privatisation of KLF, the Minister of Public Enterprise and the board resolved that the privatisation process will be postponed for the foreseeable future. This



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DIRECTOR'S REPORT CONTINUED

will allow both parties to address the issues and concerns raised regarding the privatisation process. The board was further requested to develop a year corporate strategy for the period ending 31 March 2014 with a strong focus on land claimants and communities.

Status of previous privatisation transactions

The status of privatisation transactions can be summarised as follows:

Package	Current status
Eastern Cape North	Implemented the transaction with Singisi Forest Products (Pty) Ltd on 1 August 2001 and to date have sold 84% of the shares. The remaining 16% is earmarked for disposal in the future.
KwaZulu-Natal	Implemented the transaction with the SiyaQhubeka Consortium on 1 October 2001. To date have sold 75% of the shares in SiyaQhubeka Forests (Pty) Ltd. The remaining 25% is earmarked for disposal in the future.
Eastern Cape South	To date have sold 84% of the shares in Amathole Forestry Company (Pty) Ltd. The remaining 16% is earmarked for disposal in the future.
Southern and Western Cape	To date have sold 84% of the shares in MTO Forestry (Pty) Ltd. The remaining 16% is earmarked for disposal in the future.

Government's policy decision regarding the disposal of the remaining shareholding is still being finalised.

5.6 Legal Proceedings

The Londoloza/Paharpur consortium instituted a damages claim against SAFCOL and the Government. The claim is for payment of about R3,2 billion damages based on Government's decision not to continue with the previous privatisation process. The matter is being defended and the directors have been advised by the Group's legal advisers that the chances of successfully defending the matter are good.

The nature of the Group's business means that it will be involved in litigation from time to time. Management is, however, confident that either all material lawsuits can be defended successfully or such incidents are sufficiently covered under appropriate insurance policies. In respect of lawsuits not being defended successfully, adequate provision will be made in the accounting records.



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Consolidated Annual Financial Statements for the year ended 31 March 2011

Company secretariat

R. Shirinda
PO Box 1771
Silverton
0127

Bankers

ABSA Bank Limited
FirstRand Bank Limited
The Standard Bank of South Africa Limited
Nedbank Limited
Investec Limited

Auditors

External Auditors

PricewaterhouseCoopers Inc.

Environmental Auditors

SGS South Africa (Pty) Ltd

Attorneys

Gildenhuis Lessing Malatji Attorneys
Hofmeyr Herbstein & Gihwala Inc.
Jarvis Pudney Attorneys
Jasper van der Westhuizen Bodenstein Inc.
Mervyn Taback Incorporated
Morajane du Plessis Attorneys
Roestoff and Kruse Attorneys
Werksmans Inc. Jan S. De Villiers

Registered office and postal address

South African Forestry Company Limited
Registration number: 1992/005427/06
HB Forum Building
13 Stamvrug Street
Val de Grace
Pretoria
Tel: +27 12 481-3500
Fax: +27 12 804-3716



(Registration number 1992/005427/06)

Consolidated Annual Financial Statements for the year ended 31 March 2011

6. Statement of Financial Performance

	Note(s)	Group		Company	
		2011 R '000	2010 R '000	2011 R '000	2010 R '000
Turnover	2	705 602	431 914	25 024	19 482
Cost of sales	3	(644 237)	(511 187)	(330)	(372)
Gross profit (loss)		61 365	(79 273)	24 694	19 110
Other income		234	8 833	161	-
Administrative expenses		(50 650)	(63 694)	(30 915)	(27 944)
Fair value adjustments	6	(34 413)	(342 561)	-	-
Operating expenses		(90 975)	(143 543)	(12 682)	(20 524)
Operating loss	4	(114 439)	(620 238)	(18 742)	(29 358)
Investment revenue	5	10 264	20 677	36 155	35 762
Income from equity accounted investments		-	10 901	-	-
Gain on non-current assets held for sale	gf	1 821	-	-	-
Finance costs	7	(682)	(327)	(324)	(28)
(Loss) profit before taxation		(103 036)	(588 987)	17 089	6 376
Taxation	8	23 900	120 122	(5 534)	(1 211)
(Loss) profit for the year		(79 136)	(468 865)	11 555	5 165



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Consolidated Annual Financial Statements for the year ended 31 March 2011

7. Statement of Comprehensive Income

	Note(s)	Group		Company	
		2011 R '000	2010 R '000	2011 R '000	2010 R '000
(Loss) profit for the year		(79 136)	(468 865)	11 555	5 165
Other comprehensive income (loss):					
Foreign currency translation differences for foreign operations		2 548	(21 400)	-	-
Share of other comprehensive loss of associates		-	(10)	-	-
Other comprehensive income (loss) for the year net of taxation		2 548	(21 410)	-	-
Total comprehensive (loss) income		(76 588)	(490 275)	11 555	5 165
Total comprehensive (loss) income attributable to:					
Owner of the parent		(76 588)	(490 275)	11 555	5 165



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Consolidated Annual Financial Statements for the year ended 31 March 2011

8. Statement of Financial Position

	Note(s)	Group		Company	
		2011 R '000	2010 R '000	2011 R '000	2010 R '000
Assets					
Non-Current Assets					
Biological assets	9	2 794 871	2 875 714	-	-
Investment property	10	4 795	4 799	4 795	4 799
Property, plant and equipment	11	266 941	277 732	6 107	6 474
Intangible assets	12	17 666	1 782	16 482	6
Investment in subsidiaries	13	-	-	-	-
Available-for-sale financial assets	14	6 438	5 745	6 187	5 494
Deferred tax	17	495	101	470	-
Loans and receivables	18	385	-	385	330
Retirement benefit asset	19	1 680	32 000	282	1 060
		3 093 271	3 197 873	34 708	18 163
Current Assets					
Inventories	20	101 508	140 462	37	246
Loans to group companies	21	-	-	597 336	545 704
Current tax receivable	22	7 420	19 089	7 405	8 570
Loans and receivables	18	252	-	252	-
Trade and other receivables	23	131 264	89 889	5 729	9 510
Cash and cash equivalents	24	100 570	126 394	61 901	113 227
		341 014	375 834	672 660	677 257
Non-current assets held for sale	25	295 192	239 280	23 728	15 496
Total Assets		3 729 477	3 812 987	731 096	710 916
Equity and Liabilities					
Equity					
Share capital	26	318 013	318 013	318 013	318 013
Reserves	27	101 027	98 479	126 822	126 822
Retained income		2 399 439	2 478 575	263 973	252 418
		2 818 479	2 895 067	708 808	697 253
Liabilities					
Non-Current Liabilities					
Other financial liabilities	28	9 180	-	9 180	-
Borrowings	29	3 519	112	-	-
Deferred tax	17	813 830	843 645	-	137
		826 529	843 757	9 180	137
Current Liabilities					
Other financial liabilities	28	7 300	-	7 300	-
Current tax payable	22	161	-	-	-
Borrowings	29	958	1 354	-	-
Trade and other payables	30	73 238	69 836	4 403	12 401
Provisions	31	2 812	2 973	1 405	1 125
		84 469	74 163	13 108	13 526
Total Equity and Liabilities		3 729 477	3 812 987	731 096	710 916



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9. Statement of Changes in Equity

	Share capital	Foreign currency translation reserve	Revaluation reserve	Capital profit reserve	Retirement fund reserve	Total reserves	Retained income	Total equity
	R '000	R '000	R '000	R '000	R '000	R '000	R '000	R '000
Group								
Balance at 01 April 2009	318 013	(7 891)	(604)	64 374	64 000	119 879	2 947 450	3 385 342
Changes in equity								
Total comprehensive loss for the year	-	(21 400)	-	-	-	(21 400)	(468 865)	(490 265)
Share of other comprehensive loss of associates	-	-	-	-	-	-	(10)	(10)
Total changes	-	(21 400)	-	-	-	(21 400)	(468 875)	(490 275)
Balance at 01 April 2010	318 013	(29 291)	(604)	64 374	64 000	98 479	2 478 575	2 895 067
Changes in equity								
Total comprehensive loss for the year	-	2 548	-	-	-	2 548	(79 136)	(76 588)
Total changes	-	2 548	-	-	-	2 548	(79 136)	(76 588)
Balance at 31 March 2011	318 013	(26 743)	(604)	64 374	64 000	101 027	2 399 439	2 818 479
Company								
Balance at 01 April 2009	318 013	-	(1 552)	64 374	64 000	126 822	247 432	692 267
Changes in equity								
Total comprehensive income for the year	-	-	-	-	-	-	5 165	5 165
Transfers between companies	-	-	-	-	-	-	(179)	(179)
Total changes	-	-	-	-	-	-	4 986	4 986
Balance at 01 April 2010	318 013	-	(1 552)	64 374	64 000	126 822	252 418	697 253
Changes in equity								
Total comprehensive income for the year	-	-	-	-	-	-	11 555	11 555
Total changes	-	-	-	-	-	-	11 555	11 555
Balance at 31 March 2011	318 013	-	(1 552)	64 374	64 000	126 822	263 973	708 808

Note(s)

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10. Statement of Cash Flows

	Note(s)	Group		Company	
		2011 R '000	2010 R '000	2011 R '000	2010 R '000
Cash flows from operating activities					
Cash receipts from customers		664 227	527 852	28 804	17 643
Cash paid to suppliers and employees		(673 928)	(650 674)	(50 791)	(53 679)
Cash used in operations	36	(9 700)	(122 822)	(21 987)	(36 036)
Interest revenue		7 263	18 051	33 154	33 136
Dividends revenue		3 001	2 626	3 001	2 626
Finance costs		(682)	(327)	(324)	(28)
Tax refunded (paid)	37	5 433	(1 556)	(4 977)	(1 463)
Net cash inflow / (outflow) from operating activities		5 315	(104 028)	8 867	(1 765)
Cash flows from investing activities					
Purchase of property, plant and equipment	11	(28 120)	(67 614)	(24)	(1 165)
Proceeds from sale of property, plant and equipment	11	694	106	694	-
Purchase of intangible assets	12	(16 624)	(1 237)	(16 480)	-
Proceeds from sale of non-current assets held for sale		2 982	-	-	-
Increase of loans to group companies		-	-	(51 631)	(177 100)
Net movement in available-for-sale financial assets		(692)	5 134	(693)	(888)
Net movement of investments classified as non-current assets held for sale, relating to rights issue and loan repayments		(8 232)	-	(8 232)	-
Net cash outflow from investing activities		(49 992)	(63 611)	(76 366)	(179 153)
Cash flows from financing activities					
Proceeds from other financial liabilities		16 480	-	16 480	-
Finance lease receipts (payments)		3 010	(1 545)	-	-
Finance lease payments		(637)	-	(307)	5 691
Net cash inflow / (outflow) from financing activities		18 853	(1 545)	16 173	5 691
Total cash and cash equivalents movement for the year		(25 824)	(169 184)	(51 326)	(175 227)
Cash and cash equivalents at the beginning of the year		126 394	295 939	113 227	288 454
Effect of exchange rate movement on cash balances		-	(361)	-	-
Total cash and cash equivalents at end of the year	24	100 570	126 394	61 901	113 227



11. Notes to the Consolidated Annual Financial Statements

General Information

South African Forestry Company Limited (SAFCOL), a public company and holding company of the Group, is incorporated and domiciled in the Republic of South Africa. The Group is a horizontally integrated operation whose main business is the conduct of forestry, timber harvesting, timber processing and related activities in Southern Africa.

1. Presentation of Consolidated Annual Financial Statements

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 financial statements have been prepared under the historical cost basis as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and liabilities at fair value through profit or loss, and incorporate the following principal accounting policies.

National Treasury has exempted the Company from applying the South African Statements of Generally Accepted Accounting Practice (SA GAAP) as the financial reporting framework for the reason that SA GAAP and International Financial Reporting Standards (IFRS) are identical with the exception of IFRS 1. The impact of IFRS 1 on the consolidated financial statements presented and disclosed is negligible. The preparation of the annual financial statements in conformity with IFRS requires the directors to make judgments, 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.

1.1 Statement of compliance

The Group Annual Financial Statements of SAFCOL is prepared in accordance with IFRS, the South African Companies Act, and the Public Finance Management Act, 1999.

The Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods commencing on 1 April 2010.

Standards, amendments and interpretations effective in 2011 and relevant to the Group's operations

- AC 504 South African Interpretation, 'IAS 19 (AC 116) The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction in the South African Pension Fund Environment' (effective from 1 April 2009).
- Improvements to IFRSs issued April 2009 (effective from 1 January 2010) and relevant to the Group:
 - IFRS 5, 'Non-Current Assets Held for Sale and Discontinued Operations'
 - IAS 17, 'Leases'



Standards, amendments and interpretations effective in 2011, but not relevant to the Group's operations

- IFRS 3, 'Business Combinations - Revised' (effective from 1 July 2009)
- IAS 27, 'Consolidated and Separate Financial Statements – Revised' (effective from 1 July 2009)
- Amendments to IAS 39, 'Financial Instruments: Recognition and Measurement Eligible Hedged Items' (effective from 1 July 2009)
- IFRS 1, 'First time Adoption of International Financial Reporting Standards - Revised' (effective from 1 July 2009)
- Amendments to IFRS 2, 'Group cash-settled share-based payment transactions' (effective from 1 January 2010)
- IFRIC 17, 'Distributions of Noncash Assets to Owners' (effective from 1 July 2009)
- IFRIC 18, 'Transfers of assets from customers' (effective from 1 July 2009)
- Amendment to IAS 32, 'Classification of rights issue' (effective 1 February 2010)
- Improvements to IFRSs issued April 2009 (effective from 1 January 2010) and not relevant to the Group:
 - IFRS 2, 'Share - based payment' (scope of IFRS 2 and revised IFRS 3)
 - IFRS 8, 'Operating segments' (disclosure of information about segment assets)
 - IAS 1, 'Presentation of Financial statements' (current / non-current classification of convertible instruments)
 - IAS 7, 'Statement of cash flows' (classification of expenditures on unrecognised assets)
 - IAS 18, 'Revenue' (determining whether an entity is acting as a principal or as an agent)
 - IAS 36, 'Impairment of assets' (unit of accounting for goodwill impairment test)
 - IAS 38, 'Intangible assets' (additional consequential amendments arising from IFRS 3 and the measurement of the fair value of an intangible asset acquired in a business combination)
 - IAS 39, 'Financial Instruments: Recognition

and Measurement' (Treating loan prepayment penalties as closely related embedded derivatives; scope exemption for business combination contracts; cash flow hedge accounting)

- IFRIC 9, 'Reassessment of Embedded Derivatives' (scope of IFRIC 9 and revised IFRS 3)
- IFRIC 16, 'Hedges of Net Investment in a foreign operation' (amendment to the restriction on the entity that holds hedging instruments).

Standards, amendments and interpretations applicable to the Group's operations, but not yet effective and have not been early adopted by the Group

- Amendments to IAS 24, 'Related party disclosures' (effective from 1 January 2011)
- IFRS 9, 'Financial Instruments' (effective from 1 January 2013)
- Improvements to IFRSs issued May 2010 (effective from 1 January 2011) and relevant to the Group:
 - IFRS 7, 'Financial Instruments disclosures' (clarification of disclosures)
 - IAS 1, 'Presentation of Financial Statements' (clarification of statement of changes in equity)
 - IFRS 1, 'First time adoption of IFRS'
 - IFRS 3, 'Business combinations' (effective from 1 July 2010)
 - IAS 27, 'Consolidation and separate financial statements' (effective from 1 July 2010)
 - IAS 34, 'Interim financial reporting'
 - IFRIC 13, 'Customer loyalty programmes'
- Amendments to IFRIC 14, 'Pre-payments of a Minimum Funding Requirement' (effective from 1 January 2011)
- Amendment to IFRS 7, 'Disclosures - transfer of financial assets' (effective from 1 July 2011)
- Amendment to IAS 12, 'Income taxes on deferred tax' (effective from 1 January 2012).



Standards, amendments and interpretations issued, but not yet effective and not relevant to the Group's operations

- Amendments to IFRS 1, 'Limited exemption from comparative IFRS 7 disclosures for first-time adopters' (effective from 1 July 2010)
- IFRIC 19, 'Extinguishing Financial Liabilities with Equity Instruments' (effective from 1 July 2010)
- Amendments to IFRS 1, 'First time adoption on hyperinflation and fixed dates (effective from 1 July 2011).

1.2 Consolidation

Basis of consolidation

Subsidiaries

The consolidated annual financial statements incorporate the financial statements of the Company and its subsidiaries. Subsidiaries are those entities in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or has the power to govern the financial and operating policies so as to obtain benefits from its activities.

The Group uses the acquisition method of accounting to account for all the business combinations. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed in the period incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date on an acquisition-by-acquisition basis. The Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing whether the Group controls another entity.

Subsidiaries are consolidated from the date on which effective control is transferred to the Group and consolidation ceases from the date of disposal or the date on which control ceases. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between Group entities are eliminated.

The accounting policies of subsidiaries have been changed where necessary to ensure alignment with the policies adopted by the Group.

Investments in subsidiaries are shown at cost less impairment in the Company's separate financial statements, except when the investment is classified as held-for-sale, in which case it is accounted for in accordance with IFRS 5 'Non-current Assets Held-for-Sale and Discontinued Operations'. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

Investment in associates

An associate is an entity, including an unincorporated entity such as a partnership, over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. The significant influence is regarded as shareholding of between 20% and 50% of the voting rights and/or through participation in the financial and operating policies. For investments with a shareholding of less than 20%, SAFCOL considers significant influence to be established if it is represented on the associates board of directors and thereby participates in policy-making decisions except when the investment is classified as held-for-sale, in which case it is accounted for in accordance with IFRS 5 'Non-current Assets Held-for-Sale and Discontinued Operations'.

The investment in associates are accounted for using the equity method whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee. When the Group's share of losses



in an associate equals or exceeds its interest in that associate, including any other unsecured receivables, the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate. Losses may provide evidence of an impairment of the asset transferred, in which case appropriate provision is made for impairment.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of the associates are in line with IFRS.

Investments in associates are measured at cost less accumulated impairment losses in the company's separate financial statements, except when the investment is classified as held-for-sale.

1.3 Significant judgements and sources of estimation uncertainty

The following key sources of estimation and uncertainty at statement of financial position date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

Fair value estimation

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 Group policy, and are reviewed every five years:

- **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 that is measured regularly. A merchandising model, using the modeled tree shape at various ages, 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 modeled volumes to approximate marketable volumes. The percentage volume adjustment is based on factors such as baboon damage, as well as damage due to natural elements such as wind/rain/hail/drought/fires.

- **Rotation:** The Group manages its plantation crop mainly 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 such as the insurance that has fallen away since 2001
 - Inflation assumptions which have been adjusted to incorporate the market view at the valuation date.

Provisions

Provisions are raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in note 31 - Provisions.

Taxation

The Group is subject to income taxes in South Africa and Mozambique jurisdictions. Significant judgement is required in determining the provision for income taxes. 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 amounts that were initially recorded, such differences will affect the income tax and deferred tax provisions in the period in which such determination is made.

Provision for impairment of trade receivables

At each statement of financial position date, the Group assesses whether there is any objective evidence that debtors are impaired. If evidence of impairment exists, the provision is calculated as the fair value of the debtor less the present value of the estimated recoverable amount.

Allowance for inventory losses

Allowance for 15% of nursery stock due to non-germination, based on historical information.

Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at each statement of financial position date

1.4 Biological assets

Biological assets are measured at 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. 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. Increases or decreases in value are recognised in the statement of financial performance. All expenses incurred in maintaining and protecting the assets are recognised in the statement of financial performance. All costs incurred in acquiring additional planted areas are capitalised.

1.5 Investment property

Investment properties are properties held for the purpose of earning rental income or for capital appreciation or both; and are initially recognised at cost or deemed cost.

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 Group, and the cost can be measured reliably.

Subsequent to the initial recognition, investment properties are stated at cost less accumulated depreciation.

Depreciation is charged to the statement of financial performance on a straight-line basis over the estimated useful lives of each item of investment property from when it is available to operate as intended by management. Land is not depreciated.

1.6 Property, plant and equipment

Owned assets:

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.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment and are depreciated separately.

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 to 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. 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 financial performance. 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 financial performance on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land and capital work-in-progress are not depreciated. The methods of depreciation, useful lives and residual values are reviewed 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 cost of 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.

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

Items	Useful life
Buildings and utilities	20-50 years
Leasehold improvements - buildings and utilities	25 years
Plant and machinery	4-15 years
Furniture and fixtures	5-10 years
Motor vehicles	4-12 years
Computer equipment	3-10 years
Leasehold improvements - telephone lines and fences	10 years
Leasehold improvements - roads	25 years

1.7 Intangible assets

Acquired computer software licenses are 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.

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.

The useful lives of intangible assets are assessed as either definite or indefinite. Amortisation is charged to the statement of financial performance on a straight-line basis over the estimated useful life of the asset.

The methods of depreciation, 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 licences	5 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 derecognition of an item of an intangible asset are included in the statement of financial performance. The gain or loss is the difference between the net disposal proceeds and the carrying amount of the asset.

1.8 Financial instruments

Classification

The Group classifies financial assets into the following categories:

- Loans and receivables
- Available-for-sale financial assets

Classification depends on the purpose for which the financial instruments were obtained/incurred and takes place at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method.



Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that either are designated in this category, or are not classified in any of the other categories. They are included in non-current assets unless the directors intend to dispose of the investment within 12 months of the statement of financial position date. Available-for-sale financial assets are recognised initially at fair value plus transaction costs, and carried subsequently at fair value.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Group commits to purchase or sell the asset. Investments are recognised initially at fair value plus transaction costs. Financial assets are de-recognised when the right to receive cash flows from the investments has expired, or has been transferred and the company has transferred substantially all risks and rewards of ownership.

Fair value is the market value (listed investments) or the market price of a substantially similar investment, or the present value of expected future cash flows of the net asset base (unlisted investments). If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making use of market inputs and relying as little as possible on entity-specific inputs.

Investments in equity instruments that do not have a quoted price in an active market and whose fair value cannot be measured reliably are measured at cost. Gains or losses on available-for-sale investments are recognised in other comprehensive income, as a separate component of the Group's equity until the investments are sold, collected or otherwise disposed of, or until the investments are determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in the statement of financial performance. Impairment losses on available-for-sale equity instruments that are recognised in the statement of financial performance are not subsequently reversed.

The Group assesses at each statement of financial

position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of financial performance. Impairment losses recognised in the statement of financial performance on equity instruments are not reversed through the statement of financial performance. In the case of assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in the statement of financial performance. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment based on an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of financial performance.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the statement of financial performance as part of investment revenue. Dividends on available-for-sale equity instruments are recognised in the statement of financial performance as part of investment revenue when the Group's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.



Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in profit or loss as part of other income. Dividends received on available-for-sale equity instruments are recognised in profit or loss as part of investment revenue when the Group's right to receive payment is established.

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in profit or loss, while translation differences on non-monetary items are recognised in other comprehensive income and accumulated in equity.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Other receivables constitute sundry debtors. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, financial re-organisation, and default, or delinquency in payments, are considered indicators that the trade receivable is impaired.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced using an allowance account, and the amount of the loss is recognised in income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the statement of financial

performance.

Trade and other payables

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, as well as other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts (if applicable) are shown within borrowings in current liabilities on the statement of financial position.

Bank overdraft and borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are stated subsequently at amortised cost. Any difference between the proceeds (net of transaction costs), and the redemption value is recognised in the statement of financial performance over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

1.9 Tax

Current tax assets and liabilities

Current taxation comprises tax payable calculated based on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments of the tax payable for the previous year. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate based on amounts expected to be paid to the tax authorities.

Taxable profit differs from net profit as reported in the statement of financial performance because it



excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Tax is recognised in the statement of financial performance, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred tax assets and liabilities

Deferred tax is recognised, using the liability method, on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or asset realised, that have been enacted or substantially enacted by the statement of financial position date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relates to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

1.10 Leases

Finance leases – lessee

Leases that transfers substantially all the risks and rewards of ownership of the underlying asset to the Group are classified as finance lease. Leased assets are measured at the lower of its fair value and the present value of the minimum lease payments at inception of the lease, and depreciated over the shorter of the useful life of the asset and the lease term. The capital element of future obligations under the leases is included as a liability in the statement of financial position. Finance charges are charged to the statement of financial performance over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Operating leases – lessee

Leases where the lessor retains substantially all the risks and rewards of ownership of the underlying assets are classified as operating leases. Payments made under operating leases are recognised in the statement of financial performance on a straight-line basis over the period of the lease.

1.11 Inventories

Cost is determined on the following bases:

- Finished goods and work-in-progress comprises 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 or 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.

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.

Raw materials, work-in-progress and finished goods of timber and timber related products and consumable stores are measured at the lower of cost and net realisable value.



Harvested timber is stated at the lower of cost (being the fair value less costs to sell at the date of harvest) and net realisable value.

1.12 Non-current assets held-for-sale

Assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered principally 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 group) is available for immediate sale in its present condition. The directors must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from date of classification. Assets classified as held-for-sale are measured using the applicable IFRS immediately before classification. Once reclassified, the asset or disposal group is recognised at the lower of the carrying amount and the fair value, less cost to sell at the date when it is initially classified as held-for-sale. Depreciation ceases on the asset on this date.

1.13 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.

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, but so 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.

1.14 Share capital and equity

Ordinary shares are classified as equity.

1.15 Employee benefits

The Group operates various pension schemes, which include both defined benefit and defined contribution plans.

Defined contribution plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The SAFCOL Provident Fund, Investment Solutions Executive Provident Fund and Forestry Workers Pension Fund are defined contribution plans. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee services in the current and prior periods.

The Group pay 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.

Defined benefit plans

The defined benefit schemes are funded generally through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The SAFCOL Pension Fund and the SAFCOL Pension-Linked Provident Fund are defined benefit schemes. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service, and compensation.

The asset or liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the statement of financial position date, less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit



credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the statement of financial performance in the period in which they arise.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

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

Bonus plans

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.

1.16 Provisions and contingencies

A provision is recognised when the Group has a present legal or constructive obligation as a result 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.

1.17 Research and development

Expenditure on research and development is charged against operating income when incurred.

1.18 Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities.

Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

Revenue from the sale of goods is recognised in the statement of financial performance when the significant risks and rewards of ownership have been transferred to the buyer, it is probable that future economic benefits will flow to the entities, the amount of revenue can be measured reliably, and there is no continuing management involvement with the goods.

Sales of goods

The Group harvests, processes, and sells a range of timber and logs. Sales of goods are recognised when a group entity has delivered products to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Sales of logs are recognised when the title is considered to have passed to the customer either when logs are delivered at roadside or when logs are delivered to the customers. All other sales of goods are recognised when goods are delivered and title has passed.

Sales are recorded based on the price specified in the sales contracts. The provision for claims is based



on actual returns by customers and includes volume, quality and price disputes.

Sales of services

The Group sells management services to its subsidiaries, which are eliminated on consolidation level. These services are provided as a fixed-price contract, with annual contract terms.

Interest income

Interest is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduce the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Dividend Income

Dividend income is recognised when the right to receive payment is established.

1.19 Translation of foreign currencies

Functional and presentation currency

Items included in the consolidated annual financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates (functional currency).

The consolidated annual financial statements are presented in Rand which is the Group functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction or valuation date where items are re-measured. At each statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are translated at the exchange rates prevailing at that date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the exchange rates prevailing at the date when the fair value was determined. Foreign exchange gains and losses are recognised in the statement of financial performance.

Investments in subsidiaries, joint ventures and associates

The results and financial position of all the Group entities that have a functional currency different from the presentation currency of the Group are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the date of that statement of financial position
- income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction date, in which case income and expenses are translated at the rate on the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations and of borrowings, are taken to other comprehensive income and accumulated in the separate component of equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in other comprehensive income are recognised in the statement of financial performance as part of the gain or loss on sale.

1.20 Dividend distribution

Dividends are recognised as a deduction in equity and a liability in the period in which they are approved.

1.21 Non-distributable reserves

Capital profit reserve

As per the Memorandum and Articles of Association of SAFCOL, material capital profits are not distributed, but allocated to non-distributable reserves as and when applicable. Therefore, where profits made on the disposal of assets and the proceeds from insurance claims are deemed exceptional, these profits are transferred to a non-distributable reserve, being a capital profit reserve. Adjustments to the opening statement of financial position of the Group of a material nature or extent, resulting in an increase in the net asset value of assets taken over on 1 April 1993, are credited to a non-distributable reserve. A decrease in net asset value is charged to available non-distributable reserves and if any balance remains



thereafter, it is charged to distributable reserves.

Foreign currency 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. Items are translated at the Group's financial year-end in accordance with section 1.19 Translations of foreign currencies.

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 financial performance.

Retirement fund reserve

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

1.22 Comparative figures

Comparative figures are re-stated in the event of a change in accounting policy or prior period error. Two comparative statements of financial position are presented in the event of a retrospective change in accounting policy, a retrospective restatement or reclassification of items in the financial statements.

1.23 Post statement of financial position date events

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.

	Group		Company	
	2011 R '000	2010 R '000	2011 R '000	2010 R '000
2. Turnover				
Timber sales	380 282	258 951	-	-
Sawn timber sales	260 658	140 208	-	-
Other	64 662	32 755	25 024	19 482
Total	705 602	431 914	25 024	19 482
3. Cost of sales				
Sale of goods	(27 842)	(10 753)	-	-
Transport	(90 948)	(79 966)	-	-
Harvesting	(21 660)	(31 957)	-	-
Establishment	(51 274)	(58 796)	-	-
Tending	(56 033)	(67 343)	-	-
Protection	(120 939)	(119 360)	-	-
Overheads	(275 179)	(142 640)	-	-
Processing cost of sales	(362)	(372)	(330)	(372)
Other	(644 237)	(511 187)	(330)	(372)



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Notes to the Consolidated Annual Financial Statements for the year ended 31 March 2011

	Group		Company	
	2011 R '000	2010 R '000	2011 R '000	2010 R '000
4. Operating loss				
Auditor's remuneration				
Audit fees	(1 877)	(1 905)	(917)	(886)
Other services	(18)	(31)	-	-
Expenses	-	(1)	-	-
(Under)/over provision - prior year	(1)	396	(79)	(67)
Total	(1 896)	(1 541)	(996)	(953)
(Loss)/profit on disposal of property plant and equipment				
Buildings and utilities	-	(260)	-	-
Motor vehicles	47	35	219	-
Plant and machinery	(1 065)	(209)	(976)	-
Computer equipment	(5)	(30)	14	-
Furniture and fixtures	(2)	(4)	-	-
Leasehold improvements: buildings and utilities	(1 726)	-	-	-
Total	(2 751)	(468)	(743)	-
Depreciation and impairment of Property plant and equipment (note 11)				
Buildings and utilities	(4 408)	(4 521)	(46)	(12)
Plant and machinery	(13 290)	(17 776)	(31)	(37)
Furniture and fixtures	(349)	(417)	(41)	(43)
Motor vehicles	(8 837)	(9 876)	(62)	(66)
Computer equipment	(4 910)	(4 208)	(42)	(69)
Leasehold improvements - telephone lines and fences	(98)	(81)	-	-
Leasehold improvements - buildings and utilities	(2 882)	(3 492)	(157)	(154)
Leasehold improvements - roads	(847)	(514)	(72)	(72)
Reallocation to cost of sales	24 149	28 905	-	-
Total	(11 472)	(11 980)	(451)	(453)
Depreciation of investment property (note 10)				
Investment property	(4)	(4)	(4)	(4)
Amortisation of intangible assets (note 12)				
Computer software	(740)	(734)	(3)	(3)
Reallocation to cost of sales	53	79	-	-
Total	(687)	(655)	(3)	(3)



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Notes to the Consolidated Annual Financial Statements for the year ended 31 March 2011

	Group		Company	
	2011 R '000	2010 R '000	2011 R '000	2010 R '000
4. Operating loss (continued)				
Fees for services				
Administrative and legal	(5 439)	(11 634)	(3 909)	(7 405)
Managerial	(388)	(120)	(14 971)	(13 129)
Technical	(20 108)	(14 223)	(2 819)	(1 193)
Reallocation to cost of sales	2 057	1 688	-	-
Total	(23 878)	(24 289)	(21 699)	(21 727)
Staff costs				
Salaries and wages	(169 665)	(184 269)	(434)	(7 449)
Bonuses	(840)	3 707	-	1 559
Benefits and other costs	(49 602)	(38 082)	(1 054)	(2 026)
Employer's contribution - defined contribution plan	(30 031)	(12 686)	(5 114)	(3 322)
Reallocation to cost of sales	135 415	133 435	-	-
Total	(114 723)	(97 895)	(6 602)	(11 238)
Operating lease charges				
Land, buildings and utilities				
• Contractual amounts	(6 520)	(4 904)	(2 272)	(1 935)
Plant and machinery				
• Contractual amounts	(4)	(17)	-	-
Computer equipment				
• Contractual amounts	(411)	-	(15)	-
Loose tools				
• Contractual amounts	-	(3)	-	-
Furniture and fixtures				
• Contractual amounts	(827)	(709)	(37)	(35)
Reallocation to cost of sales	2 415	1 988	-	-
Total	(5 347)	(3 645)	(2 324)	(1 970)
Foreign exchange loss				
Realised	(1)	(14 112)	-	-
Unrealised	-	14 088	-	-
Total	(1)	(24)	-	-
Directors' emoluments				
For services as directors	(2 517)	(3 181)	(2 517)	(3 181)
Managerial services	(3 293)	(2 918)	(3 293)	(2 918)
Total	(5 810)	(6 099)	(5 810)	(6 099)



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Notes to the Consolidated Annual Financial Statements for the year ended 31 March 2011

	Group		Company	
	2011 R '000	2010 R '000	2011 R '000	2010 R '000
4. Operating loss (continued)				
Other items contributing to operating loss				
Internal charges and recoveries	19 088	19 555	(20)	(3)
Settlement discount received	714	347	5	14
Travel and accommodation	(2 242)	(3 384)	(299)	(304)
Material management	64 297	9 362	(312)	(13)
Forestry contractors	(1 871)	(18 470)	(2)	(3)
Other asset management	(11 123)	(9 412)	(730)	(806)
Risk management	(4 624)	(3 666)	(530)	(498)
Selling expenses	(21 260)	(15 222)	(815)	(835)
Amounts written off and provided for	4 904	(16 154)	(333)	(325)
Other administration costs	(16 079)	(15 372)	(1 059)	(2 135)
Socio and economic development	(6 623)	(7 601)	(368)	(733)
Other (Difference on IFLOMA fair value adjustment, other income and expenses)	-	8 217	(339)	(378)
	25 181	(51 800)	(4 803)	(6 019)
Operating Loss (Note 2,3,4)	(80 026)	(277 677)	(18 742)	(29 358)
5. Investment revenue				
Dividend revenue				
Investments classified as non-current assets held for sale	3 001	2 626	3 001	2 626
Interest revenue				
Subsidiaries	-	-	27 021	16 295
Bank	4 774	16 196	4 774	16 196
Other interest	2 489	1 855	1 359	645
	7 263	18 051	33 154	33 136
	10 264	20 677	36 155	35 762
6. Fair value adjustments				
Fair value adjustment to Biological assets	(82 835)	(342 561)	-	-
Investments classified as non-current assets held-for-sale	48 422	-	-	-
	(34 413)	(342 561)	-	-
7. Finance costs				
Finance leases	322	207	-	-
Bank	48	24	48	24
Other interest paid	312	96	276	4
	682	327	324	28



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Notes to the Consolidated Annual Financial Statements for the year ended 31 March 2011

	Group		Company	
	2011 R '000	2010 R '000	2011 R '000	2010 R '000
8. Taxation				
Major components of the tax (income) expense				
Current				
Local income tax - current period	5 413	2 000	5 319	1 918
Local income tax - prior period adjustment	823	(3 516)	823	(1 181)
Capital gains tax	161	-	-	-
	6 397	(1 516)	6 142	737
Deferred (note 17)				
Originating and reversing temporary differences - current period	(30 297)	(121 641)	(608)	(801)
Arising from prior period adjustments	-	3 035	-	1 275
	(30 297)	(118 606)	(608)	474
	(23 900)	(120 122)	5 534	1 211
Reconciliation of the tax (income) expense				
Reconciliation between accounting profit and tax (income) expense:				
Accounting profit	(103 036)	(588 987)	17 089	6 376
Tax at the applicable tax rate of 28% (2010: 28%)	(28 850)	(164 916)	4 785	1 785
Tax effect of adjustments on taxable income:				
Effect of expenses that are not deductible in determining taxable profit	(481)	747	(74)	(118)
Effect of different tax rates of subsidiaries operating in different jurisdictions	(2 071)	(5 861)	-	-
Adjustments recognised in the current year in relation to the current tax of prior years	823	(480)	823	95
Effect of deferred tax due to intergroup transfer of assets	-	-	-	(551)
Effect of fair value adjustment to investments previously classified as associates	(13 558)	-	-	-
Effect of share of profit from associates	-	(3 052)	-	-
Tax losses carried forward	20 076	53 440	-	-
Capital gains tax	161	-	-	-
	(23 900)	(120 122)	5 534	1 211
Foreign currency translation differences for foreign operation				
Before tax	2 548	(21 400)	-	-
Tax (charge) / credit	-	-	-	-
After tax	2 548	(21 400)	-	-



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	Group		Company	
	2011 R '000	2010 R '000	2011 R '000	2010 R '000
8. Taxation (continued)				
Share of other comprehensive loss of investments classified as non-current assets held for sale				
Before tax	-	(10)	-	-
Tax (charge) / credit	-	-	-	-
After tax	-	(10)	-	-
Total other comprehensive income (loss)				
Before tax	2 548	(21 410)	-	-
Tax (charge) / credit	-	-	-	-
After tax	2 548	(21 410)	-	-
Current tax	-	-	-	-
Deferred tax	-	-	-	-
Total tax (charge) / credit relating to components of other comprehensive income (loss):	-	-	-	-

	2011		2010	
	Valuation	Carrying value	Valuation	Carrying value
	R '000	R '000	R '000	R '000
9. Biological assets				
Plantations	2 794 871	2 794 871	2 875 714	2 875 714

	Group		Company	
	2011 R '000	2010 R '000	2011 R '000	2010 R '000
Biological assets - Plantations				
Carrying amount at the beginning of the year	2 875 714	3 218 275	-	-
Volumes	126 658	207 190	-	-
Prices	(668 244)	(390 776)	-	-
Discount rate	257 969	(117 276)	-	-
Costs	202 774	(41 699)	-	-
Net decrease for the year	(80 843)	(342 561)	-	-
Carrying amount at the end of the year	2 794 871	2 875 714	-	-

In the current year, the fair value model for IFLOMA, methodology and assumptions utilised have been revised to obtain a more accurate valuation in terms of discount rate and the model was split per the group working cycle in terms of species, volumes, income, expenses and prices. The change has been applied prospectively. Refer to note 35 for the detail on the change of estimate.

The fair value of the biological assets are calculated by using the present value of projected future cash flows after taking in consideration the following assumptions:

- The market prices per cubic metre based on market expectations per log class
- Activity costs from the operating statements of plantations for the past year



9. Biological assets (continued)

- Plantation areas of 139 154 ha (2010: 140 046 ha) for the Group and 0 ha (2010: 0 ha) for the Company
- During the year the Group harvested approximately 1 277 935 m³ of wood (2010: 862 190 m³), which had a fair value less costs to sell of R353 per cubic metre at the date of harvest (2010: R364 per cubic metre)
- Volumes in accordance with the plantation management system. These volumes are affected by the impact of fires, enumeration updates and product optimisation
- Discount rate determined based on a current market-based rate, which is a pre-tax real discount rate. Rate used: KLF: 12% (2010: 13%), IFLOMA: 15% (2010: 14%).

10. Investment property

	2011			2010		
	Costs	Accumulated depreciation	Carrying value	Costs	Accumulated depreciation	Carrying value
	R '000	R '000	R '000	R '000	R '000	R '000
Group						
Investment property	4 856	(61)	4 795	4 856	(57)	4 799
Company						
Investment property	4 856	(61)	4 795	4 856	(57)	4 799

Reconciliation of investment property

	2011			2010		
	Opening balance	Depreciation	Total	Opening balance	Depreciation	Total
	R '000	R '000	R '000	R '000	R '000	R '000
Group						
Investment property	4 799	(4)	4 795	4 803	(4)	4 799
Company						
Investment property	4 799	(4)	4 795	4 803	(4)	4 799

The fair value of the investment properties as at 31 March 2011 was R18 million (2010: R18 million). The valuation was performed by an independent professional valuer in December 2004.

SAFCOL received an offer of R84 million from the Regional Land Claims Commissioner for the property situated close to Barberton and this includes the biological assets. Approval was received by the board subject to the Public Finance Management Act approval. The matter now rests with Land Restitution Commission. It is uncertain when the transaction will occur.

The gross rental income earned by the Group from its investment properties, all of which are leased out under operating leases, amounted to R3 million (2010: R3 million).



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Notes to the Consolidated Annual Financial Statements for the year ended 31 March 2011

11. Property, plant and equipment

	2011			2010		
	Costs	Accumulated depreciation	Carrying value	Costs	Accumulated depreciation	Carrying value
	R '000	R '000	R '000	R '000	R '000	R '000
Group						
Land	4 030	-	4 030	4 030	-	4 030
Buildings and utilities	82 552	(45 732)	36 820	73 855	(41 508)	32 347
Leasehold improvements - buildings and utilities	34 311	(6 067)	28 244	31 944	(10 328)	21 616
Plant and machinery	281 433	(198 085)	83 348	279 918	(187 731)	92 187
Furniture and fixtures	9 202	(7 781)	1 421	8 914	(7 455)	1 459
Motor vehicles	141 085	(79 869)	61 216	136 375	(72 122)	64 253
Computer equipment	27 300	(20 226)	7 074	25 029	(17 434)	7 595
Leasehold improvements - telephone lines and fences	1 102	(413)	689	844	(315)	529
Leasehold improvements - roads	19 103	(3 534)	15 569	13 941	(2 687)	11 254
Capital work in progress	28 530	-	28 530	42 462	-	42 462
Total	628 648	(361 707)	266 941	617 312	(339 580)	277 732
Company						
Buildings and utilities	1 161	(64)	1 097	1 161	(18)	1 143
Leasehold improvements - buildings and utilities	3 948	(1 141)	2 807	3 948	(984)	2 964
Plant and machinery	507	(253)	254	507	(222)	285
Furniture and fixtures	1 090	(905)	185	1 050	(857)	193
Motor vehicles	727	(527)	200	727	(465)	262
Computer equipment	1 215	(1 154)	61	1 164	(1 112)	52
Leasehold improvements - roads	1 804	(301)	1 503	1 804	(229)	1 575
Total	10 452	(4 345)	6 107	10 361	(3 887)	6 474



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Notes to the Consolidated Annual Financial Statements for the year ended 31 March 2011

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Group - 2011

	Opening balance	Additions	Disposals	Transfers	Foreign currency movements	Depreciation	Impairment reversal	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Land	4 030	-	-	-	-	-	-	4 030
Buildings and utilities	32 347	8 678	-	-	203	(4 409)	1	36 820
Leasehold improvements - buildings and utilities	21 616	11 236	(1 726)	-	-	(2 882)	-	28 244
Plant and machinery	92 187	6 201	(1 525)	(289)	64	(13 290)	-	83 348
Furniture and fixtures	1 459	316	(3)	-	(2)	(349)	-	1 421
Motor vehicles	64 253	5 970	(173)	(105)	108	(8 837)	-	61 216
Computer equipment	7 595	4 430	(18)	(26)	3	(4 910)	-	7 074
Leasehold improvements - telephone lines and fences	529	258	-	-	-	(98)	-	689
Leasehold improvements - roads	11 254	5 162	-	-	-	(847)	-	15 569
Capital work in progress	42 462	(14 131)	-	-	199	-	-	28 530
	277 732	28 120	(3 445)	(420)	575	(35 622)	1	266 941

Reconciliation of property, plant and equipment - Group - 2010

	Opening balance	Additions	Disposals	Transfers	Foreign currency movements	Depreciation	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Land	4 030	-	-	-	-	-	4 030
Buildings and utilities	39 301	1 926	(320)	-	(4 039)	(4 521)	32 347
Leasehold improvements - buildings and utilities	20 390	4 718	-	-	-	(3 492)	21 616
Plant and machinery	102 911	9 010	(210)	(648)	(1 100)	(17 776)	92 187
Furniture and fixtures	1 821	216	(4)	-	(157)	(417)	1 459
Motor vehicles	67 099	9 162	(12)	(118)	(2 002)	(9 876)	64 253
Computer equipment	6 147	5 796	(30)	-	(110)	(4 208)	7 595
Leasehold improvements - telephone lines and fences	558	52	-	-	-	(81)	529
Leasehold improvements - roads	9 314	2 454	-	-	-	(514)	11 254
Capital work in progress	9 306	34 280	-	-	(1 124)	-	42 462
	260 877	67 614	(576)	(766)	(8 532)	(40 885)	277 732



11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Company - 2011

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
	R'000	R'000	R'000	R'000	R'000	R'000
Buildings and utilities	1 143	-	-	-	(46)	1 097
Leasehold improvements - buildings and utilities	2 964	-	-	-	(157)	2 807
Plant and machinery	285	-	(1 437)	1 437	(31)	254
Furniture and fixtures	193	24	-	9	(41)	185
Motor vehicles	262	-	-	-	(62)	200
Computer equipment	52	-	-	51	(42)	61
Leasehold improvements - roads	1 575	-	-	-	(72)	1 503
	6 474	24	(1 437)	1 497	(451)	6 107

Reconciliation of property, plant and equipment - Company - 2010

	Opening balance	Additions	Transfers	Depreciation	Total
	R'000	R'000	R'000	R'000	R'000
Buildings and utilities	-	1 022	133	(12)	1 143
Leasehold improvements - buildings and utilities	5	115	2 998	(154)	2 964
Plant and machinery	-	-	322	(37)	285
Furniture and fixtures	162	3	71	(43)	193
Motor vehicles	200	-	128	(66)	262
Computer equipment	43	25	53	(69)	52
Leasehold improvements - roads	-	-	1 647	(72)	1 575
	410	1 165	5 352	(453)	6 474

Capitalised leased assets with a net book value of R6 million (2010: R3 million) are encumbered in terms of finance lease obligations

A register of land and buildings is available for inspection at the registered office of the Group.

12. Intangible assets

	2011			2010		
	Costs	Accumulated amortisation	Carrying value	Costs	Accumulated amortisation	Carrying value
	R '000	R '000	R '000	R '000	R '000	R '000
Group						
Computer software licences	23 554	(5 888)	17 666	6 925	(5 143)	1 782
Company						
Computer software licences	16 497	(15)	16 482	18	(12)	6



12. Intangible assets (continued)

Reconciliation of intangible assets - Group - 2011

	Opening balance	Additions	Amortisation	Total
	R '000	R '000	R '000	R '000
Computer software licences	1 782	16 624	(740)	17 666

Reconciliation of intangible assets - Group - 2010

	Opening balance	Additions	Foreign currency movements	Amortisation	Total
	R '000	R '000	R '000	R '000	R '000
Computer software licences	1 289	1 237	(10)	(734)	1 782

Reconciliation of intangible assets - Company - 2011

	Opening balance	Additions	Amortisation	Total
	R '000	R '000	R '000	R '000
Computer software licences	6	16 480	(4)	16 482

Reconciliation of intangible assets - Company - 2010

	Opening balance	Amortisation	Total
	R '000	R '000	R '000
Computer software licences	9	(3)	6

	Group		Company	
	2011 R '000	2010 R '000	2011 R '000	2010 R '000
Amounts owing by subsidiaries (note 21)	-	-	597 336	545 704
Sub total	-	-	597 336	545 704
Total	-	-	597 336	545 704

13. Investments in subsidiaries

All the above companies are wholly-owned by SAFCOL and are incorporated in the Republic of South Africa.

Komatiland Forests (Pty) Ltd (KLF): The loan consists of a non-interest bearing establishment loan granted to KLF to the amount of R294 million (2010: R294 million) and an interest bearing loan to the amount of R302 million (2010: R251 million). Both loans are unsecured and no terms of repayment have been set. Interest is charged at prime rate for both periods under review.

Mountains to Oceans Forestry (Pty) Ltd (Mountains): The loan consists of a non-interest bearing establishment loan from Mountains to the amount of R0 million (2010: R0 million) and an interest bearing loan to the amount of R1 million (2010: R1 million). Both loans are unsecured and no terms of repayment have been set. Interest is charged at prime rate for both periods under review.



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Notes to the Consolidated Annual Financial Statements for the year ended 31 March 2011

	Group		Company	
	2011 R '000	2010 R '000	2011 R '000	2010 R '000
14. Available-for-sale financial assets				
Investments	6 438	5 745	6 187	5 494
Non-current assets				
Available-for-sale financial assets	6 438	5 745	6 187	5 494

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.

Level 1				
Risk finance policy - Guardian National	6 185	5 493	6 185	5 493
Level 3				
Timber Worker Co-operative Insurance Brokers	-	-	-	-
Transvaal Wattle Growers Co-op Agriculture Company Limited	1	1	1	1
KAAP Agri	1	1	1	1
NTE Investments	251	251	-	-
	253	253	2	2
	6 438	5 745	6 187	5 494

Reconciliation of available-for-sale assets at level 3 - Group 2011

	Opening balance	Closing balance
	R '000	R '000
Timber Workers Co-operative Insurance Brokers	-	-
Transvaal Wattle Growers Co-op Agriculture Company Limited	1	1
KAAP Agri	1	1
NTE Investments	251	251
	253	253



14. Available-for-sale financial assets (continued)

Reconciliation of available-for-sale assets at level 3 - Group 2010

	Opening balance	Purchases	Closing balance
	R '000	R '000	R '000
Timber Workers Co-operative Insurance Brokers	-	-	-
Transvaal Wattle Growers Co-op Agriculture Company Limited	1	-	1
KAAP Agri	-	1	1
NTE Investments	251	-	251
	252	1	253

Reconciliation of available-for-sale assets at level 3 - Company 2011

	Opening balance	Closing balance
	R '000	R '000
Timber Workers Co-operative Insurance Brokers	-	-
Transvaal Wattle Growers Co-op Agriculture Company Limited	1	1
KAAP Agri	1	1
	2	2

Reconciliation of available-for-sale assets at level 3 - Company 2010

	Opening balance	Purchases	Closing balance
	R '000	R '000	R '000
Timber Workers Co-operative Insurance Brokers	-	-	-
Transvaal Wattle Growers Co-op Agriculture Company Limited	1	-	1
KAAP Agri	-	1	1
	1	1	2

	Group		Company	
	2011 R '000	2010 R '000	2011 R '000	2010 R '000
Available-for-sale				
Beginning of the year	5 745	4 857	5 494	4 606
Movement for the year	693	888	693	888
End of the year	6 438	5 745	6 187	5 494
Timber Workers Co-operative Insurance Brokers	-	-	-	-
Transvaal Wattle Growers Co-op Agricultural Company Limited	1	1	1	1
NTE investment	251	251	-	-
Risk finance policy - Guardian National	6 185	5 493	6 185	5 493
KAAP AGRI	1	1	1	1
Total	6 438	5 745	6 187	5 494

The directors value all unlisted investments at cost.

None of the available-for-sale financial assets is either past due or impaired.



15. Financial assets by category

	Loans and receivables	Available-for- sale	Total
	R '000	R '000	R '000
The accounting policies for financial instruments have been applied to the line items below:			
Group - 2011			
Available-for-sale financial assets	-	6 438	6 438
Trade and other receivables	131 264	-	131 264
Cash and cash equivalents	100 570	-	100 570
Loans and receivables	637	-	637
	232 471	6 438	238 909
Group - 2010			
Other financial assets	-	5 745	5 745
Trade and other receivables	89 889	-	89 889
Cash and cash equivalents	126 394	-	126 394
	216 283	5 745	222 028
Company - 2011			
Loans to group companies	597 336	-	597 336
Available-for-sale financial assets	-	6 187	6 187
Trade and other receivables	5 729	-	5 729
Cash and cash equivalents	61 901	-	61 901
Loans and receivables	637	-	637
	665 603	6 187	671 790
Company - 2010			
Loans to group companies	545 704	-	545 704
Available-for-sale financial assets	-	5 494	5 494
Loans and receivables	330	-	330
Trade and other receivables	9 510	-	9 510
Cash and cash equivalents	113 227	-	113 227
	668 771	5 494	674 265

16. Financial liabilities by category

	Financial liabilities at amortised cost	Total
	R '000	R '000
The accounting policies for financial instruments have been applied to the line items below:		
Group - 2011		
Other financial liabilities	16 480	16 480
Trade and other payables	73 239	73 239
Borrowings	4 477	4 477
	94 196	94 196



16. Financial liabilities by category (continued)

	Financial liabilities at amortised cost	Total
	R '000	R '000
Group - 2010		
Trade and other payables	69 835	69 835
Borrowings	1 466	1 466
	71 301	71 301
Company - 2011		
Other financial liabilities	16 480	16 480
Trade and other payables	4 403	4 403
	20 883	20 883
Company - 2010		
Trade and other payables	12 401	12 401

	Group		Company	
	2011 R '000	2010 R '000	2011 R '000	2010 R '000
17. Deferred tax				
Deferred tax asset				
Deferred tax asset	495	101	470	-
Deferred tax liability	(813 830)	(843 645)	-	(137)
	(813 335)	(843 544)	470	(137)
Reconciliation of deferred tax (liability) asset				
At beginning of the year	(843 545)	(963 743)	(137)	888
Reversing differences due to intergroup transfers of assets	(448)	-	-	(154)
(Reversing) Originating temporary difference on property, plant and equipment	(5 141)	(1 513)	407	222
(Reversing) originating temporary difference on provisions	(3 186)	3 523	(1)	62
(Reversing) Originating temporary difference on allowances	(6 830)	9 220	(17)	(11)
Reversing temporary difference on borrowings	-	(16)	-	-
Reversing differences for prior period adjustments	-	(3 036)	-	(1 276)
Originating temporary difference due to fair value adjustments	37 324	108 322	-	-
Originating temporary difference due to retirement benefit asset	8 490	3 699	218	132
	(813 335)	(843 544)	470	(137)



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	Group		Company	
	2011 R '000	2010 R '000	2011 R '000	2010 R '000
17. Deferred tax (continued)				
Deferred taxation consists of the following temporary differences:				
Capital allowances	-	-	-	-
Biological assets - plantations	(762 745)	(792 563)	-	-
Property, plant and equipment	(53 155)	(47 258)	240	(14)
Minor assets	5	6	-	-
Provisions	4 979	8 165	211	212
Borrowings	294	141	153	-
Other allowances	(2 243)	4 587	(55)	(38)
Biological assets - agriculture produce - sawlogs	-	(7 652)	-	-
Retirement benefit assets	(470)	(8 960)	(79)	(297)
Deferred taxation (charge) / credit relating to statement of financial performance	(813 335)	(843 544)	470	(137)
18. Loans and receivables				
Payments				
- within one year	296	-	296	-
- in second to fifth year inclusive	409	-	409	330
	705	-	705	330
less: Unearned finance income	(68)	-	(68)	-
	637	-	637	330
Present value of minimum lease payments due				
- within one year	252	-	252	-
- in second to fifth year inclusive	385	-	385	330
	637	-	637	330
Non-current assets	385	-	385	330
Current assets	252	-	252	-
	637	-	637	330

Amounts receivable from IFLOMA, a subsidiary of Komatiland Forests (Pty) Ltd, pertaining to annual management fees in 2010. This was an interest free loan with no fixed repayment terms.

The Group entered into finance leasing arrangements for certain of its motor vehicles and equipment on 1 September 2010.

The average lease terms are 3 years and the effective lending rate was prime interest rate. Thirty six lease installments are payable monthly.



19. Retirement benefit asset

Retirement funds

The consolidation of membership of three retirement funds into the SAFCOL Provident Fund was finalised during the 2010 financial year. The retirement funds transferred were the SAFCOL Pension Fund, the SAFCOL Pension-Linked Provident Fund and the Investment Solutions Executive Provident Fund, an umbrella retirement dispensation. The Group employees were members of either the SAFCOL Provident Fund or the Forestry Workers Pension Fund at year-end, the latter being an option for members from forestry and related industries.

Old Mutual Employee Benefits is the administrator of the SAFCOL Retirement Funds.

The funding levels as per the statutory valuations performed on 30 June 2007 were as follows:

SAFCOL Pension Fund	122 %
SAFCOL Pension-Linked Provident Fund	106 %
SAFCOL Provident Fund	109 %

The surplus in these funds apportioned to SAFCOL as the principal employer was utilised for contribution holidays, the enhancement of benefits and settlement of the employer's post-retirement medical aid liability. The contribution holiday during the year under review amounted to R14 million (2010: R10 million).

The SAFCOL Pension Fund and the SAFCOL Pension-Linked Provident Fund are currently dormant and will be liquidated as soon as individual annuities have been purchased for the pensioners of both these funds. In terms of the Rules of the SAFCOL Provident Fund and the Forestry Workers Pension Funds, both of which are defined contribution funds, state that the member and employer contributions are based on pensionable salaries, as follows:

Contributions	SAFCOL Provident Fund			Forestry Workers Pension Fund
	Section A benefits	Section C benefits	Section D benefits*	
Member	6 %	8 %	0 %	6 %
Employer	10 %	10 %	16 %	10 %
Total	16 %	18 %	16 %	16 %

* Non-contributory fund: deemed members' contributions of 6 % included as employer contributions.

	Group		Company	
	2011 R '000	2010 R '000	2011 R '000	2010 R '000
Statement of financial position disclosure				
Non-current statement of financial position assets				
Pension and provident fund assets	1 680	32 000	282	1 060
Current statement of financial position obligations				
Leave pay	12 403	11 073	733	738



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Notes to the Consolidated Annual Financial Statements for the year ended 31 March 2011

	Group		Company	
	2011 R '000	2010 R '000	2011 R '000	2010 R '000
19. Retirement benefit asset (continued)				
Statement of financial performance disclosure				
Post retirement benefits - defined contribution	23 763	19 346	4 945	4 026
Post retirement benefits - defined benefit	6 656	(6 029)	557	(72)
Employee incentive bonuses	500	(6 065)	-	(1 575)
Leave pay	2 505	3 236	16	249
	33 424	10 488	5 518	2 628

The following are the results of an actuarial valuation in terms of IAS 19 for the SAFCOL Pension Fund and the SAFCOL Pension-Linked Provident fund.

The following information is disclosed for the Group only, as the transactions for the company is immaterial in relation to the Group:

	Pension Fund		Pension-Linked Provident Fund	
	2011 R '000	2010 R '000	2011 R '000	2010 R '000
The actual return on plan assets was	374	5 122	(317)	62
The principle actuarial assumptions used were as follows:				
Discount rate	9 %	9 %	9 %	9 %
Expected return on plan assets	7 %	7 %	8 %	7 %
Future salary increases	6 %	6 %	6 %	6 %
Inflation rate	6 %	5 %	6 %	5 %
Plan assets are comprised as follows:				
Cash	100 %	54 %	49 %	52 %
Bonds	0 %	46 %	51 %	48 %
	100 %	100 %	100 %	100 %
The amounts recognised in the statement of financial position are determined as follows				
Present value of funded obligations	1 133	2 177	863	802
Fair value of plan assets	(668)	(30 355)	(3 008)	(3 560)
Asset recognised in the statement of financial position	465	(28 178)	(2 145)	(2 758)
Opening balance	(28 178)	(31 205)	(2 758)	(3 952)
Contributions	22 600	10 250	-	-
Statement of financial performance movement	6 043	(7 223)	613	1 194
Closing balance	465	(28 178)	(2 145)	(2 758)



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	Pension Fund		Pension-Linked Provident Fund	
	2011 R '000	2010 R '000	2011 R '000	2010 R '000
19. Retirement benefit asset (continued)				
Changes in the present value of the defined benefit obligation are as follows:				
Opening defined benefit obligation	2 177	84 360	802	1 032
Interest cost	143	2 530	35	31
Actuarial loss / (gain)	6 274	(4 631)	261	1 225
Pension surplus apportionment	8 594	82 259	1 098	2 288
Benefits paid	(7 461)	(80 082)	(235)	(1 486)
Closing defined benefit obligation	1 133	2 177	863	802
Changes in fair value of plan assets are as follows				
Fair value of plan assets at the beginning of the year	30 355	115 565	3 560	4 984
Total contributions	(22 600)	(10 250)	-	-
Benefit payments	(7 461)	(80 082)	(235)	(1 486)
Expected return of plan assets	2 084	4 403	221	268
Actuarial loss / (gain)	(1 710)	719	(538)	(206)
Fair value of plan assets at the end of the year	668	30 355	3 008	3 560
The amount recognised in the statement of financial performance are determined as follows				
Interest cost	143	2 530	35	31
Expected return on plan assets	(2 084)	(4 403)	(221)	(268)
Actuarial loss / (gain) recognised	7 984	(5 350)	799	1 431
Statement of financial performance movement	6 043	(7 223)	613	1 194

	2011 R'000	2010 R'000
SAFCOL Pension Fund Asset	(465)	28 178
SAFCOL Provident Fund Asset*	-	1 064
SAFCOL Pension-Linked Provident Fund Asset	2 145	2 758
Total asset per the statement of financial position	1 680	32 000

*The SAFCOL Provident Fund Asset in the 2010 financial year related to the initial surplus apportionment exercise. This asset consisted of funds held in a money market and cash portfolio, and was managed separately from the plan assets of the fund. The surplus has been exhausted in the fund as at 31 March 2011 and SAFCOL is required to contribute in full again. The plan assets of the fund are being held in multi-managed portfolio's in accordance with the approved investment strategy.



19. Retirement benefit asset (continued)

Future contributions, statement of financial performance charges and debits

The expected contributions to post employment benefit and contribution plans for the year ending March 2011 approximate R0 million (2010: R1 million). The expected statement of financial performance debit for the defined benefit and contribution schemes are estimated to be approximately R106 thousand (2010: R14 million).

	2011 R'000	2010 R'000
Experience adjustments		
Group		
Experience adjustments on plan liabilities	6 535	(3 406)
Experience adjustments on plan assets	2 248	(513)
	8 783	(3 919)

	2011 R'000	2010 R'000	2009 R'000
Summary of the employee benefits assets and obligations as determined actuarially each year:			
Group			
Present value of the obligation	1 996	2 979	85 392
Fair value of plan assets	(3 676)	(33 915)	(120 549)
Asset recognised in the statement of financial position	(1 680)	(30 936)	(35 157)

	Group		Company	
	2011 R'000	2010 R'000	2011 R'000	2010 R'000
20. Inventories				
At cost				
Raw materials	2 922	4 577	-	-
Work in progress	2 444	2 505	-	-
Finished goods	59 027	66 356	18	47
Consumable stores	14 581	5 453	19	199
At net realisable value				
Finished goods	15 553	3 421	-	-
At fair value				
Agricultural produce - saw logs	7 018	58 189	-	-
	101 545	140 501	37	246
Write-downs	(37)	(39)	-	-
	101 508	140 462	37	246

21. Loans to group companies

Subsidiaries

Komatiland Forests (Pty) Ltd	-	-	596 094	544 499
Refer to note 13 for detail				
Mountains to Oceans (Pty) Ltd	-	-	1 242	1 205
Refer to note 13 for detail				
	-	-	597 336	545 704



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Notes to the Consolidated Annual Financial Statements for the year ended 31 March 2011

	Group		Company	
	2011 R '000	2010 R '000	2011 R '000	2010 R '000
22. Current tax receivable				
South African Normal tax - beginning of the period	19 089	16 017	8 570	7 844
Adjustment prior year	(823)	3 516	(823)	1 181
(Received) paid during the year	(5 433)	1 556	4 977	1 463
Taxation for the period per statement of financial performance	(5 413)	(2 000)	(5 319)	(1 918)
Capital gains tax	(161)	-	-	-
Receivable at end of the period - South African normal taxation	7 259	19 089	7 405	8 570
23. Trade and other receivables				
Trade accounts receivable	120 989	82 727	1 846	1 469
Provision for impairment of trade receivables	(6 927)	(7 353)	(2)	(2)
Other receivable	17 202	14 515	3 885	8 043
	131 264	89 889	5 729	9 510

Fair value of trade and other receivables

As at 31 March 2011, trade receivables of the Group of R 76 million (2010: R53 million) and of the Company of R2 million (2010: R2 million) were fully performing. Other receivables of the Group of R12 million (2010: R12 million) and of the Company of R3 million (2010: R7 million) were fully performing.

The average credit period for the Group is 52 days (2010: 109) days. Interest is charged on trade receivables that default. The Group has provided for the majority of receivables over 150 days based on past experience, which indicates that receivables that are past due beyond 150 days are generally not recoverable. Some past due receivables older than 150 days however have not been provided for due to specific conditions in regards to the payment of the debt. Trade receivables between 60 days and 120 days are provided for based on estimated irrecoverable amounts.

Included in the Group's trade receivables are trade receivables with a carrying amount of R44 million (2010: R25 million) and trade receivables of R1 million (2010: R1 million) for the Company which are past due at the reporting date for which the Group has not provided as there has not been a significant change in the credit quality and the amounts are still considered recoverable. The ageing of the trade receivables past due but not impaired is as follows:



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Notes to the Consolidated Annual Financial Statements for the year ended 31 March 2011

	Group		Company	
	2011 R '000	2010 R '000	2011 R '000	2010 R '000
23. Trade and other receivables (continued)				
Ageing of past due but not impaired				
Trade receivables	40 729	22 662	32	5
31-60 Days	26 526	16 110	-	-
60-90 Days	7 170	2 964	-	-
90-120 Days	3 484	355	-	-
120-150 Days	1 690	865	10	-
150+Days	1 859	2 368	22	5
Other receivables	2 796	2 006	984	1 104
31-60 Days	178	412	-	-
60-90 Days	86	429	-	-
90- 20 Days	141	(28)	-	-
120-150 Days	2	5	-	-
150+Days	2 389	1 188	984	1 104
	43 525	24 668	1 016	1 109

Included in the Group and Company's trade and other receivables are receivables with a carrying amount of R7 million (2010: R7 million) and R0 million (2010: R0 million) which are impaired and provided for. These relate to a number of independent customers which are in difficult economic situations. The ageing of the trade receivables and other receivables that are impaired are as follows:

Ageing of impaired receivables				
Trade receivables	4 077	7 109	2	2
90-120 Days	8	-	-	-
120-150 Days	1 636	1 243	-	-
150+Days	2 433	5 866	2	2
Other receivables	2 850	244	-	-
31-60 Days	293	-	-	-
120-150 Days	-	237	-	-
150+Days	2 557	7	-	-
	6 927	7 353	2	2

The credit quality of trade and other receivables that are neither past due nor impaired can be assessed by reference to historical information about the counterparty default rates. Major trade receivables are insured based on the external credit ratings of the specific counterparties. Internal credit checks are performed for other receivables.

Counterparties without external credit rating				
Customers with no default history				
Fully performing trade receivables				
Fully performing other receivables	76 183	52 957	1 812	1 462
	11 556	12 265	2 901	6 938
	87 739	65 222	4 713	8 400



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Notes to the Consolidated Annual Financial Statements for the year ended 31 March 2011

	Group		Company	
	2011 R '000	2010 R '000	2011 R '000	2010 R '000
23. Trade and other receivables (continued)				
Reconciliation of provision for impairment of trade and other receivables				
Balance at beginning of the year	(7 353)	(7 552)	(2)	-
Impairment losses recognised on receivables	(929)	(1 411)	-	-
Amounts written off as uncollectible	1 425	688	-	-
Amounts recovered during the year	3	108	-	(2)
Movement due to exchange rate differences	(73)	814	-	-
Balance at end of the year	(6 927)	(7 353)	(2)	(2)

In determining the recoverability of trade and other receivables, the Group considers any change in the credit quality of trade and other receivables from the date the credit was initially granted up to the reporting date. The concentration of the credit risk is limited due to the customer base being large. Accordingly, the directors believe that there is no further credit provision required in excess of the provision for impairment of trade receivables.

All round wood and lumber receivables are secured by either bank guarantees, credit insurance (80%) or cash prepayments. Small sundry receivables are either secured by credit insurance or deposits. The carrying value of receivables approximates the fair value. In circumstances where the carrying value is less than the fair value, receivables are accordingly impaired to reflect that status.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

24. Cash and cash equivalents

Cash and cash equivalents consist of:

Current accounts	42 170	14 294	3 501	1 127
Short-term deposits	58 400	112 100	58 400	112 100
	100 570	126 394	61 901	113 227

25. Non-current assets held for sale

Assets and liabilities

Non-current assets held for sale

Property, plant and equipment	25	766	-	-
Investments	295 167	238 514	23 728	15 496
	295 192	239 280	23 728	15 496

Investments

Siyaqhubeka Forests (Pty) Ltd	130 013	115 336	-	-
Singisi Forest Product (Pty) Ltd	103 589	62 963	21 216	10 944
MTO Forestry (Pty) Ltd	58 396	57 925	-	2 040
Amathole Forestry Company (Pty) Ltd	3 169	2 290	2 512	2 512
	295 167	238 514	23 728	15 496



25. Non-current assets held for sale (continued)

Property, plant and equipment classified as held-for-sale relate to assets that were not in use in the current year and will be disposed of within the next 12 months.

During 2011, SAFCOL paid R10 million for the rights in order to retain the 16% in Singisi Forest Products (Pty) Ltd. Investments previously classified as associates are classified as non-current assets held-for-sale as management is committed to a plan to sell the investments within the next 12 months. The sale is highly probable within the next 12 months based on a directive received from the shareholder to dispose of these assets. The shareholder has indicated in its strategic plan its intention to dispose of the minority interests with set deadlines. Management does not have significant influence, although SAFCOL has representations on the various board of directors of the investments.

	Group		Company	
	2011 R '000	2010 R '000	2011 R '000	2010 R '000
26. Share capital				
Authorised				
1,500,000,000 Ordinary shares of R1 each	1 500 000	1 500 000	1 500 000	1 500 000
Issued				
Ordinary	318 013	318 013	318 013	318 013
27. Reserves				
Capital profit reserve				
Capital surplus on sawmill insurance claims	37 061	37 061	37 061	37 061
Adjustment to property, plant and equipment opening balances	(669)	(669)	(669)	(669)
Cancellation of provision for transfer cost on transfer of land	27 982	27 982	27 982	27 982
	64 374	64 374	64 374	64 374
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
Revaluation reserve				
Adjustment to net asset valuation upon corporatisation	(604)	(604)	(1 552)	(1 552)
Foreign currency translation reserve				
Other	(26 743)	(29 291)	-	-
Total reserves	101 027	98 479	126 822	126 822



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Notes to the Consolidated Annual Financial Statements for the year ended 31 March 2011

	Group		Company	
	2011 R '000	2010 R '000	2011 R '000	2010 R '000
28. Other financial liabilities				
At amortised cost				
Other financial liability	16 480	-	16 480	-
The loan from Oracle bears no interest and is expected to be paid over three years.				
Non-current liabilities				
At amortised cost	9 180	-	9 180	-
Current liabilities				
At amortised cost	7 300	-	7 300	-
	16 480	-	16 480	-
29. Borrowings				
Minimum lease payments due				
- within one year	958	1 354	-	-
- in second to fifth year inclusive	3 519	112	-	-
Present value of contractual cash flows	4 477	1 466	-	-
plus: future finance charges	981	57	-	-
	5 458	1 523	-	-
- within one year	1 336	1 410	-	-
- in second to fifth year inclusive	4 122	113	-	-
	5 458	1 523	-	-
Present value of minimum lease payments due				
Non-current liabilities	3 519	112	-	-
Current liabilities	958	1 354	-	-
	4 477	1 466	-	-

Finance lease obligations are capitalised between prime plus 0% and prime less 1% (2010: 2% and 3% less than prime rate). The effective interest rates prevailing at year-end ranged between 9% and 10% (2010: 9% - 12%). The lease terms are 5 years with between 1 and 4, 7 years remaining (2010: 1 and 2 years remaining). These liabilities are secured by installment lease agreements over assets with a carrying value of R6 million (2010: R3 million) - refer note 11. Monthly repayments are R117 thousand (2010: R146 thousand).



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Notes to the Consolidated Annual Financial Statements for the year ended 31 March 2011

	Group		Company	
	2011 R '000	2010 R '000	2011 R '000	2010 R '000
30. Trade and other payables				
Trade payables	42 394	37 281	3 587	1 531
Accruals	23 083	15 320	2 472	2 603
Other payables	7 761	17 235	(1 656)	8 267
	73 238	69 836	4 403	12 401

	Opening balance	Additions	Utilised during the year	Total
	R '000	R '000	R '000	R '000
31. Provisions				
Reconciliation of provisions - Group - 2011				
Land lease	2 454	280	-	2 734
Product claims	519	78	(519)	78
	2 973	358	(519)	2 812

	Opening balance	Additions	Utilised during the year	Reversed during the year	Transferred to	Total
	R '000	R '000	R '000	R '000	R '000	R '000
Reconciliation of provisions - Group - 2010						
Employee bonus	24 066	-	(15 723)	(4 503)	(3 840)	-
Land lease	2 172	282	-	-	-	2 454
Product claims	582	7 069	(7 132)	-	-	519
	26 820	7 351	(22 855)	(4 503)	(3 840)	2 973

	Opening balance	Additions	Total
	R '000	R '000	R '000
Reconciliation of provisions - Company - 2011			
Land lease	1 125	280	1 405

	Opening balance	Utilised during the year	Total
	R '000	R '000	R '000
Reconciliation of provisions - Company - 2010			
Employee bonus	4 609	(4 609)	-
Land lease	843	282	1 125
	5 452	(4 327)	1 125

Employee bonus

Employee bonus calculations are prescribed in the relevant conditions of employment or performance bonus scheme as approved by the board of directors.



31. Provisions (continued)

Product claims

Provision for product returns based on terms and conditions of sale and will realise within one year.

Land lease

Provision of land which SAFCOL leases from the Department of Agriculture, Forestry and Fisheries (DAFF). The payment dates of this provision is uncertain.

	Group		Company	
	2011 R '000	2010 R '000	2011 R '000	2010 R '000
32. Investments in associates				
Cost of investment	-	61 274	-	61 274
Repayment of shareholder loan	-	(30 958)	-	(30 958)
Impairment of investment	-	(2 357)	-	(4 520)
Share of profit since acquisition, net of dividends received	-	260 815	-	-
Share of other comprehensive income	-	(10)	-	-
Movement in loans and impairment relating to disposal	-	(4 202)	-	(2 039)
Disposed	-	(46 050)	-	(8 261)
Proceeds	-	(40 510)	-	(40 510)
(Loss) / profit on disposal of associates	-	(5 540)	-	32 249
Transfer to non-current assets held-for-sale	-	(238 514)	-	(15 496)
Total	-	-	-	-



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Notes to the Consolidated Annual Financial Statements for the year ended 31 March 2011

	2010				Total
	Siyaqhubeka Forests (Pty) Ltd	Singisi Forests Products (Pty) Ltd	MTO Forestry (Pty) Ltd	Amathole Forestry Company (Pty) Ltd	
32. Investments in associates (continued)					
Shareholding and voting power	25%	16%	16%	16%	
Summarised financial information of associates	R '000	R '000	R '000	R '000	R '000
Total assets	618 110	835 498	541 519	42 874	2 038 001
Total liabilities	156 765	441 979	192 237	24 484	815 465
Net assets including other comprehensive income	461 345	393 519	349 282	18 390	1 222 536
Other comprehensive income	-	61	-	-	61
Net assets excluding other comprehensive income	461 345	393 580	349 282	18 390	1 222 597
Group's share of associates' net assets excluding other comprehensive income	115 336	62 973	55 885	2 943	237 137
Loans	-	-	2 040	1 703	3 743
Group's share of associates' other comprehensive income	-	(10)	-	-	(10)
Impairment attributable to reserves	-	-	-	(2 356)	(2 356)
	115 336	62 963	57 925	2 290	238 514
Revenue	150 530	481 227	347 771	41 709	1 021 237
Profit / (loss) for the period	46 291	(22 344)	19 022	(431)	42 538
Group's share of associates' profit for the period	11 533	(3 575)	3 012	(69)	10 901
Group's share of associates' comprehensive income for the period	-	(10)	-	-	(10)

Investments previously classified as associates were equity accounted in the 2010 financial year based on the following:

- The draft financial statements as at 31 December 2009 were used in respect of Siyaqhubeka Forests (Pty) Ltd and Singisi Forest Products (Pty) Ltd (Financial year-end: 31 December 2009)
- The management accounts as at 31 March 2010 were used in respect of Amathole Forestry Company (Financial year-end: 30 September 2010)
- The draft financial statements as at 28 February 2010 were used in respect of MTO Forestry (Pty) Ltd (Financial year-end: 28 February 2010).

The investment in associates have been equity accounted until 31 March 2010 and re-classified as non-current assets held-for-sale in accordance with IFRS 5 'Non-current assets held for sale and discontinued operations' on 31 March 2010. Refer to note 25.



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Notes to the Consolidated Annual Financial Statements for the year ended 31 March 2011

	Group		Company	
	2011 R '000	2010 R '000	2011 R '000	2010 R '000
33. Commitments				
Authorised capital expenditure				
Already contracted for but not provided for				
Property, plant and equipment	11 056	32 223	-	-
This capital expenditure will be financed from cash flows generated from operations, or external financing if required.				
Operating leases – as lessee (expense)				
Minimum lease payments due				
- within one year	2 001	923	-	-
- in second to fifth year inclusive	32	1 922	-	-
	2 033	2 845	-	-

34. Related parties

Identity of related parties

SAFCOL is the holding company of the Group and is owned 100% (2010: 100%) by the Government of the Republic of South Africa.

All other state owned entities listed in Schedules 2 and 3 of the Public Finance Management Act are related parties of SAFCOL and its subsidiary companies.

The subsidiaries of the Group are identified in note 13.

The directors are listed in the Report of the Directors.

No material transactions were conducted between the Group and any of the Group's directors or key personnel.

The Group does not provide any services to related parties for no consideration.

Material related party transactions

Details of the significant transactions with related parties are summarised below, all of which were transacted at arm's length:

(a) Loans to related parties				
- Non-interest bearing				
Subsidiaries (note 21)				
Beginning and end of the year	-	-	294 042	294 042
Associates				
Beginning and end of the year	-	3 210	-	3 210



	Group		Company	
	2011 R '000	2010 R '000	2011 R '000	2010 R '000
34. Related parties (continued)				
(b) Loans to related parties				
- Interest bearing				
Subsidiaries (note 21)				
Beginning of the year	-	-	251 663	74 563
Loans advanced during the year	-	-	24 610	160 805
Interest charged	-	-	27 021	16 295
End of the year	-	-	303 294	251 663
Associates				
Beginning of the year	-	533	-	533
Loans repaid during the year	-	(58)	-	(58)
Interest charged	-	58	-	58
End of the year	-	533	-	533
(c) Sales of goods and services				
Services				
Subsidiaries	-	-	(18 575)	(13 455)
Associates	-	(100)	-	(100)
	-	(100)	(18 575)	(13 555)
Sale of goods				
Associates	-	(305)	-	-
Other State Owned Entities	(2 560)	(2 870)	-	-
	(2 560)	(3 175)	-	-

Services are rendered and goods sold based on the price lists in force and terms that would be available to third parties.

(d) Purchases of goods and services				
Services				
Subsidiaries	-	-	14 971	13 129
Other State Owned Entities	9 677	8 628	194	154
Associates	-	2	-	-
	9 677	8 630	15 165	13 283

Services are received from related parties on normal commercial terms and conditions.



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Notes to the Consolidated Annual Financial Statements for the year ended 31 March 2011

	Group		Company	
	2011 R '000	2010 R '000	2011 R '000	2010 R '000
34. Related parties (continued)				
(e) Year-end balances arising from sales / purchases of goods				
Receivables from related parties:				
Subsidiaries	-	-	1 829	1 469
Other State Owned Entities	74	184	-	-
	74	184	1 829	1 469
Payables to related parties:				
Subsidiaries	-	-	(3 106)	(1 247)
Other State Owned Entities	(517)	(1 333)	-	-
	(517)	(1 333)	(3 106)	(1 247)
(f) Key management compensation				
Salaries and other short-term employee benefits	15 674	16 701	6 832	8 207

35. Change in estimate

Changes in accounting estimates for the valuation of biological assets

During the current year the fair value model, methodology and assumptions utilised was revised. This was performed to obtain a more accurate valuation in terms of species, volumes, income, expenses and prices.

The changes to the model are summarised as follows:

- Volume and prices were split per the group working circle (pine sawlogs (includes pulpwood), gum sawlogs and gum poles) in respect of IFLOMA while in prior years all crops were treated as pine saw logs in regards to volumes and silviculture operations
- Discount rate - inputs into the discount rate calculations were revised to be more realistic and relevant

The amendments to the model represented a change in estimate as the change did not alter the valuation policy and a fair value was still calculated based on the discounted cash flow method using a pre-tax discount rate. The change related to new information available in the current year and better reflected the economic benefits that are expected to flow from the use of the asset. If the plantations were valued based on 2010's assumptions, this would have resulted in a total fair value of R2 799 million as at 31 March 2011 compared to R2 794 million per the new methodology. The change was applied prospectively.

The statement of financial performance and statement of financial position impact are reflected below:

Loss arising from changes in fair value of biological assets:	(4 713)	-	-	-
Decrease in income tax expense (movement in deferred tax)	1 320	-	-	-
Decrease in profit	(3 393)	-	-	-
Decrease in biological assets	(4 713)	-	-	-
Decrease in deferred tax liability	1 320	-	-	-
Decrease in equity	(3 393)	-	-	-



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Notes to the Consolidated Annual Financial Statements for the year ended 31 March 2011

	Group		Company	
	2011 R '000	2010 R '000	2011 R '000	2010 R '000
36. Cash used in operations				
(Loss) profit before taxation	(103 036)	(588 987)	17 089	6 376
Adjustments for:				
Depreciation and amortisation	36 366	41 624	459	460
Loss on sale of property, plant and equipment	2 751	469	744	-
Profit on sale of non-current assets held for sale	(1 821)	-	-	-
Loss (Profit) on foreign currency	3	(14 089)	-	-
Income from equity accounted investments	-	(10 901)	-	-
Dividend revenue	(3 001)	(2 626)	(3 001)	(2 626)
Interest revenue	(7 263)	(18 051)	(33 154)	(33 136)
Finance costs	682	327	324	28
Fair value adjustments -biological assets	80 843	342 561	-	-
Write-down to net realisable value - Agricultural produce	-	14 468	-	-
Movements in retirement benefit assets and liabilities	30 320	13 216	778	476
Movements in provisions	(160)	(23 848)	280	(4 327)
Transfer between Companies	(1)	-	-	(179)
Net asset transfer between Companies	-	-	(1 498)	(5 361)
Deferred tax on transfer between Companies	-	-	-	551
Fair value adjustment of non-current assets held for sale	(48 422)	-	-	-
Asset revaluation reserve - IFLOMA	(575)	-	-	-
Foreign currency translation reserve	2 548	-	-	-
Non-cash movement in deferred tax - IFLOMA	85	-	-	-
Changes in working capital:				
Inventories	38 954	32 348	209	(181)
Trade and other receivables	(41 375)	95 938	3 781	(1 839)
Trade and other payables	3 402	(5 271)	(7 998)	3 722
	(9 700)	(122 822)	(21 987)	(36 036)
37. Tax refunded (paid)				
Balance at beginning of the year	19 089	16 017	8 570	7 844
Current tax for the year recognised in profit or loss	(6 397)	1 516	(6 142)	(737)
Balance at end of the year	(7 259)	(19 089)	(7 405)	(8 570)
	5 433	(1 556)	(4 977)	(1 463)



38. Contingent liabilities

Land claims

Following the introduction of the Restitution of Land Rights Act, 1994, various communities, families and persons have lodged land claims on approximately 61% of State forest land entrusted to SAFCOL and its subsidiaries in terms of SAFCOL's founding legislation. Notices of these claims have been published in the Government Gazette, this includes claims on the land on which the Timbadola Sawmill is situated.

All the claims are currently in different stages of the land restitution process.

To enable the payment of a market-related rental to claimants, communities, and other beneficiaries in respect of State Forests managed by KLF, the draft lease agreement between SAFCOL and Department of Agriculture, Forestry and Fisheries (DAFF) is still under discussion.

Land claims over both the Shannon plantation in the Barberton district, and the Abacus properties in the Ngome area of KwaZulu-Natal, has been investigated by the applicable Regional Land Claims Commissioners. A settlement offer for both the land and the standing timber has been received by SAFCOL. The value of the Shannon plantation as per the 2004 valuation is R18 million and the value of standing timber amounted to R66 million. In respect of Ngome, the value of the land as per the 2007 valuation is R3 million and the value of the standing timber amounted to R28 million. The board has considered these settlement offers and agreed in principle thereto and it is anticipated that the settlement will occur during the 2011 financial year.

Banking facilities

There are contingent liabilities in respect of:

- Bank guarantees in respect of third party liabilities to the amount of R500 thousand (2010: R500 thousand)
- Cross suretyships between the Company and its wholly owned subsidiaries for any indebtedness, which any of them may have, to specific financial institutions in respect of cash management and financing facilities.

Litigation

The Londoloza/Paharpur consortium instituted a damages claim against SAFCOL and the Government. The claim is for payment of approximately R3 billion damages based on Government's decision not to continue with the previous privatization process. The matter is being defended by both the Company and Government.

The nature of the Group's business means that it will be involved in litigation from time to time. Management is however confident that either all material lawsuits can be defended successfully, or such incidents are sufficiently covered under appropriate insurance policies. In respect of lawsuits not being defended successfully, adequate provision will be made in the accounting records.

Bonus

A performance bonus is payable to a director of R1 million based on the service agreement. The timing of the bonus is uncertain due to the current financial position of the Group.



39. 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 a going concern. The Group's overall strategy is to position itself as an attractive business partner by continuous management of the Group's assets and liabilities and equity, preserve cash and seek alternative funding alternatives. The management of financial risks takes place within SAFCOL's centralised treasury and risk management functions. The objective is to ensure that the Group is not unduly exposed to financial risks and is governed by a Treasury Mandate.

The capital structure of the Group consists of debt, which includes short and long-term borrowings included and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings. As a contingency plan, in order 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 during the 2010 financial year.

No dividends have been declared in the current financial year (2010: None).

Risk management policies

Risk management policies has 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 adhoc reviews to assess compliance with risk management policies.

Gearing ratio

The Finance, Investment and Transaction Committee reviews the Group's capital structure on a quarterly basis. The gearing ratio at year-end was as follows:

	Note(s)	Group		Company	
		2011 R '000	2010 R '000	2011 R '000	2010 R '000
Debt (i)	29	4 477	1 466	-	-
Other financial liability	28	16 480	-	16 480	-
Total Debt		20 957	1 466	16 480	-
Total equity (ii)		2 818 479	2 895 067	708 808	697 253
Total capital		2 839 436	2 896 533	725 288	697 253

(i) Debt is defined as long-term and short term borrowings, as detailed in note 29.

(ii) Equity includes all capital and reserves of the Group.

Gearing ratio	1 %	0 %	2 %	0 %
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Significant accounting policies

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised in respect of each class of financial asset, financial liability and equity instruments, are disclosed in note 1 to the annual financial statements.



	Note(s)	Group		Company	
		2011 R '000	2010 R '000	2011 R '000	2010 R '000
39. Risk management (continued)					
Classes of financial instruments					
Financial assets					
Loans and receivables	18	637	-	637	330
Available-for-sale financial assets	14	6 438	5 745	6 187	5 494
Subsidiary companies - Non-interest bearing loans	21	-	-	294 042	294 042
Subsidiary companies - Interest bearing loans	21	-	-	303 294	251 662
Cash and cash equivalents	24	100 570	126 394	61 901	113 227
Investment in subsidiaries	13	-	-	-	-
Trade and other receivables	23	131 264	89 889	5 729	9 510
Total financial assets		238 909	222 028	671 790	674 265
Financial liabilities					
Borrowings	29	4 477	1 466	-	-
Trade and other payables	30	73 239	69 836	4 404	12 401
Other financial liabilities	28	16 480	-	16 480	-
Total financial liabilities		94 196	71 302	20 884	12 401

At reporting date, there are no significant concentrations of credit risk for loans and receivables. The carrying amount reflected above represents the Group's maximum exposure to credit risk for such loans and receivables.

Major financial risk

The following major financial risks that the organisation is exposed to have been identified:

- Forward Exchange Risk
- Credit Risk
- Cash Flow Interest Rate Risk
- Market Risk
- Liquidity Risk
- Compliance Risk
- Operational Risk
- Price 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 into forward exchange contracts to buy and sell specified amounts of various foreign currencies in the future at a predetermined exchange rate. The contracts are entered into in order 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 Dollar, and the Metical. No forward exchange cover was used during the year.



39. Risk management (continued)

Credit risk

Credit risk is the risk of default by counterparties.

Financial assets, which potentially subject the Group to concentrations of credit risk, consist principally of cash, short-term deposits, and trade and other receivables. The Group's cash equivalents and short-term deposits are placed with high credit quality financial banking institutions. Surplus cash is held in external investments that are rated AA or A1, or fully secured. Trade receivables are presented net of the provision for impairment of trade receivables. Credit risk with respect to trade receivables is moderate due to the Group's customer base, which is dispersed across the forestry industry. Furthermore, a large number of customers have bank guarantees or other securities in place. Credit insurance is taken out where regarded necessary. At statement of financial position date all significant credit risks were provided for (refer note 22).

With respect to the foreign exchange contracts, the Group's exposure is covered on the full amount of the foreign currency receivable on settlement. The Group minimises such risk by limiting the counterparties to a group of major South African banks, and does not expect to incur any losses because of non-performance by these counterparties. The carrying amounts of the financial assets included in the statement of financial position represent the Group's maximum exposure to credit risk in relation to these assets. The credit exposure of forward exchange contracts is represented by the net market value of the contracts, as disclosed. At year-end, there were no foreign exchange contracts in place.

The credit management has established a credit policy under which each new customer is analysed individually for credit worthiness before the Group's standard payment terms and conditions are offered. The Group's review includes external ratings, where available, and in some cases, bank guarantees. Credit limits (purchase limits) established for each customer represent the maximum open amount without requiring approval from the senior executive marketing. These credit limits are reviewed regularly. Customers that fail to meet the Group's benchmark credit worthiness may transact with the Group only on a pre-payment basis.

Cash flow 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 is exposed to interest rate risk as the Group funds working capital short falls and assets, and invests surplus funds from time to time. The Group utilises limited asset based finance leases to fund assets. These finance leases bear interest at fixed interest rates. 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 SAFCOL, as and when required. Surplus funds from operations are transferred to the holding company on a daily basis. These surpluses or shortfalls bear interest on a floating interest inter-company account.

The Group's exposure to interest rate risk and the effective interest rate on financial instruments at statement of financial position date are set out in the following tables:



(Registration number 1992/005427/06)

Notes to the Consolidated Annual Financial Statements for the year ended 31 March 2011

	Note(s)	Weighted average effective interest rate	Floating interest rate	Non-interest bearing	Total
			R'000	R'000	R'000
39. Risk management (continued)					
Group					
Available-for-sale financial assets	14	6 %	6 438	-	6 438
Trade and other receivables	23	0 %	-	131 264	131 264
Cash and cash equivalents	24	5 %	100 570	-	100 570
Loans and receivables	18	9 %	637	-	637
Total financial assets			107 645	131 264	238 909
Liabilities					
Trade and other payables	30	0 %	-	73 239	73 239
Borrowings	29	9 %	4 477	-	4 477
Other financial liabilities	28	0 %	-	16 480	16 480
Total financial liabilities			4 477	89 719	94 196
Net financial assets			103 168	41 545	144 713
As at 31 March 2010					
Total financial assets		7 %	132 139	89 889	222 028
Total financial liabilities		9 %	1 467	69 834	71 301
Net financial assets			130 672	20 055	150 727
Company					
Loans and receivables	18	9 %	637	-	637
Available-for-sale financial assets	14	6 %	6 187	-	6 187
Loans to group companies-non-interest bearing	21	0 %	-	294 042	294 042
Loans to group companies-interest bearing loans	21	9 %	303 294	-	303 294
Trade and other receivables	23	0 %	-	5 729	5 729
Cash and cash equivalents	24	5 %	61 901	-	61 901
Total financial assets			372 019	299 771	671 790
Liabilities					
Trade and other payables	30	0 %	-	4 404	4 404
Other financial liabilities	28	0 %	-	16 480	16 480
Total financial liabilities			-	20 884	20 884
Net financial assets			372 019	278 887	650 906
As at 31 March 2010					
Total financial assets		9 %	369 497	304 770	674 267
Total financial liabilities		0 %	-	12 301	12 301
Net financial assets			369 497	292 469	661 966



39. Risk management (continued)

Sensitivity analysis for variable rate instruments

The sensitivity has been determined based on the exposure to movement of interest rates on non-derivative floating interest rate instruments at the statement of financial position date. If interest rates had been 200 basis points higher or lower, the increase/(decrease) in the Group's profit/(loss) and equity for the year ending 31 March 2011 are set out in the table below. This increase/(decrease) is attributable to variable interest rate borrowings, cash and cash equivalents, loans and receivables and available-for-sale investments. This analysis assumes that all other variables, in particular foreign currency rates, remains constant.

	Group		Company	
	2011 R '000	2010 R '000	2011 R '000	2010 R '000
Variable rate instrument sensitivity analysis				
Sensitivity if the interest rate increase by 200 basis points				
Increase in profit or loss	2 051	2 613	7 428	7 390
Sensitivity if the interest rate decrease by 200 basis points				
Decrease in profit or loss	(2 051)	(2 613)	(7 428)	(7 390)
	-	-	-	-

Market risk (fair value estimation)

Market risk is the risk of a decrease in the market value of a portfolio of financial instruments caused by an adverse move in market variables such as currency exchange rates and interest rates as well as implied volatilities on all of the above.

At 31 March 2011 and 31 March 2010 the carrying amounts of cash and short-term deposits, accounts receivable, accounts payable, accrued expenses and short-term borrowings, approximated their fair values due to the short-term maturities of these assets and liabilities

The fair value of long-term investments is not materially different from the carrying amounts.

The fair value of foreign exchange forward contracts represents the estimated amounts (using rates quoted by the Group's bankers), that the Group would receive to terminate the contracts at the reporting date, thereby taking into account the unrealised gains or losses of open contracts. At year-end, there were no foreign exchange forward contracts.

Liquidity risk

Liquidity risk is the risk that the Group has insufficient funds or marketable securities available to fulfill its cash flow obligations on time.

Liquidity risk arises primarily from variation in revenue flows as well as the Group's ability to repay principle debt and interest.

The Group's approach to liquidity 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 table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period as at 31 March to the contractual maturity dates.



(Registration number 1992/005427/06)

Notes to the Consolidated Annual Financial Statements for the year ended 31 March 2011

	Note(s)	Carrying amount	Contractual cash flows	Less than 1 year	1-5 years	Total
		R '000	R '000	R '000	R '000	R '000
39. Risk management (continued)						
Group						
At 31 March 2011						
Borrowings	29	4 477	4 477	958	3 519	4 477
Trade and other payables	30	73 239	73 239	73 239	-	73 239
Other financial liabilities	28	16 480	16 480	7 300	9 180	16 480
Total		94 196	94 196	81 497	12 699	94 196
At 31 March 2010						
Borrowings	29	1 467	1 467	1 354	112	1 467
Trade and other payables	30	69 836	69 836	69 836	-	69 836
Total		71 303	71 303	71 190	112	71 303
Company						
At 31 March 2011						
Trade and other payables	30	4 404	4 404	4 404	-	4 404
Other financial liabilities	28	16 480	16 480	7 300	9 180	16 480
Total		20 884	20 884	11 704	9 180	20 884
At 31 March 2010						
Trade and other payables	30	12 401	12 401	12 401	-	12 401
Total		12 401	12 401	12 401	-	12 401

Compliance risk

Compliance risk is the risk of non-compliance with any statutory requirement of central 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 Public Finance Management Act, the Occupational Safety & Health 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 price has on the financial performance and cash flows of the Group.

The impact of the slowdown in the economy has a negative impact on current and future demand and prices. As a result, prices have been adjusted in accordance with market expectations.



39. Risk management (continued)

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	Note(s)	2011		2010	
		Carrying amount	Fair value	Carrying amount	Fair value
		R'000	R'000	R'000	R'000
Group					
Financial assets					
Loans and receivables	18	637	637	-	-
Available-for-sale financial assets	14	6 438	6 438	5 745	5 745
Trade and other receivables	23	131 264	131 264	89 889	89 889
Cash and cash equivalents	24	100 570	100 570	126 394	126 394
Total financial assets		238 909	238 909	222 028	222 028
Financial liabilities					
Other financial liabilities	28	16 480	16 480	-	-
Borrowings	29	4 477	4 477	1 467	1 467
Trade and other payables	30	73 239	73 239	69 836	69 836
Total financial liabilities		94 196	94 196	71 303	71 303
Unrealised gain or loss		-	-	-	-
Company					
Financial assets					
Loans and receivables	18	637	637	330	330
Loans to group companies - Interest bearing loans	21	303 294	303 294	251 662	251 662
Loans to group companies - Non-Interest bearing loans	21	294 042	294 042	294 042	294 042
Trade and other receivables	23	5 729	5 729	9 510	9 510
Cash and cash equivalents	24	61 901	61 901	113 227	113 227
Available-for-sale financial assets	14	6 187	6 187	5 494	5 494
Total financial assets		671 790	671 790	674 265	674 265
Financial liabilities					
Other financial liabilities	28	16 480	16 480	-	-
Trade and other payables	30	4 404	4 404	12 401	12 401
Total financial liabilities		20 884	20 884	12 401	12 401
Unrealised gain or loss		-	-	-	-

Basis for determining fair values

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table 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.



39. Risk management (continued)

Non-derivative financial liabilities

Fair value is calculated based on the present value of future principal and interest cash flows discounted at the market rate on interest at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

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.

Loans and receivables

The fair value of loans and receivables are 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 loans and receivables.

Cash and cash equivalents

The fair value of cash and cash equivalents are 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.

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows was as follows:

	Note(s)	31 March 2011	31 March 2010
Borrowings (%)	29	9 - 10	9-12

40. Going concern

The consolidated annual financial statements have been prepared on the basis of 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.

	Group		Company	
	2011 R '000	2010 R '000	2011 R '000	2010 R '000
41. Cash flow reconciliations				
Inventories				
Movement per the statement of financial position (note 20)	38 954	46 816	209	(181)
Write down to net realisable value	-	(14 468)	-	-
Movement per the cash flow statement	38 954	32 348	209	(181)
Trade and other receivables				
Movement per the statement of financial position (note 23)	(41 375)	95 938	3 781	(1 838)
Movement per the cash flow statement	(41 375)	95 938	3 781	(1 838)
Trade and other payables				
Movement per the statement of financial position (note 30)	(3 407)	(5 271)	7 997	3 722
Movement per the cash flow statement	(3 407)	(5 271)	7 997	3 722
Associate loan repaid				
Balance at the beginning of the year (note 32)	-	(30 958)	-	-
Balance at the end of the year	-	(30 958)	-	-
	-	-	-	-

ABBREVIATIONS

Adult Basic Education and Training	ABET	Industrias Florestais de Manica, SA	IFLOMA
Association of BEE Verification Agency	ABVA	International Financial Reporting Standards	IFRS
Amathole Forestry Company	AFC	Institute for Commercial Forestry Research	ICFR
Broad Based Black Economic Empowerment	B-BBEE	Institute for the Management of Government Shares	IGEPE
Baboon Damage Working Group	BDWG	Independent Regulator Board for Auditors	IRBA
Central America and Mexico Coniferous Resources Cooperative	CAMCORE	Integrated Management System	IMS
Corrective Action Requests	CAR's	Komatiland Forests (Pty) Ltd	KLF
Chief Executive Officer	CEO	Key Performance Indicators	KPI
Department of Agriculture, Forestry and Fisheries	DAFF	Memorandum of Understanding	MOU
Development Bank of South Africa	DBSA	MTO Forestry (Pty) Ltd	MTO
Department of Public Enterprises	DPE	NOSA (Pty) Ltd	NOSA
Department of Rural Development and Land Reform	DRLR	Net Profit After Tax	NPAT
Department of Trade and Industry	DTI	National Treasury	NT
Enterprise Development	ED	Public Finance Management Act	PMFA
Employment Equity	EE	Programmable Logic Controller	PLC
Environmental Impact Assessment	EIA	Regional Land Claims Commissioner	RLCC
Enterprise Resource Planning	ERP	Singisi Forest Products	SFP
Education Training and Development	ETD	SGS South Africa (Pty) Ltd	SGS
Forestry and Agricultural Biotechnology Institute	FABI	SiyaQhubeka Forests	SQF
Forest Stewardship Council	FSC	South African Forestry Company Limited	SAFCOL
Forests Industries Education and Training Association	FIETA	Socio-Economic Development	SED
General Education and Training Certificate	GETC	Sector Education Training Authorities	SETA
Historically Disadvantaged Individual	HDI	Small Micro Medium Enterprises	SMME
Human Immunodeficiency Virus / Acquired Immune Deficiency Syndrome	HIV/AIDS	State Owned Entity	SOE
		Temporary Unplanted Compartments	TUP
		Tree Protection Cooperative Programme	TPCP
		University of Pretoria	UP



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