

2021/22

INTEGRATED REPORT

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

SAFCOL

**Presentation to the Joint Meeting: Portfolio
Committee on Public Enterprises and Select
Committee on Public Enterprises and
Communication**

26 October 2022



1

The report

2

Strategic Context

3

Performance against Shareholder's Compact

4

Risks and opportunities

5

Human Capital

6

Social and Relationship Capital

7

Financial Capital

8

Audits

Scope and boundary

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

Assurance providers

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

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

Board responsibility and approval

The Board is accountable for the integrity and completeness of the integrated report and any supplementary information, and is supported by various Board committees. The Board approved the FY 2021/22 integrated report and annual financial statements on 29 August 2022, after having considered the completeness of the material items dealt with, the reliability of information presented and the assurance process followed.



ICONS USED IN THIS REPORT

- Natural capital**
- Intellectual capital**
- Manufactured capital**
- Human capital**
- Social and relationship capital**
- Financial capital**



SUSTAINABLE DEVELOPMENT GOALS

ORGANISATIONAL OVERVIEW

ABOUT SAFCOL

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

SAFCOL comprises the following entities:



SAFCOL's vision

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

SAFCOL's mission

SAFCOL is committed to:

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

SAFCOL's core values

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

Values



We are passionate about forests and our communities



We conduct ourselves with honesty and integrity



We strive for customer satisfaction



We respect and value our employees



We strive for excellence and innovation in our business

SAFCOL's operations

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

KLF

- KLF is the main operating entity and generator of revenue within SAFCOL and manages 15 prime timber plantation assets in Mpumalanga, Limpopo and KwaZulu-Natal. KLF's commercial and non-commercial operations cover a land area of 189 747 ha.
- KLF manages a **research and development (R&D)** facility, a tree nursery, Platorand Training Centre, the Timbadola sawmill, and ecotourism facilities.
- Within the **Ecotourism** business unit, SAFCOL manages hiking trails, picnic sites, waterfall sites, Lakenvlei Forest Lodge as well as the Forest Industry Museum in Sabie. These are in the Limpopo and Mpumalanga provinces.
- The **Timbadola sawmill** is a softwood processing facility located in Limpopo province, near Thohoyandou town. Additional processing capacity is derived from outsourced processing initiatives.

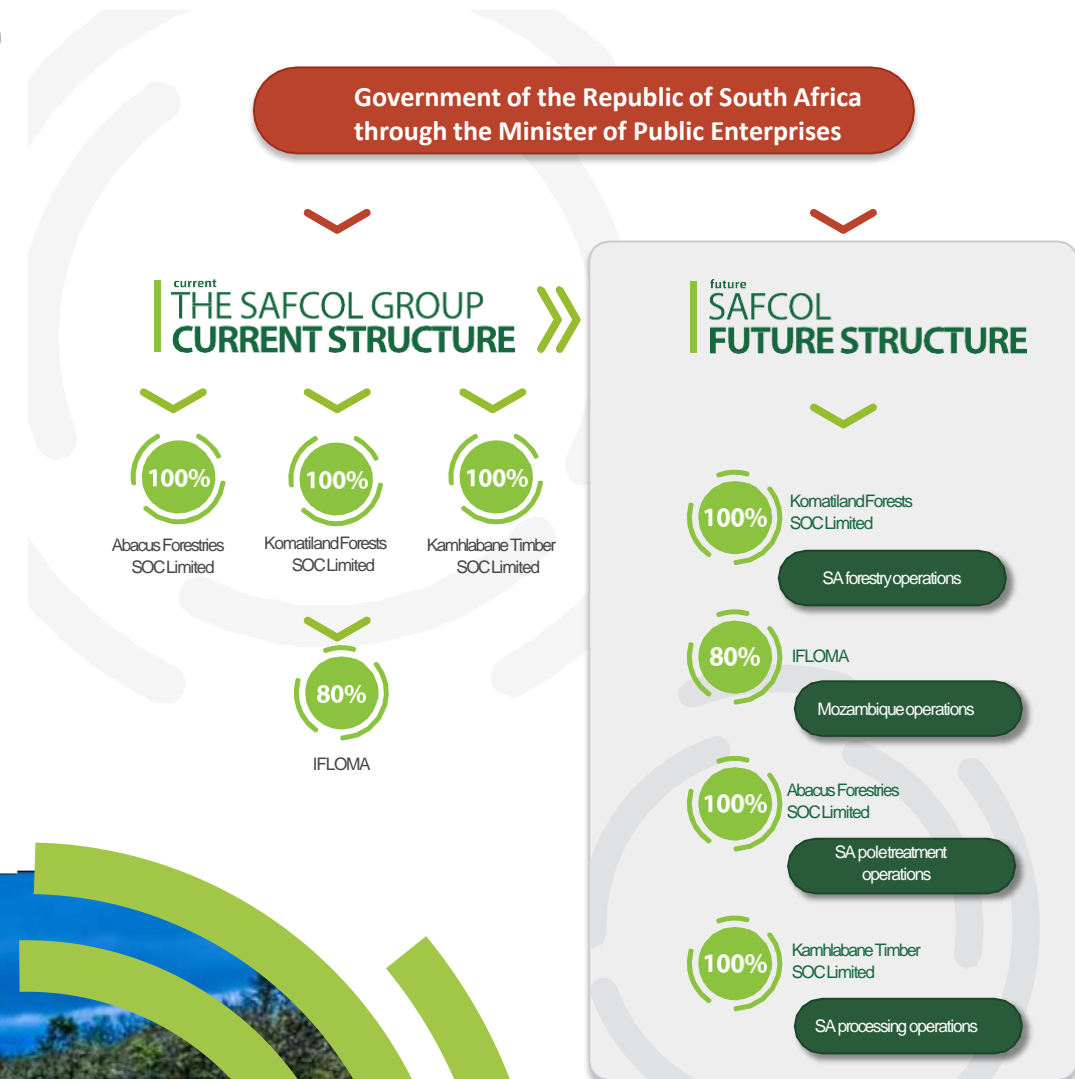
IFLOMA

- IFLOMA's commercial and non-commercial operations cover a land area of 101 114 ha. The IFLOMA forestry operations comprise four plantations: Rotanda, Bandula, Penhalonga and Mavonde.
- IFLOMA is situated in the west of the Manica province with a warehouse in Maputo and a sawmill in Messica. IFLOMA's fibre project is in Muanza District in the Sofala province. An area of 28 258 ha at the fibre project is still available for commercial planting.

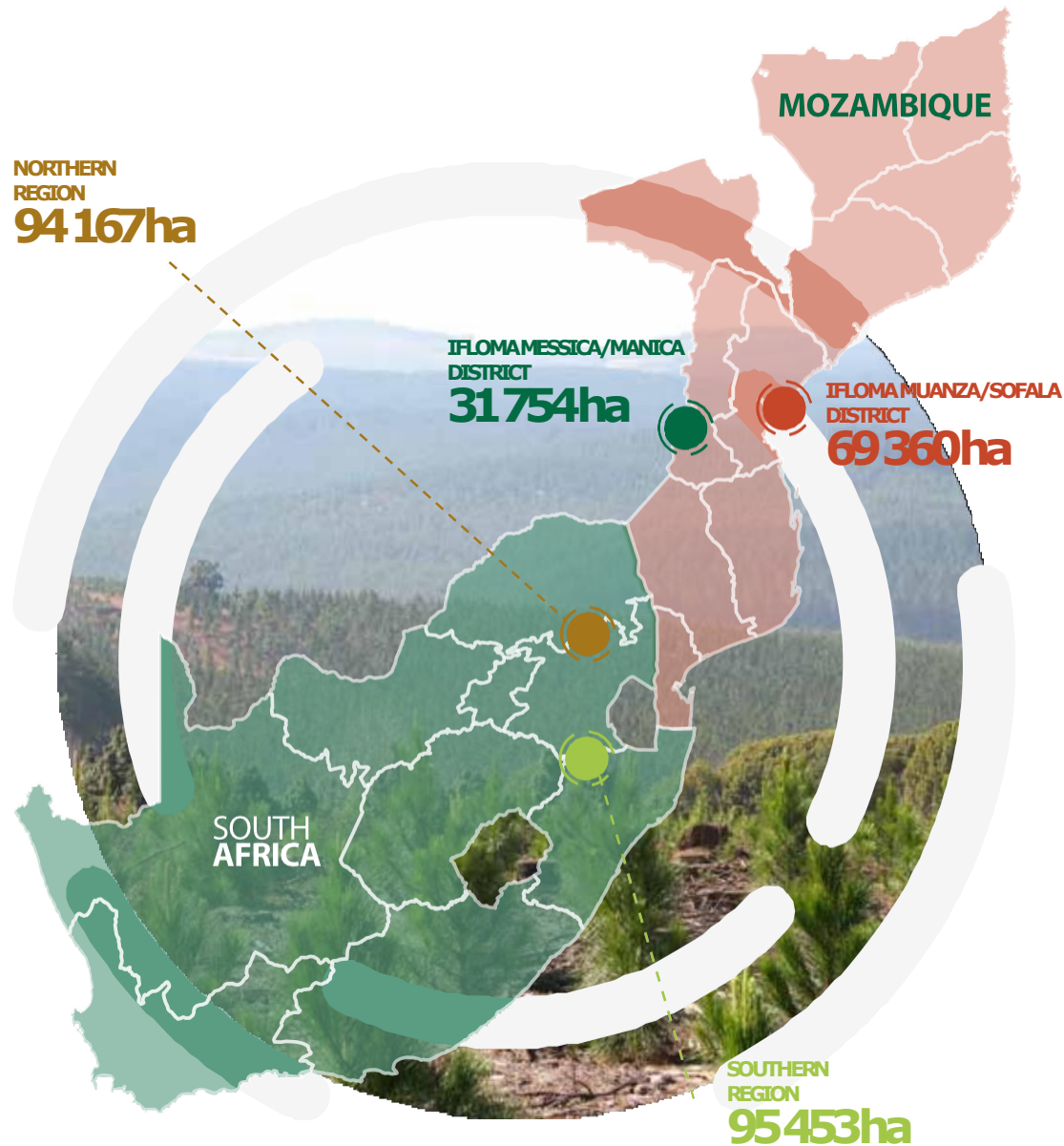
Organisational restructure

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

Organisational Group structure



SAFCOL's operations showing area (ha) under management



Mozambique (total area under management 101 114 ha)

SNAPSHOT

IFLOMA MESSICA/MANICA DISTRICT

GENUS: Pine and Eucalyptus

PLANTATIONS: Rotanda, Bandula, Penhalonga and Mavonde plantations

AREA: Manica district and Sussundenga District in Manica province

SIZE: 31 754 ha of total area under management

SNAPSHOT

IFLOMA MUANZA/SOFALA DISTRICT

GENUS: Eucalyptus

PLANTATIONS: Galinha

AREA: Muanza District

SIZE: 69 360 ha of total area under management, of which 5.3% is planted now

South Africa (total area under management 189 747 ha)

SNAPSHOT

NORTHERN REGION

GENUS: Pine and Eucalyptus

PLANTATIONS: Entabeni, Woodbush, Blyde, Wilgeboom, Tweefontein, Bergvliet and Witklip

AREA: Sabie to Limpopo (Tzaneen, Vhembe District)

SIZE: 94 167 ha of total area under management

SNAPSHOT

SOUTHERN REGION

GENUS: Pine, Eucalyptus and Wattle

PLANTATIONS: Berlin, Belfast, Nelshoogte, Jessievale, Roburnia, Ngome, Brooklands and Uitsoek

AREA: Mpumalanga Highveld around Amsterdam, Warburton, Belfast, Kaapschehoop, Barberton, Lydenburg, Mbombela as well as Nongoma in KwaZulu-Natal

SIZE: 95 453 ha of total area under management

SAFCOL Strategic Context

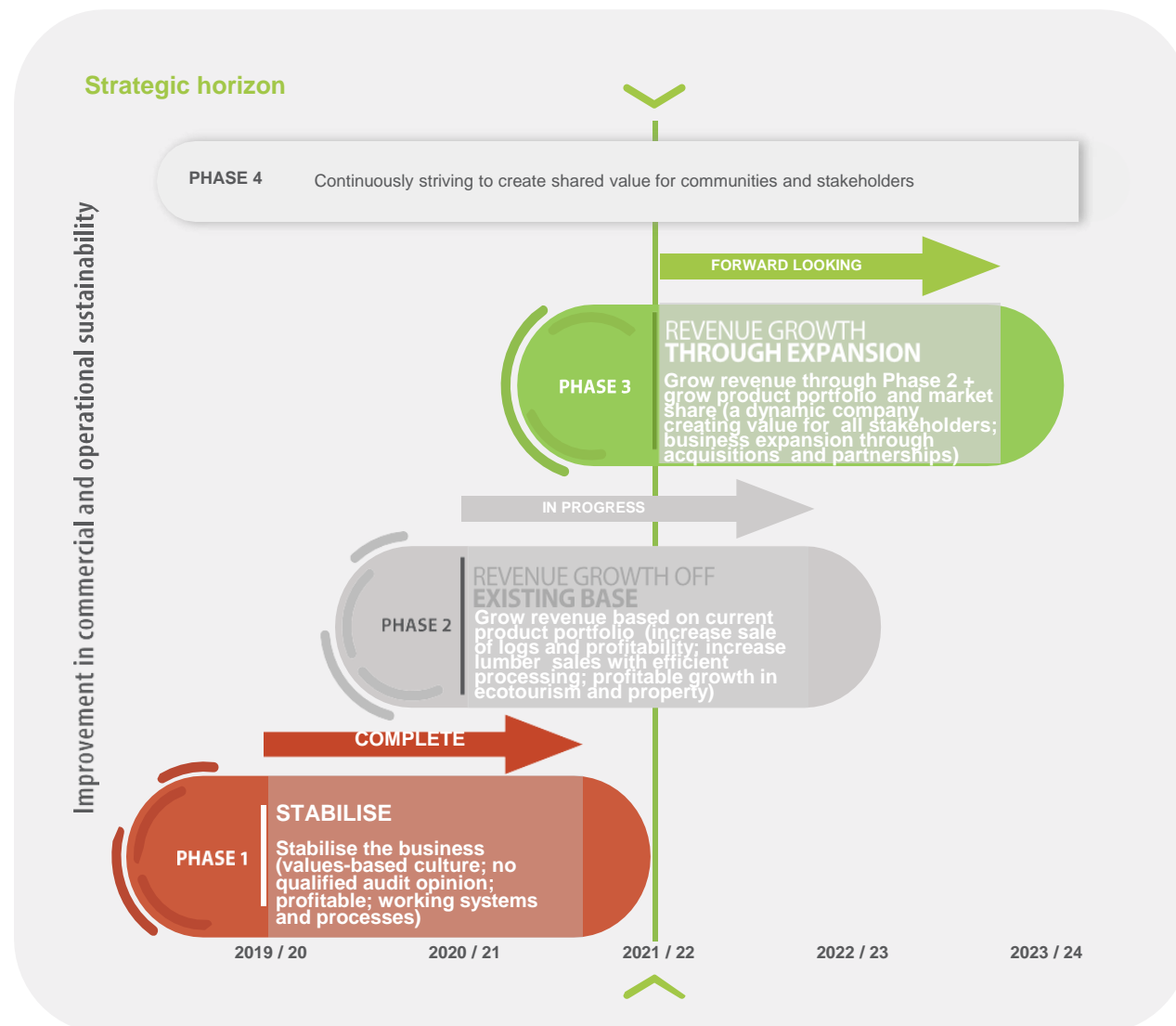
SAFCOL's 50:50 strategy:

-  50:50 Growth strategy
-  Customer centricity
-  Vertical integration
-  Horizontal integration
-  High performance culture

Focus areas:

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

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



PERFORMANCE AGAINST SHAREHOLDER'S COMPACT



Highlights

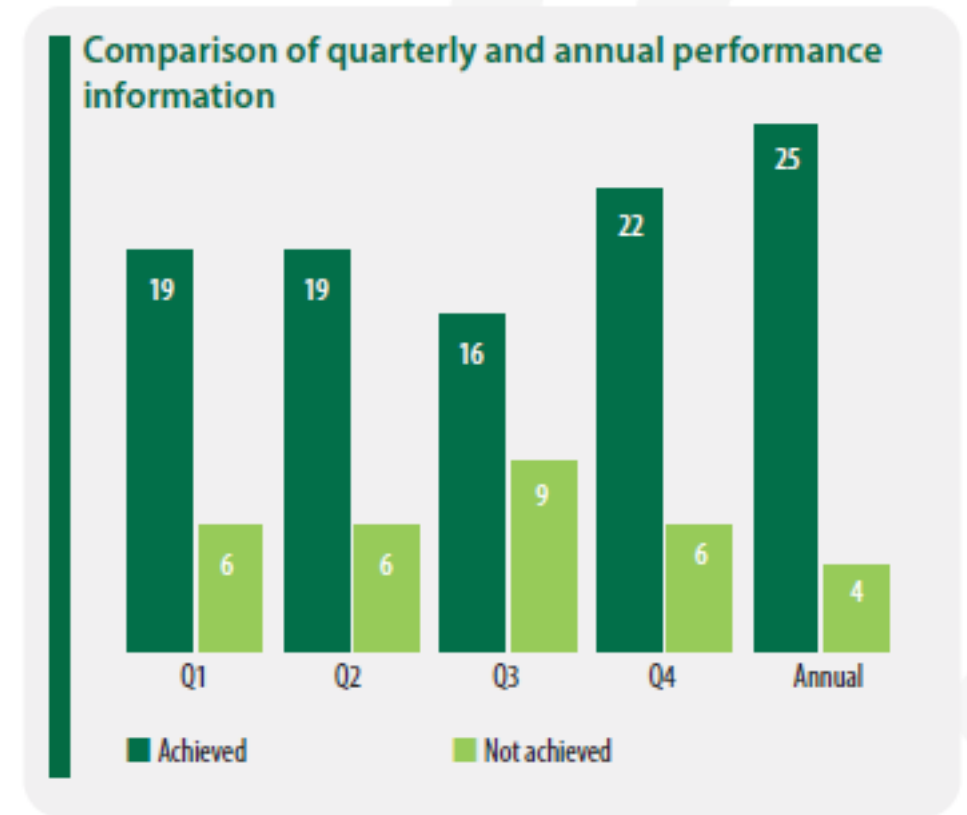
 <p>SAFCOL achieved 86% of the Shareholder's Compact (target of 80%)</p>	 <p>Healthy balance sheet and cash position maintained</p>	 <p>Zero fatalities were recorded for the second consecutive year</p>
 <p>Achieved and exceeded key operational targets (planting, pruning, thinning and clear-fell)</p>	 <p>Maintained safety, health and environmental performance and culture</p>	 <p>FSC® certification achieved for the 24th consecutive year</p>
 <p>Long-term lease agreement with Department of Forestry, Fisheries and the Environment and one Communal Property Association (successful land claim)</p>		

In FY 2021/22 the DPE proposed the inclusion of a new element of Strategic Intent:

- **Governance Excellence:** This was done to ensure that SAFCOL maintains a high standard of good corporate.

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

Overall performance against Shareholder's Compact



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

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

RISK, HEALTH AND SAFETY

HIGHLIGHTS

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



Planing and rework in drymill process at Timbavola sawmill

Risk management framework



RISK, HEALTH AND SAFETY

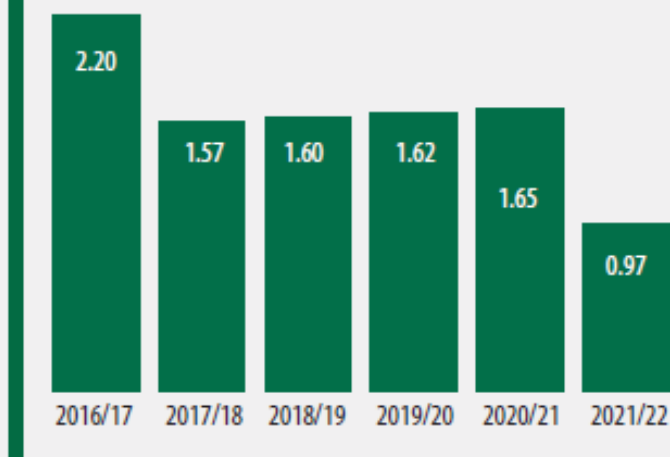
HIGHLIGHTS



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

- For the second consecutive year, SAFCOL achieved a fatality-free year in 2021/22, and for the fifth consecutive year maintained a DIFR significantly below its Shareholder’s Compact target.
- Over the past five years SAFCOL has recorded a steady reduction in the number of employees sustaining disabling injuries in the workplace, as shown in the graph below. The 2021/22 DIFR is the lowest on record.

DIFR: SAFCOL employees by financial year



HUMAN CAPITAL



HIGHLIGHTS



-  **Medical aid:** Introduced January 2022
-  Investment in **training** of employees: R20 million
-  Investment in **bursaries**: R4 million
-  Human capital **return on investment**: Increased from 10% to 94%



Harvesting operations at Entabeni Plantation

Human capital metrics report

1 385
filled positions
at 31 March and

327
vacancies

R16 468 853
invested in training
for internal/external
beneficiaries

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

1 772
SAFCOL employees
(including IFLOMA)

Consolidated
turnover
rate of
0.51%
SAFCOL
0.14%
IFLOMA

26%
female
81%
black

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



Value extraction plant at the Timbadolasawmill

Wellness

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

Focus areas

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

The impact of the wellness programme is summarised below

WELLNESS

OCCUPATIONAL HEALTH

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

WELLNESS

MEDICAL SURVEILLANCE

reduced employee exposure to occupational hazards and early detection of reversible illnesses

WELLNESS

HYGIENE SURVEYS

have led to improved living standards of our employees

WELLNESS

EAP

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

Employment equity

SAFCOL has a five-year employment equity strategy and is on track with the implementation of this strategy to support its B-BBEE

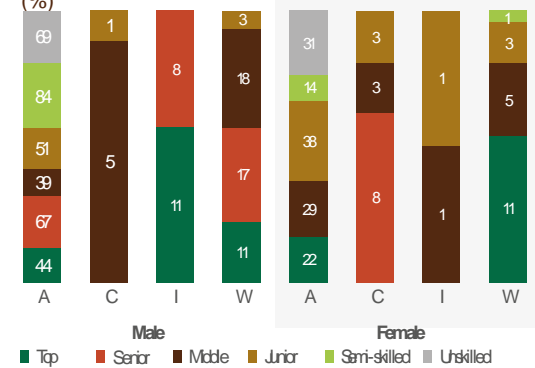
and EE strategic initiatives. The implementation of the talent management programme has contributed to the retention of designated employees in alignment with the employment equity programme.

Focus areas

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

SAFCOL employment equity statistics

Actual EE status as at March 2022 (%)



SOCIAL AND RELATIONSHIP CAPITAL



HIGHLIGHTS



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

Enterprise and supplier development (ESD)

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

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

Focus areas

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

Agroforestry projects

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

Focus areas

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

CSI

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

Focus areas

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



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

SOCIAL AND RELATIONSHIP CAPITAL



Environment, Social, governance

Sustainably managing the Company's risk and opportunities related to Environment, Social and Governance:

Social group	Achievements
Environment	<ul style="list-style-type: none"> 🌳 KLF fully FSC certified (Forestry Management and Chain of Custody); 🌳 Climate change strategy and Just Transition Plan implemented
Land Claimants	<ul style="list-style-type: none"> 🌳 Signed two MOUs to partner (13 social compacts are in place); 🌳 Signed one land lease agreement.
Communities	<ul style="list-style-type: none"> 🌳 CSI spend > R5m. 🌳 13 Agroforestry projects established and supported. 🌳 106 job opportunities were created and sustained.
Transformation	<ul style="list-style-type: none"> 🌳 ESD spend > R75m. 🌳 Seven (7) black women-owned suppliers obtained. 🌳 Silviculture contracts - 1 693 jobs created and sustained. 🌳 YES Program implemented.
Customers	<ul style="list-style-type: none"> 🌳 Relationships with customers improved (continuous improvement)

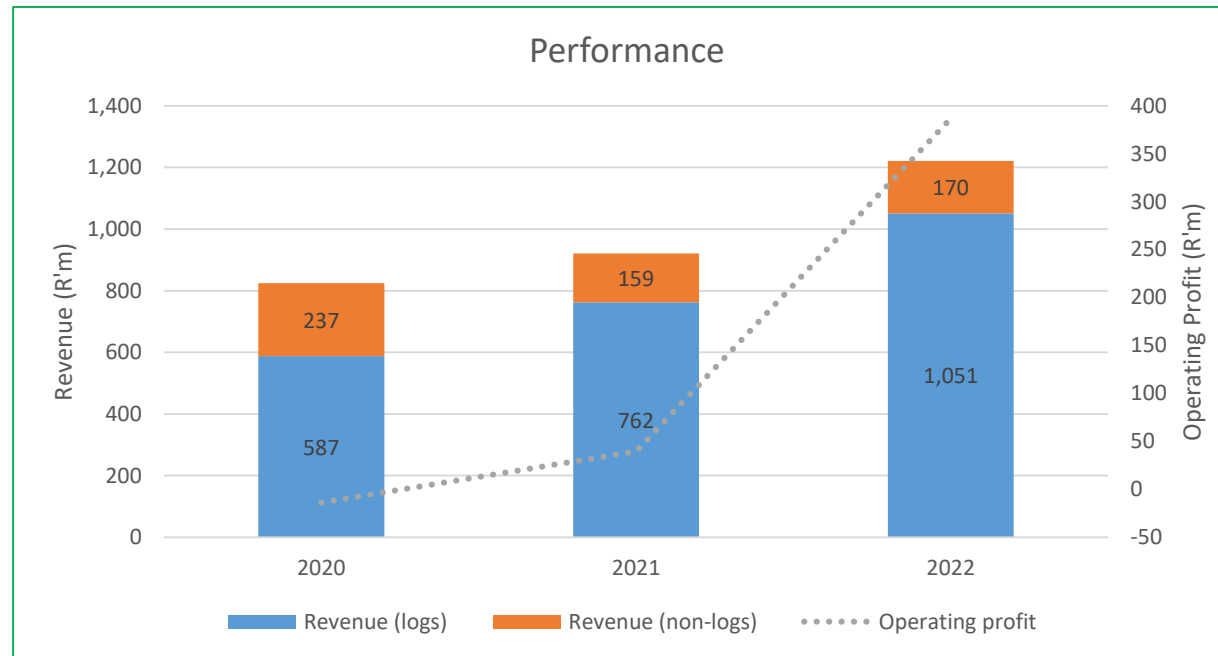


FINANCIAL CAPITAL



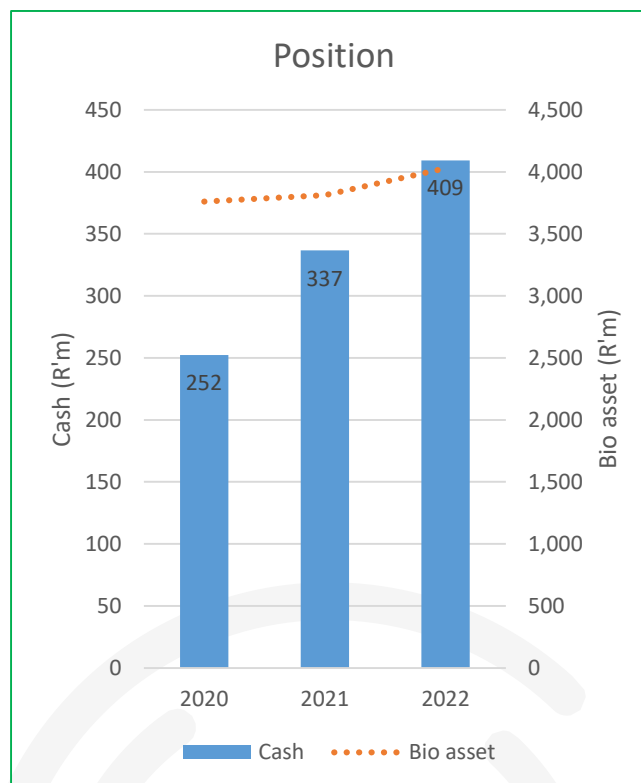
FINANCE: PERFORMANCE

- Revenue:** Increase by 33% to R1.2 billion
- Operating profit:** Increase from R40 million to R387 million
- Profit after tax:** Improved from a loss of R45 million to a profit of R84 million.
- Return on Equity:** Increase from -1.4% to 2.7%



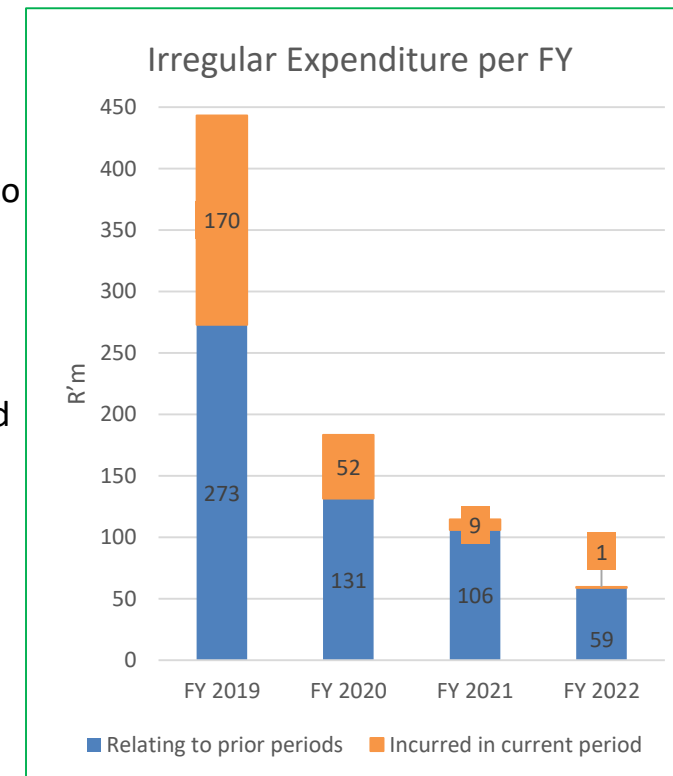
FINANCE: POSITION

- Bio asset:** Increase by 6% to R4 billion
- Cash:** Increase by 22% to R409 million
- AR days:** Improved from 56 to 36 days
- AP days:** Improved from 58 to 45 days
- Dividend:** R1 million



FINANCE: IRREGULAR EXPENDITURE

- Overall:** Irregular expenditure for the year reduced by 48% to R60 million
- New:** <R1 million additional irregular expenditure incurred in the year
- Condonation:** Determination test for condonation is in progress





AGSA: Received an Unqualified Audit Opinion



Forest Stewardship Council® (FSC®): In June 2022, Komatiland Forests SOC achieved a 25th year of certification, making it the oldest certified forestry company in Africa.



B-BBEE: In September 2022, SAFCOL improved its B-BBEE level from Level 4 to Level 2








NOSA: External compliance audit score of 87%



Anti-corruption: 100% of forensic reports recommendations implemented

CHALLENGES

-  Access to more forestable land (horizontal integration)
-  Aging infrastructure
-  Timber theft
-  Onerous public procurement processes
-  Minority shareholdings

Thank you

Enkosi

Ngiyathokoza

Ke a leboha

Ro livhuma

Dankie

Ngiyabonga

Inkomu

Ke itumetsi

Re a leboga

Siyabonga