

SAFCOL's Annual Report

Year ended 31 March 2007

Presentation to the Portfolio Committee – 07 November 2007

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Introduction

- This report is for the 12 month period ended 31st March 2007; compared to a nine month period for 2006.
- Group is profitable, self-funding and has a healthy balance sheet.
- Corporate governance
 - Newly constituted Board
 - Subscribe to King II



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Corporate Governance

- ↻ Reconstitution of SAFCOL Board of Directors - Sept 2006.
- ↻ Board committees formed in the year under review:
 - Transformation
 - Finance, Investment & Transaction committee
 - Remuneration
 - Audit & Risk Management
- ↻ Turning point - directive on privatisation - 26 March 2007
 - Privatisation guidelines received 22 August 2007
 - SAFCOL Board to oversee the transaction
 - KLF to be sold as a going concern, SAFCOL to be winded-up.



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Corporate Governance (continued)

- Shareholder's compact
 - SAFCOL's new mandate
 - KPI's
 - Strategic objectives
- Significance and Materiality framework
- Compliance to: PFMA, NFA, Companies Act, NEMA, King II and others



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Highlights of Group's Performance

- Profitability – 41.6% Pre-tax return (15.3% - 2006)
- Sustainability – Sales 1.6m m³ v/s yield of 1.6m m³ (1.1m m³-2006)
- Technology upgrade – Planned sawmill investment not in line with privatisation
- Research & Development
 - 1% of total roundwood sales invested in R&D
 - Improve genetic material
 - Maintenance of Permanent Sample Plots



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Transformation Safety, Health & Environment



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Transformation

- SAFCOL is committed to national transformation imperatives & implementation of the Forestry Charter.
- Transformation imperatives against charter elements:
 1. Ownership (N/A for SOE's)
 2. Management Control
 3. Employment Equity
 4. Skills Development
 5. Preferential Procurement
 6. Enterprise Development
 7. Socio-Economic Development



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EE and Management Control

- Due to focus on Privatisation, Affirmative Action and Employment Equity remains a huge challenge.

SAFCOL/KLF: SUMMARY OF HEADCOUNT AS AT MARCH 2007

Race and Gender Distribution

OCCUPATIONAL LEVELS	MALE					FEMALE					GRAND TOTAL Total	DISABILITIES Numbers
	Indian	African	Coloured	White	Sub-Total	Indian	African	Coloured	White	Sub-Total		
Executive Management (Grade E - F)	0	3	0	10	13	0	1	0	1	2	15	0
Senior management (Grade D4 - D5)	0	1	0	8	9	0	0	0	1	1	10	0
Middle management (Grade D1 - D3)	0	7	1	39	47	0	3	0	4	7	54	0
Technical & Admin Officers (Grade C1 - C5)	0	44	3	41	88	1	4	2	16	23	111	0
Administrative	0	512	1	10	523	2	33	4	32	71	594	3
Production Workers	0	733	0	1	734	0	197	0	0	197	931	2
Total	0	1300	5	109	1414	1	238	6	54	301	1715	5



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Skills Development & Training

- KLF operates a training centre at Platorand in Sabie:
 - 5 083 people trained in 14 115 man days in 2006/7.
- Bridging classes and experiential training in scarce skills provided for. i.e. Forestry, Artisans & Wood Technology.
- 203 learners attended ABET classes.
- R1.7m was allocated to bursaries .
- 67.7% was allocated to Black students from adjacent communities.



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Preferential Procurement – Contractors

- A bulk of our procurement goes into Contractors.
- Partnerships established with the Small Enterprise Development Agency and an MOU signed with DBSA to assist SMME's.
- Technical training, health and safety, and general contract management provided to SMME's.
- KLF supports more than 37 SMME's (R82m p.a.), including 7 Women-owned contractors.



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Enterprise Development

- In line with ASGI-SA and JIPSA initiatives, initial funding of R11m was provided for 2nd economy development projects.
- In support of the SMME development in forestry contracting, the FED unit was established.
- R2.4m was spent in different projects as at March 2007.
- Social Scan Study was initiated to ascertain needs and aspirations.
- Focus on adjacent communities and communities with land claims.




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Socio Economic Development

- SAFCOL invests in the social upliftment of employees and surrounding communities, with a special focus on children.
- The bulk of money was spent on education and related infrastructure projects 
- A total of R19.4 million invested since SAFCOL started operations in 1993; an average of R1.4 million p.a.
- Priority is given to adjacent communities & those within afforested areas.



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Safety, Health and Environment

- KLF retained its FSC certification.
- St. Lucia handed over to DEAT (Wetlands Authority) with R5.8m for rehabilitation .
- Most operations received a 4-star NOSA grading.
- HIV awareness programmes have been intensified and the medical screening is continuing.
- Tourism safety project in partnership with Mpumalanga Provincial Government.



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Financial



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Fraud and Risk Management

- Several measures are in place to raise fraud awareness within the Group.
- Adopted fraud prevention plan is included in the Corporate Plan of the Group.
- Following key initiatives were undertaken to raise the level of fraud awareness:
 - Establishing and communicating Code of Ethics for the Group;
 - Fraud Hotline: Operated independently through an external consultant;
 - Training and Road shows to raise awareness amongst staff;
 - Surprise checks and reviews.



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Fraud and Risk Management

- There are a few immaterial fraud incidents identified mostly relating to stock and cash control.
- Information on these cases were passed on to Internal Audit through various sources and includes:
 - Staff and Management;
 - External Contractors; and
 - Customers
- Disciplinary procedures have either been instituted against the individuals responsible for perpetrating the fraud or procedures are in the process of being instituted.
- The main risk in doing business remains fires.



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Financial Performance

Balance sheet	2007	2006
	Rm	Rm
Plantations	1 930	1 069
Fixed and other assets	344	328
Current assets	495	278
Total assets	2 769	1 675
Capital and reserves	2 047	1 250
Long-term liabilities	603	319
Current liabilities	119	106
Total equity and liabilities	2 769	1 675

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Financial Performance (continued)

Value Creation	2007 Rm	2006 Rm
Turnover	685	360
Less: Direct Costs	531	337
Operating profit	154	23
Investment Income	90	49
Value Created before PVA	244	72
Plantation Valuation Adjustment	862	171
Total Value Created	1 106	243

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Financial Performance (continued)

Value Distribution	2007 Rm	2006 Rm
Total Value Created	1 106	243
Less: Taxation to Govt	303	72
Less: Dividend to Govt	0	0
Less: Interest to Banks	2	2
Retained Value	801	169
Plantation Valuation Adjustment	862	171



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Financial Performance *(continued)*

- Asset value of R2,8 billion
- Expected annual returns (excl. PVA)
 - 6% forestry, 8% sawmills, 10.5% cash
 - Ave 7.83% or approx. R220 million
- Budgeted profit (excl. PVA)
 - R234 million for 2008
- Impact of fires 
 - R205 million to R223 million operating costs
 - R302 million on carrying value



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Challenges



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Challenges

- Post Fires
 - Fire recovery plans
 - Future demand and supply of logs
- Implementing new marketing policy
- Privatisation & winding-up of SAFCOL
 - Litigation
 - Tight timeframe
 - Land restitution
- Implementation of forestry charter and transformation



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Vision

SAFCOL will be managed and developed in such a way that it will be recognised as a world class company in the timber industry. This will enable SAFCOL to:

- Earn acceptable returns for its shareholder
- Be recognised as a top employer
- Promote innovation and technical excellence



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