



2020/21
INTEGRATED REPORT

**GROWTH THROUGH
EXCELLENCE, EXPANSION
AND PARTNERSHIPS.**



BUILDING OUR
SUCCESS THROUGH
TRANSFORMATION,
INNOVATION AND
MUTUALLY BENEFICIAL
PARTNERSHIPS

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ABOUT THIS REPORT

SAFCOL's integrated report is prepared based on the principles contained in the International Integrated Reporting Framework published by the International Integrated Reporting Council, some elements of the National Treasury Annual Report Guide for Public Entities and the King IV Report on Corporate Governance for South Africa, 2016 (King IVTM)¹.

Scope

This report presents the financial, technical, operational, social and environmental performance of the Company for the 2020/21 financial year (1 April 2020 to 31 March 2021). Our progress towards integrated thinking is reflected in our performance indicators that cover financial and non-financial matters, as well as our strategy, material matters and associated risks. This report should be read in conjunction with our full set of annual financial statements as this offers a comprehensive overview of our financial performance. The information contained herein refers to the performance of SAFCOL, which includes the Forest Stewardship Council® (FSC®) certified Komatiland Forest SOC Limited (KLF) (FSC® – C013832 – Forest

Management and FSC® – C007806 Chain of Custody and its subsidiary operations of Indústrias Florestais de Manica SARL (IFLOMA) based in Mozambique.

Forward-looking statements

This report may contain certain forward-looking statements that are neither reported financial results nor based on historical fact, but constitute current expectations based on reasonable assumptions, data or methods, and are not a guarantee of future results. These forward-looking statements, by their nature are subject to significant known or unknown risks and uncertainties. They include, without limitation, statements relating to SAFCOL's business prospects, future developments, trends and conditions in the forestry and related industries and geographical markets in which we operate. SAFCOL neither intends to nor assumes an obligation to update or revise any forward-looking statements as a result of either new information, future events or otherwise.

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, and safety, health, environmental and quality (SHEQ) functions
- Internal audit function
- Independent Broad-Based Black Economic Empowerment (B-BBEE) verification agencies
- FSC® Certification
- Auditor-General of South Africa (AGSA)

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 2020/21 integrated report and annual financial statements on 20 September 2021, after having considered the completeness of the material items dealt with, the reliability of information presented and the assurance process followed. The consolidated financial statements were prepared and audited in accordance with International Financial Reporting Standards as well as the requirements of the Public Finance Management Act, No 1 of 1999 (PFMA) and Companies Act, No 71 of 2008.

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Icons used in this report



Financial capital



Manufactured capital



Relationship capital



Natural capital



Human capital



Intellectual capital



Social capital



SUSTAINABLE
DEVELOPMENT GOALS

Navigation icons



This icon refers to more detailed information in this report.



This icon refers to information on our website.



This icon refers to our glossary on pages 140 and 141.



WHO WE ARE

SAFCOL is an integrated forestry business comprising Komatiland Forests SOC Limited (KLF), Abacus Forestries and Kamhlabane Timber in South Africa, and Indústrias Florestais de Manica SARL (IFLOMA) in Mozambique

SAFCOL was established in 1992 under the Management of State Forests Act, No 128 of 1992 (MSFA). In terms of section 3 of the MSFA, SAFCOL's objective is 'the development in the long-term of the forestry industry according to accepted commercial management practice'.

As a state-owned company, SAFCOL has a dual mandate of commercial viability and socio-economic development. Our mandate is to conduct the commercial forestry business, and realise an effective return to our Shareholder, while contributing to economic development, mainly in rural areas.

KLF is certified by the FSC®, an international, non-profit organisation. The primary role of the FSC® is to monitor KLF's responsible management of its plantations and ensure that it is done in a way that preserves the natural ecosystem and benefits the lives of local communities and employees while ensuring that KLF sustains its economic viability.

OUR VISION

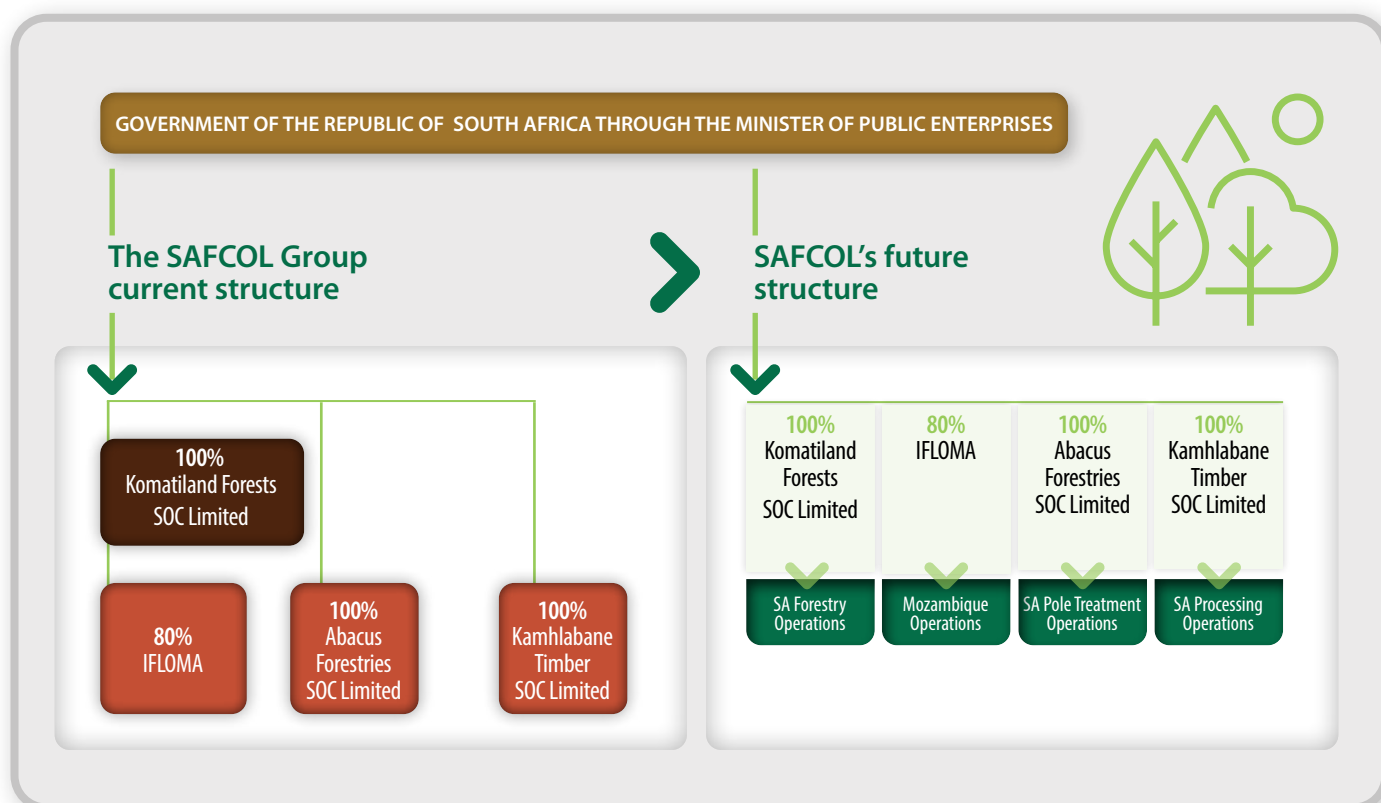
To become a leader in sustainable forests and commercial forest products.

OUR 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.

ORGANISATIONAL GROUP STRUCTURE



South African Forestry Company Limited (SAFCOL) is a 100% state-owned company (SOC), with the Government of the Republic of South Africa's Department of Public Enterprises (DPE), being the sole shareholder.

SAFCOL comprises the following entities:

- Komatiland Forests SOC Limited (KLF), a 100% owned subsidiary of SAFCOL
- Abacus Forestries SOC Limited, a 100% owned subsidiary of SAFCOL – listed as dormant (non-operational)
- Kamhlabane Timber SOC Limited, a 100% subsidiary of SAFCOL – listed as dormant (non-operational).

IFLOMA in Mozambique is an 80% owned subsidiary of KLF.

SAFCOL holds a 9% minority shareholding in SiyaQhubeka Forests (Pty) Ltd.

SAFCOL further holds minority interests in four entities on behalf of communities, namely:

- Amathole Forestry Company (Pty) Ltd (16%)
- MTO Forestry (Pty) Ltd (11.3%)
- Singisi Forest Products (Pty) Ltd (10.49%)
- SiyaQhubeka Forests (Pty) Ltd (16%).

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 would not trigger any adverse tax effect in Mozambique. A cession agreement between SAFCOL and KLF was developed and adopted by the IFLOMA General Assembly and SAFCOL's Board on 19 April 2021 and 30 April 2021, respectively. It is hoped that this process will be finalised in the next reporting period.



OUR OPERATIONS

Area of operation	Total area (ha)	Plantable area (ha)	Planted area (ha)	Temporarily unplanted (ha)	Still plantable (ha)	Conservation (ha)
South Africa	189 747	120 644	116 695	3 949	–	69 103
Mozambique	101 114	17 385	16 275	1 110	28 581	55 147
Total SAFCOL	290 861	138 029	132 970	5 059	28 581	124 250

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 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.

SAFCOL's state-of-the-art R&D centre outside Sabie conducts research on silviculture practices, wood-quality testing, pest and disease control, engineered wood products, yield and growth modelling and genetic improvements.

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 located 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.

The Tweefontein Plantation houses a nursery that supplies KLF plantations with seedlings and cuttings, thereby ensuring sustainable feedstock for all our plantations as well as seedling sales to the private sector.

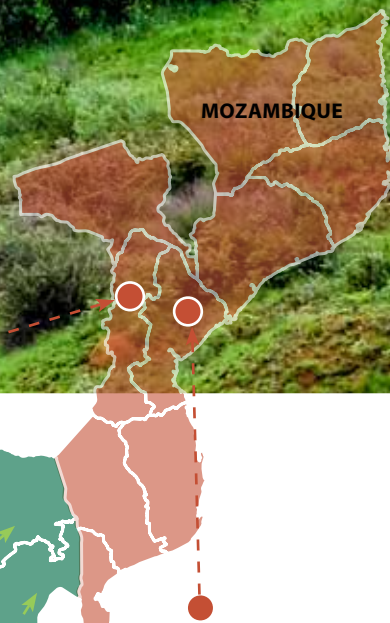
IFLOMA's commercial and non-commercial operations cover a land area of 101 114 ha. The IFLOMA forestry operations comprise four plantations: Rotanda, Bandula, Penhalonga and Mavonde.

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 located in Muanza District in the Sofala province. An area of 28 581 ha at the fibre project is still available for commercial planting.



WHERE WE OPERATE

An overview of SAFCOL's operations is depicted below. This provides details of regionalised operations, including plantation locations and sizes.



IFLOMA MESSICA DISTRICT SNAPSHOT

Genus:

Pine and Eucalyptus

Plantations:

Rotanda, Bandula, Penhalonga and Mavonde plantations

Area:

Manica district and Sussundenga District in Manica province

Size:

31% of total area under management

IFLOMA MUANZA DISTRICT SNAPSHOT

Genus:

Eucalyptus

Plantations:

Galinha

Area:

Muanza District

Size:

69% of total area under management

NORTHERN REGION SNAPSHOT

Genus:

Pine and Eucalyptus

Plantations:

Entabeni, Woodbush, Blyde, Wilgeboom

Area:

Graskop to Limpopo (Tzaneen, Vhembe District)

Size:

25% of total area under management

CENTRAL REGION SNAPSHOT

Genus:

Predominantly Pine and Eucalyptus

Plantations:

Twefontein, Bergvliet, Brooklands, Witklip, Uitsoek

Area:

Graskop, Sabie, Hazyview, Lydenburg (Mashishing)

Size:

37% of total area under management

HIGHVELD REGION SNAPSHOT

Genus:

Pine, Eucalyptus and Wattle

Plantations:

Berlin, Belfast, Nelshoogte, Jessievale, Roburnia, Ngome

Area:

Mpumalanga Highveld around Ermelo, Belfast, Kaapschehoop, Barberton, Warburton as well as Nongoma in KwaZulu-Natal

Size:

38% of total area under management

BOARD OF DIRECTORS

The mission assigned to us by the President is to stabilise governance, operations and finances of SOEs so that they meet the demands of SA's economy and its people and the opportunities in their sectors. This they must do to be innovative, to be market shapers in these sectors and combine their efforts with those of the private sector and civil society.

Hon Pravin Gordhan
Minister for Public Enterprises



Mr Mpho Makwana (51)

(Chairperson)

BAdmin Hons (Public Administration), BAdmin, Executive Development Programme, Postgraduate Diploma in Retail Studies

Leadership, corporate strategy, public administration, energy, banking and financial services, sales and marketing, transformation, public policy, steel industry, manufacturing and pharmaceutical



OT Monaheng (57)

Chief Executive Officer

Electronic Engineer

MBA (General, IT and Marketing), BSc (Electronic Engineering), BSc Ed (Physics and Mathematics)

Business leadership, international business, technical leadership, electronic and telecommunications engineering, programme management, project management, business development, strategy development, aerospace and defence industries



J Maruma (37)

Acting Chief Financial Officer

CA(SA)

MBA candidate, CA(SA), CTA, BCom (Hons) Banking, BCom banking

International Financial Reporting Standards, Basel II, corporate governance, new Companies Act, Treasury regulations, sustainability reporting, integrated reporting, social and ethics, information technology



ZP Zatu (38)

MSc Corporate Finance, BCom, Higher Diploma in Accountancy, CA(SA)

Accounting, financial management, audit and risk management



Adv L Mokgatle (66)

LLB, Admitted Advocate of the High Court of South Africa

Legal, strategy, project planning and management, negotiation, community development, arts, culture, networking, environment and sustainable development, research, economics, change management, policy analysis, risk management, organisational development, stakeholder management

- Human Resources and Remunerations Committee
 - Finance, Investments and Transactions Committee
 - Audit and Risk Committee
 - Safety, Health, Environment and Quality Committee
 - Social and Ethics Committee
- Corresponding colour bar denotes head of committee



N Balton (59)

MSc (Public Policy and Management), BEd, BA (Education)

Leadership, public policy, financial management, research, politics, education



J Yawitch (64)

MSc (Agricultural Development), MA (Development Studies), BA (Hons), BA

Agriculture, development studies, leadership, public policy, climate change/environment sustainability, land tenure and reform

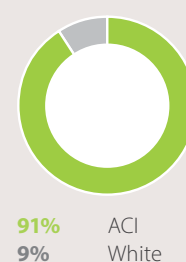


Y Pillay (38)

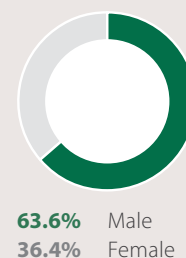
MBA, BSocSci, Postgraduate Diploma in General Management, Certificate in Cybersecurity

Strategy, communications, change management, research, and governance, transport and logistics management, development finance

Racial diversity



Gender diversity



F Baleni (61)

BA (Social Development Studies), Diploma: Political Science and Trade Unionism

Commercial, risk, governance and compliance, health and safety, government relations, education and training, collective bargaining processes, stakeholder management



L Malema (50)

LLB, BProc, Admitted Attorney of the High Court of South Africa

Corporate governance, legal, compliance, stakeholder management, education, training and leadership

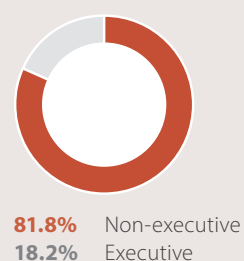


B Hanise (39)

BCom, BCom (Hons), Postgraduate Certificate in Accounting, CA(SA)

Accounting, audit, turnaround and business rescue, risk management

Director classification



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EXECUTIVE COMMITTEE

With a full complement of talented and experienced leadership, SAFCOL is more focused, more agile, and in a better position than it has previously been to deliver on its mandate and operational and strategic objectives.



OT Monaheng (57)

Chief Executive Officer
Electronic Engineer

MBA (General, IT and Marketing), BSc (Electronic Engineering), BSc Ed (Physics and Mathematics)

Business leadership, international business, technical leadership, electronic and telecommunications engineering, programme management, project management, business development, strategy development, aerospace and defence industries

Date of appointment:
1 December 2017



J Maruma (37)

Acting Chief Financial Officer
CA(SA)

MBA candidate, CA(SA), CTA, BCom (Hons) Banking, BCom banking

International Financial Reporting Standards, Basel II, corporate governance, new Companies Act, Treasury regulations, Sustainability reporting, integrated reporting, social and ethics, information technology

Date of appointment: 1 April 2020 to
31 March 2021



D Motseko (48)

Executive: Human Capital
Registered Psychometrist

Master of business leadership, BSocSci (Hons) in Industrial Psychology, BSocSci in Industrial Psychology, Advanced Programme in Organisational Development

Leadership development, strategy development, organisational design principles and development, employee performance improvement, HR policy, process and systems design, change management, workforce planning and development, HC due diligence, employee value propositions, employee relations and diversity, talent acquisition, learning and development, job evaluations, climate and culture surveys, succession planning and talent management, psychometrics assessments, stakeholder management

Date of appointment: 2 January 2018



S Dlamini (54)

Chief Operating Officer
Registered Professional Chemical Engineer

Master's in Engineering Management, BSc Chemical Engineering, BSc Chemistry and Biology, Leadership Development Program, Registered Professional Engineer (PrEng)

Project management, general engineering management including operations and maintenance

Date of appointment: 5 October 2020



V Harichund (46)

Executive: Strategy and Commercial
Chemical Engineer, Strategy Consultant

Master of Business Leadership, BSc Engineering (Chemical), Executive Development Programme (EDP), Master in Strategy Execution – Balanced Scorecard (Certified Training), Advanced Program in Customer Centricity and Digital Transformation

Strategic planning, Africa market entry and strategy, balanced scorecard, business development and sales, marketing and communications, business transformation, chemical engineering design, development of digital twins, customer leadership and sales impact, project management, customer relationship management, market and competitor intelligence, IT software management

Date of appointment: 1 July 2020



S Mpontshana (42)

Executive: Legal Services
Admitted Attorney

LLM (Commercial Law), LLB, Admitted Attorney

Business leadership, commercial law, public law, corporate governance, due diligence assessment, establishment of business relationships and business structures

Date of appointment: 1 June 2018



T Sathenkge (42)

Acting Executive: Strategy and Commercial

MBA, Management Development Programme (MDP), ND Information Technology

Leadership in ICT, system implementation and support, project management. ICT infrastructure management. Stakeholder management. ICT strategy, managing inter-Africa teams

Date of appointment: 1 April 2020 to 30 June 2020



S Mathe (41)

Acting Chief Risk Officer
Attorney

LLB, Advanced Diploma (Business Management/Enterprise-wide Risk Management), GIBS Management Development Programme, Admitted Attorney of the High Court of South Africa

Enterprise-wide risk management, compliance management, insurance, forensic and legal

Date of appointment: 1 April 2020 to 31 May 2020



C Marais (49)

Chief Risk Officer
Certified Director (IoDSA Cert. Dir.), Certified Risk Management Professional (IRMSA CRM Prof)

MBA, Bluris

Governance, risk management, ethics, compliance, insurance, legal

Date of appointment: 1 June 2020



LN Rapoo (44)

Chief Audit Executive
Certified Internal Auditor

BCom Accounting Sciences, Certified Internal Auditor (CIA)

Governance, enterprise risk management, internal audit, forensic audit, ICT audit

Date of appointment: 1 June 2020



N Mashego (34)

Acting Chief Audit Executive
Internal Auditor

BTech (Internal Auditing), Certified Internal Auditor, Postgraduate Diploma (Business Administration)

Internal audit, risk management, governance, policy development and review, strategic planning, monitoring and evaluation, service management and delivery, revenue and financial management, business administration, project management

Date of appointment: 1 April 2020 to 31 May 2020



T Moloi (37)

Acting Chief Operating Officer
Forester

BSc (Forestry), MSc (Forest Science), Senior Management Programme (SMP), Management Development Programme (MDP), Accelerated Development Programme (ADP)

Forestry and sawmilling experience, general management and leadership

Date of appointment: 1 April 2020 to 30 September 2020

BOARD CHAIRPERSON'S STATEMENT



Mr Mpho Makwana
SAFCOL Board Chairperson

The South African forestry products sector contributes 4.5% to South African manufacturing and 25% of our agricultural GDP.

I am very pleased to introduce what is effectively a snapshot of an extraordinary year – SAFCOL's integrated report for the financial year 2020/21.

In the face of unprecedented adverse operating conditions for a consecutive year due to the global Covid-19 pandemic, the organisation managed to display commendable resilience, a commitment to delivering on its dual mandate of commercial viability and sustainability performance, and real progress against its strategic objectives.

SAFCOL managed to secure seven new customers and earned positive market sentiment based on customer demand. Its operating costs in the prior financial year were 25% below budget, employee costs 29% below budget, and the Group improved from an operating loss of R14m in the prior year to an operating profit of R40m in the year under review.

External environment: medium-term challenges and opportunities

The South African forestry products sector contributes 4.5% to South African manufacturing and 25% of our agricultural GDP, and supports up to 700 000 livelihoods¹.

It is a sector which was faced with several macro-scale challenges even before the Covid-19 pandemic. The sector faces pressure over its consumption of water and energy and needs to modernise urgently in order to maintain production efficiencies. Notwithstanding these challenges, the sector offers significant possibilities. Mechanisms for accurately estimating the carbon sequestration capacity of South African forests are currently being researched and will be crucial in establishing a clearer view of the sector's overall climate impact. Sustainable forest management combined with accurate measurement tools will in the future result in our ability to maintain or increase stocks of sequestered carbon without impacting our production yield.

Biorefineries could hold the potential for efficient use of unproductive material, and a method of contributing to several

innovative new value chains. Forestry can also play a significant role in the development of materials suitable for affordable housing, sustainable buildings, and the minimisation of carbon usage in construction. In this regard, our ongoing work with the Centre for Scientific and Industrial Research and the University of Stellenbosch into new products holds exceptional promise.

Strategy

Despite the challenging environment, the performance of the Company bodes well for our ability to continue to make progress against our strategic objectives. Our medium-term strategy, which was adopted in November 2018, has outlined a phased approach of turning the Company around and setting it on a new trajectory. The efforts of the Board and management to execute the medium-term strategy are now clearly visible, and I look forward to further progress being made in this regard.

Appointments: Executive

Our ability to deliver on strategy has been enhanced by a fully capacitated Executive Committee, with competent leaders who will drive a culture of high performance across the business. In FY 2020/21, the following appointments were made:

- Chief Operating Officer
- Chief Risk Officer
- Chief Audit Executive
- Executive: Strategy and Commercial

The appointment of the CFO was concluded in FY 2020/21, with commencement on 1 April 2021. The role of the Chief Information Officer, who will assist SAFCOL to implement an optimised enterprise resource planning (ERP) solution and mitigate information and communications technology (ICT) risks, has been added to the executive team.

With a full complement of talented and experienced executives, SAFCOL is more focused, more agile, and in a better position than it has previously been to deliver on its mandate, and operational and strategic objectives.

¹ Masterplan for the Commercial Forestry Sector in South Africa: 2020 – 2025.

Appointments: Board

There were no changes in terms of Non-executive Directors. In terms of Executive members, the CFO, Mr Hlatshwayo, resigned on 29 February 2020 (in the previous financial year) and Mr J Maruma became Acting CFO until 31 March 2021.

Performance management

A significant step forward in enhancing performance, decision-making and accountability has been the introduction of a web-based performance management tool (ECAPS) to integrate people, processes, strategy and measurement. The introduction of ECAPS aims to simplify the performance management process and optimise individual performance by providing on-the-spot feedback and weekly tracking. This is in line with SAFCOL's continuous effort to inculcate a high-performance culture.

Through ECAPS, employees, together with management, will have full visibility of targets and are encouraged to update progress regularly. The rollout of the system began in FY 2020/21, and it has been successfully integrated into the work of the Board, Executive Management and employees across SAFCOL. Full implementation of the system will be complete in the performance cycle of FY 2021/22.

Irregular expenditure

We have successfully reduced irregular expenditure by 83% relative to prior years, down from R52m in the previous financial year to R9m for FY 2020/21. We embarked on a determination test to establish root causes for irregular, fruitless and wasteful expenditure in order to enhance accountability. We are in the process of requesting condonation of irregular expenditure from the National Treasury in order to reduce the opening balance in our financials.

Scenario planning

SAFCOL's scenario planning process was concluded and approved in December 2020. The objective of the process was to present short- and medium-term scenarios that examined

the possible impact of the economic downturn and the Covid-19 pandemic on SAFCOL's growth and operations.

The process was used to identify key areas that will enable SAFCOL to remain resilient and sustainable during the economic downturn and the pandemic. Key action plans were identified to ensure that the Company is prepared to persevere in the environment in which it finds itself.

Looking forward

Our long-term planning is based on the work and experience of our Board and reference to projects such as the Indlulamithi South Africa Scenarios 2030 document, which outlines three possible scenarios for our future growth and social cohesion, and the Masterplan for the Commercial Forestry Sector in South Africa: 2020 – 2025.

Acknowledgements and conclusion

I would like to acknowledge, in particular, our relationships with key governmental representatives including the Minister and Deputy Minister of Public Enterprises, and the Portfolio Committee of Public Enterprises in Parliament, with whom we believe we have established a strong and collegial stakeholder relationship through which we are held to account for our performance as a state-owned company.

Collectively, as the Board, Executive Management and the organisation as a whole, we remain focused and committed to the continued and improved delivery of our mandate, and the creation of value among our broad stakeholders.



Mr Mpho Makwana
SAFCOL Board Chairperson



CHIEF EXECUTIVE OFFICER'S OVERVIEW



OT Monaheng
Chief Executive Officer

We want to build an organisation that we're proud to leave for the generations to come, and will continue to focus on building a culture within SAFCOL that supports our organisational objectives, and which engenders a sense of pride in our brand and in the work we do.

SAFCOL's 2020/21 financial year began on 1 April, and thus coincided with the announcement of the first national lockdown aimed at curbing the spread of the coronavirus. Under the conditions of that initial lockdown, only essential services and businesses were allowed to operate, and all gatherings were prohibited.

Understandably, this had a debilitating effect on SAFCOL's business. By May 2020, we had resumed operations at 50% of our normal capacity, and the remainder of the year would be marked by a world, nation and organisation coming to grips with the pandemic and its widespread effects.

In May we focused on the maintenance of our assets, assessing market conditions, and preparing to return to full operations. By June, buoyed by unexpectedly high demand for lumber, we slowly returned to an operational context approaching normality. Overall, we lost two complete months of operations, making this a quite exceptional year that defies easy comparison.

Despite the challenge of Covid-19, SAFCOL managed to deliver on its dual mandate in FY 2020/21, both commercially and as a responsible corporate citizen. We managed to run the SOC as a sustainable enterprise, and we also managed to contribute positively to our communities and stakeholders. I believe that both our stakeholders, and the organisation itself, are better off thanks to our hard work over the course of the year, curtailed as it may have been.

This was partly due to favourable circumstances in the market for our raw materials and processed goods. In fact, our challenge was to sufficiently ramp up production capacity in order to meet this demand, while being cautious not to overextend and not to take risky safety shortcuts. This higher-than-anticipated demand was largely as a result of societal trends caused by the lockdowns and pandemic: many people found themselves with disposable income that would have been spent on travel and holiday costs, and at

the same time wished to augment their domestic arrangements to more comfortable work-from-home and home improvements.

At the start of the financial year we had reduced our prices by 9% in order to accommodate what we believed would be a struggling industry. Later in the year the increased demand would have been a good reason to review the prices upwards, which has persisted into the following financial period.

As we delivered on our dual mandate, we were able to achieve 67% of the Shareholder's Compact targets as contracted with the DPE. This was a substantial increase on our performance relative to the prior year, and achieved under exceptionally difficult circumstances.

Our revenue grew by 12% year on year, and our projections indicate that if we had operated for the full 12 months this would have increased to 20% growth. Our operating profit increased to R40m from a loss of R14m in the prior year. Profit and loss for the year after tax reduced from a loss of R66m in the prior year to a loss of R45m in the current year. The cash generated was R337m, which was an improvement of 33% on the prior year.

Strategy

This is an indication that our strategic planning and implementation are beginning to bear fruit. Our medium-term strategy is defined in three phases. The first phase was to stabilise the business, and improve our systems, people performance and culture. The second phase is to grow our business based on our current set of products. The third phase will be to grow the business through diversification of the product portfolio, with the eventual goal of Strategy 50:50, whereby half of our revenue will be derived from beneficiated products, and half from raw materials.

Approximately 80% of our revenue is derived currently from log sales. The problem with this is that our volumes are capped by our planted land and sustainable volume, and as a result, as costs increase on an inflationary basis,

profit is reduced unless price continues to increase, which is not sustainable. In addition, reliance on a single resource at risk of damage through fire poses too high a risk to the business. We hope that by the end of FY 2022/23 we will have come close to our 50:50 goal. The implementation journey of the strategy is captured in the diagram below.



[Read more on page 22](#)

Culture

How we work determines how we are going to perform. It doesn't matter how good the strategy is, if the culture doesn't support its achievement then its realisation is almost impossible. We are driving a values-based culture at SAFCOL

that encourages all the employees to care about the achievements of the organisation and about the wellbeing of their fellow colleagues. Through our culture we aim to drive a high-performance organisation that prioritises safety.

All employees are beginning to embrace and internalise these values. As a result, we have seen a proactive approach to safety, and a more focused approach to performance. Objectives, rewards and recognition are now well understood, as are the consequences for underperformance. The employees are empowered to make decisions aligned with the values themselves, and not automatically cede responsibility to management.

Safety

We were very pleased to record zero fatalities for the year under review. In addition, our disabling injury frequency rate was drastically reduced. I'm very pleased with this result, but safety requires constant vigilance and prioritisation, and we will seek to constantly improve.

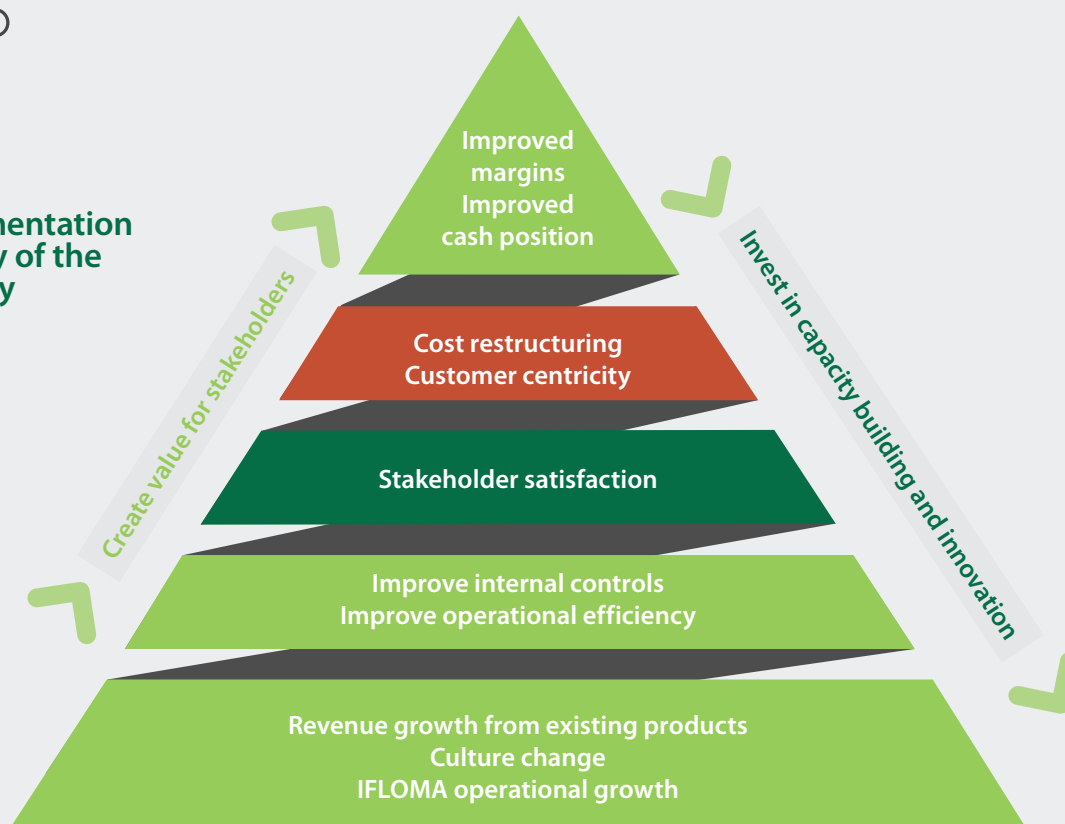
Our responsibility in this regard does not end with the employees, but also extends to the communities residing close to our operations. We continue to conduct campaigns to educate community members as well as employees around health and safety.



[Read more on page 32](#)



The implementation journey of the strategy



● Work in progress

● Good progress on implementation

● Implemented

This was particularly important given the pandemic and the importance of enforcing adequate protocols to prevent the spread of the coronavirus. Our Company clinics were used to provide support and care to employees. In addition, we partnered with the Mpumalanga Department of Health to build and hand over the state-of-the-art Graskop Clinic, which was completed in time to be used as a vaccination centre, and which is anticipated to attend to more than 1 000 patients a month.

Systems

The basis of the first phase has been to remediate issues of non-compliance, poor record keeping, and poor reporting that were uncovered in the business. Improving these areas has led to systems that generate timeous, accurate and reliable data to inform decision making. Our receipt of an unqualified audit opinion by AGSA this year is testament to the success of those efforts.

People performance

In order to align personal performance with targets, we have begun to monitor people performance on a weekly basis. We introduced an ePerformance Management system in order to track performance and align capacity and operational objectives. As a result, we have seen per-employee top-line contribution improve drastically.

Responsible forest management

We were very pleased to have maintained our FSC® certification for the 24th consecutive year, with no major findings in the audit. Our responsible care for the environment has improved steadily, and we see a real commitment to responsible forest management throughout the organisation. Our strategic timeline must ensure that we leave SAFCOL and its natural resources in a great state not just for the next set of stakeholders, but for generations to come.

Community partnerships

In FY 2020/21 we successfully concluded partnerships with our neighbouring communities, developing agreements that stipulate how we will work with them to their economic benefit. We are committed to providing opportunities

for communities to be more involved in the supply chain, and will give them first right of response when identifying opportunities in operations nearby. We continue to support community cooperatives to positive economic impact.

Land claims

I'm proud of the progress we made in the year on putting in place effective processes to govern the way in which we address the issue affecting the land claimants of the land under SAFCOL control. Approximately 56% of SAFCOL land is currently subject to claim, and if not handled properly this poses a serious risk. We believe that a model of mutual benefit, by which successful claimants partner with us in long-term value creation, is a sustainable and desirable one. Our progress this year puts us in a better position to proactively approach land claimants and work together with them to build shared value.

Customer centricity

In the past, our ability to drive profitability and agility was hampered by our failure to proactively engage with customers. We have begun a customer-centric drive, which involves far greater engagement and communication than before. Alongside this we are strengthening our engagement mechanisms to identify problems our customers are faced with before they occur. Feedback thus far from customers has been positive, and we will continue to strengthen this area of the business going forward.

Asset maintenance

Our asset maintenance has improved, though we are not yet where we need to be in this regard. We have managed to improve the biological asset value of the Company, and look forward to expanding efficient access to plantations that have not been optimally managed.

In terms of investment in plants and machinery, we have a lot of ground to make up. While we need to protect our balance sheet, we have begun the comprehensive modernisation of our equipment. I look forward to reporting on progress in the years to come.

Operations

The performance of IFLOMA was pleasing. After being placed under care and maintenance for many years, it resumed operations three years ago. This year it continued to deliver a profit, and also delivered a strong operational performance. To have achieved this within three years bodes well for its future as a value-generative component of SAFCOL.

KLF, the operating entity within South Africa, includes our ecotourism and forestry businesses as well as the Timbadola Sawmill.

Ecotourism, unsurprisingly in the face of the pandemic and restrictions on travel, did not perform well in FY 2020/21. It remains to be seen how quickly vaccinations and other developments might lead to a resumption of normal tourist activity.

The forestry division performed relatively well, although it was disrupted by Covid-19 lockdowns, and by large swings in demand over the year.

Unfortunately, our timber-processing plant, Timbadola, failed to perform adequately, and remains the weak link in the business in terms of profitability. The technology it uses is old, and efficiencies are very low as a result. Our recovery rate – the amount of sellable product produced per unit of input material – is just 45.5%. This area of business needs to be improved and we have started working on the project. We are also unable to reduce costs below a desired point determined by the state of the machinery.

For these reasons, investment in the upgrade of technology at Timbadola is vital. This reinvestment project has been approved by the SAFCOL Board, and we are in the process of identifying ways of financing it. The intention is that by the end of the 2021 calendar year we will be able to begin implementation.

Future plans

Our future plans involve the introduction of updated technology and the automation of processes throughout the business. This will have a significant impact on our ability to drive

future efficiencies, additional sources of revenue, and cost savings.

Our reliance on the power supply from the grid has posed operational challenges in terms of lost time during load shedding. We are looking at ways in which we can efficiently and sustainably begin to generate our own power, which also holds potential as a source of revenue if we're able to sell excess capacity back to the grid. These and other revenue-diversification initiatives, including the cellulose nanocrystal (CNC) and the cross-laminated timber (CLT) projects, should put us on a firmer footing in terms of our risk profile, sustainability and the health of our balance sheet.

We will continue to expand the operational potential of IFLOMA's plants, which will require additional funding that we are currently pursuing.

Finally, we will continue to focus on building a culture within SAFCOL that supports our organisational objectives, and which engenders a sense of pride in our brand and in the work we do. We want all employees to be engaged and committed; we want our customers to be happy; we want our communities to be involved and to benefit from the value that is derived from SAFCOL's operations; and above all, we want to build an organisation that we're proud to leave for the generations to come. If the results of FY 2020/21, in the face of extraordinary challenges, are any indication, we're making good progress in that regard.



Mr OT Monaheng
Chief Executive Officer





Highlights



12% revenue growth amidst tough conditions, e.g. Covid-19



Healthy balance sheet and cash position maintained



TUP* Mozambique target exceeded



Improvement in Shareholder's Compact performance



Maintained safety, health and environmental performance and culture



FSC® certification achieved for the 24th consecutive year



Electronic performance management system launched



Implementation of a proactive community engagement model



Successful legal and law enforcement actions to address timber theft and other criminal activities

Challenges being attended to

- Cost structure and profitability at Timbadola
- Implementation of strategic projects
- Modernisation of forestry operations through mechanisation and automation
- Timber theft and other crime
- Replacement of the enterprise resource planning system

Lowlights

- B-BBEE level from Level 3 to Level 4
- Revenue per head and EBITDA not achieved
- TUP* South Africa not achieved

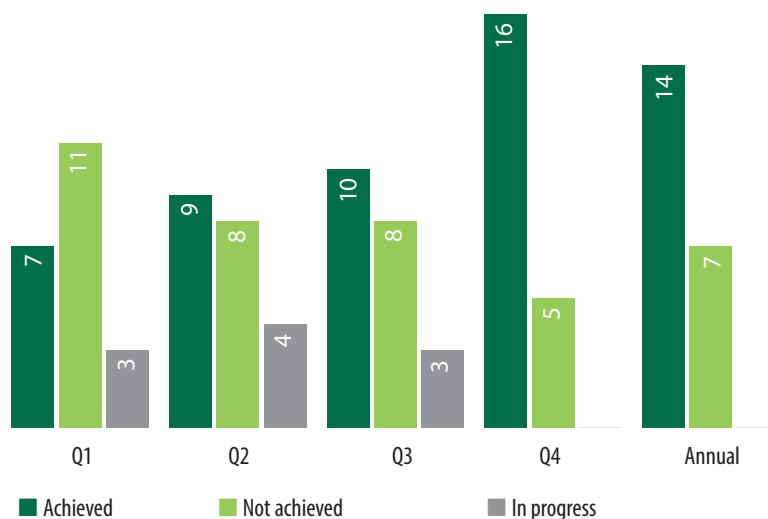
* Temporarily Unplanned Percentage

PERFORMANCE AGAINST SHAREHOLDER'S COMPACT

SAFCOL concluded a Shareholder's Compact for FY 2020/21 with the Minister of Public Enterprises (the Shareholder Representative), which sets out agreed performance objectives, measures and indicators in line with the Treasury Regulations issued under the PFMA. SAFCOL submits progress reports to the Department of Public Enterprises (DPE) on all key performance indicators (KPIs).

Predetermined objectives

The AGSA conducts the necessary audit procedures on the performance information to provide reasonable assurance in the form of an audit conclusion. The audit conclusion on the performance against pre-determined objectives is included in the report to management, with no material findings on the reported performance information (refer to pages 79 to 81).



COMPARISON OF QUARTERLY AND ANNUAL PERFORMANCE INFORMATION FOR 2020/21

The SAFCOL Group's performance was measured by 21 KPIs for FY 2020/21, 14 of which were achieved. This equates to an achievement of 67% against target, which is higher than the 56% target achieved in FY 2019/20. This is despite the Covid-19 level lockdowns that impacted SAFCOL's performance, particularly in the first quarter of 2020, and persistent rains that impacted performance in the fourth quarter of 2020.

Performance snapshot against Shareholder's Compact

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

Financial sustainability (30%)

Key performance area	Key performance indicator	Unit of measure	FY 2020/21 target	FY 2020/21 actual	Status	Deviation from planned target	Comments on performance
Liquidity	Trade receivable days	Days	≤60	60	●	0	Debtor's collections improved in the fourth quarter of the year, leading to the achievement of the target.
Profitability	EBITDA margin	%	≥2%	(8%)	●	(10%)	- This is due to loss on earnings as a result of missed revenue targets. - Revenue targets were missed largely as a direct result of the Covid-19 pandemic and the national lockdown in the first two months of the financial year. - Total operating cost incurred for the year was 25% below budget, representing a positive variance against the budget. This was however not sufficient to offset the missed revenue targets.
Efficiency	Revenue/employee	Rands	≥R0.4m	R389 516	●	(R10 484)	- An 18.7% increase relative to previous year efficiency rate. - The rate is below budget due to missed revenue targets as a result of the lockdown due to Covid-19 during quarter 1.

Operational excellence (30%)

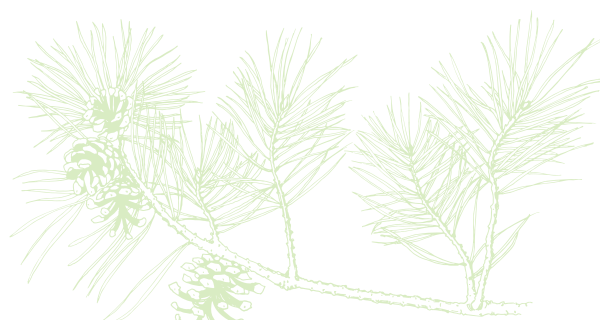
Research and development	Total expenditure on research and development (R&D) as a percentage of revenue	%	≥1.5%	1.69%	●	0.19	The over-achievement of the target is as a result of higher than anticipated research spend to accelerate the implementation of research and development projects, in an effort to fast-track the implementation of the strategy.
Safety	Fatalities Index	Number	0	0	●	0	SAFCOL achieved a fatality-free year for only the second time in a 10-year period.
	Disabling Injury Frequency Rate (DIFR)	Ratio	≤1.80	1.65	●	0.15	Operations Management is continually promoting increased awareness and compliance to health and safety practices. Corrective measures were implemented where needed.
Temporarily unplanted area	TUP South Africa	%	≤3%	3.3%	●	(0.3%)	The non-achievement of the target was largely due to a smaller area planted than anticipated due to unfavourable weather, with hot and dry weather at the beginning of the planting season, and heavy rainfalls resulting in flooding and limited access to the compartments during the fourth quarter.
	TUP Mozambique Manica operations	%	≤6.5%	4.97%	●	1.533%	Various initiatives and plans were implemented to ensure replanting to reduce TUP.
FSC®	KLF South African operations fully certified to FSC® standard and submission of annual FSC® report	%	100%	100%	●	0	Target achieved for the 24th consecutive year.

Strategic initiatives (20%)

Strategic initiatives	Timbadola Reinvestment	N/A	Approved PFMA application	Approved PFMA application sent to DPE	PFMA application submitted two months late	Completion of the business case was delayed due to OEMs not providing the design information required from European countries due to the hard lockdown experienced in this region.
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Socio-economic impact (20%)

Key performance area	Key performance indicator	Unit of measure	FY 2020/21 target	FY 2020/21 actual	Status	Deviation from planned target	Comments on performance
Skills development	Training spend	%	≥3%	3.8%	●	0.8%	• Mandatory training was implemented to comply with legislation.
	Apprenticeship trainees	Number	≥10	10	●	0	N/A
	Sector-specific learnerships (e.g. wood technologist, processors, foresters)	Number	≥100	103	●	3	• Three additional learners were appointed to mitigate against the risk of learners declining the offer.
Corporate social investment	Total spend on corporate social investment (CSI) initiatives	Rand	≥R3.3m	R3 508 650	●	R208 650	Additional work in CSI projects was undertaken in line with expectations.
Local procurement	Spend on BEE-compliant companies as a % of TMPS ¹	%	≥80%	60%	●	20%	• Concerted effort was made to source suppliers that were BEE compliant, resulting in an improvement from the previous financial year. • A number of essential, specialised suppliers (e.g. Original Equipment Manufacturers) have not yet transformed to become BEE compliant. A plan is being developed to work with suppliers to ensure that they transform.
	Procurement spend on 51% Black-owned entities as a % of TMPS	%	≥40%	47%	●	7%	Management introduced measures to ensure that this target is achieved by ensuring that RFQs and bids attracted as many Black-owned entities as possible when procuring goods and services.
	Procurement spend on 30% Black-women-owned entities as a % of TMPS	%	≥12%	17%	●	9%	Management introduced measures to ensure that this target is achieved by ensuring that RFQs and bids attracted as many Black-women-owned entities as possible when procuring goods and services.
	Procurement spend on Black-youth-owned entities as a % of TMPS	%	≥6%	6%	●	0%	N/A
	Procurement spend on People-with-Disabilities-owned entities as a % of TMPS	%	≥2%	0.55%	●	(1.45%)	• Management implemented initiatives to ensure the target is achieved; however, The Procurement process could not attract suitable responses from this segment. • Few suppliers could meet the procurement requirements.
	Total local content as a % of TMPS	%	≥55%	0.34%	●	(54.7%)	Significant portion of procurement spend was on services-related suppliers, which didn't meet the definition of local content.
	Annual value of all enterprise development and supplier development contributions made by SAFCOL as % of TMPS	Rands	≥R5m	R30 542 975	●	R25 542 975	The inclusion of invoices paid to ESD suppliers had a positive impact on achievement of the Shareholder's Compact.



TOGETHER WE GROW

Our strategy, underpinned by our values, furthers our commitment to commercial, social and environmental sustainability.

Our values

Passionate

Honesty and integrity

Customer satisfaction

Respect

Excellence and
innovation



Our values



Strategic context: Our values

SAFCOL strives to perform its functions in a way that is aligned with its ethics and purpose. The values described above are central to SAFCOL's operations, and to the culture we support within the organisation.

The 50:50 strategy

The 50:50 strategy is to increase capacity to process timber into lumber and value-adding activities to contribute 50% of the revenue over five years, reducing the dependence on log sales and ensuring sustainability of the business.

SAFCOL currently processes less than 20% of its saw logs with lumber sales, contributing about 25% of its revenue. SAFCOL's strategy has identified that further value addition and creation downstream in the value chain is key for the growth and diversification of SAFCOL's markets and revenue streams.

In an environment of increasing fiscal constraint – high costs and low revenue growth – operational efficiency gains through mechanisation and revenue growth through product development and downstream facilities are necessary.

Strategic context: SAFCOL, the NDP vision 2030 and the UN SDGs

SAFCOL is a responsible corporate citizen, as contemplated in King IV, and seeks to create value for its stakeholders by carefully considering the linkages between our operations, the National Development Plan (NDP) Vision 2030, and the United Nations (UN) Sustainable Development Goals (SDGs).

The United Nations Sustainable Development Goals

In September 2015, The United Nations adopted 17 SDGs. The SDGs were created in response to development challenges facing the global community. As a global corporate citizen with a mandate of socio-economic development, SAFCOL has a role to play in the achievement of the SDGs. Specifically, SDG 15, which aims to "Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss", speaks directly to SAFCOL's statutory mandate and operations.

The National Development Plan

In 2011 South Africa developed the NDP which seeks to write a new story for South Africa by outlining the vision for 2030. In 2019, South Africa identified seven key priorities, which will drive the country forward towards the realisation of the vision for 2030:

- Economic transformation and job creation
- Education, skills and health
- Consolidating the social wage through reliable and quality basic services
- Spatial integration, human settlements and local government
- Social cohesion and safe communities
- A capable, ethical and developmental state
- A better Africa and world



SAFCOL'S WORK IN SUPPORT OF THE SDGS AND NDP 2030 PRIORITIES



We support social cohesion, nation building and an inclusive economy by engaging communities and providing skills, resources, facilities, business development funding and support.

Transforming society and uniting the country

An economy that will create more jobs

We employ ~1 500 people directly and ~3 500 through contractors. We develop community enterprises, with a special focus on empowering people of colour, women, youth and people living with disabilities, which enables employment in rural economies.



We support food security and improved nutrition by establishing and supporting local community gardens and agroforestry projects at staff villages and in our adjacent communities.

Reversing the spatial effects of Apartheid

We support the redress of the injustices of the past, including the redistribution and restitution of land through our Land Reform and Land Risk Management programmes.



We support the health of our employees and our communities, having built or upgraded three dedicated occupational health facilities for staff and numerous community health clinics.

Quality healthcare for all



We upskill our staff, their dependants, and communities through bursaries, learnerships, apprenticeships, internships, work-integrated-learning placements and short skills programmes.

Improving the quality of education, training and innovation



We support gender equality and empower women through our employment equity policy, B-BBEE transformation targets, ESD programmes and preferential procurement. We empower girls at school through dignity drives and providing bursaries.



We recognise the value of water and the impact of our plantations as designated as streamflow reduction activities. We manage our forests responsibly, delineating riparian zones and keeping water catchment areas free of invasive plants. Our resource conservation programme aims to reduce resource consumption and wastage, including water.



SUSTAINABLE DEVELOPMENT GOALS



We actively explore the potential for bioenergy through the use of torrefied pellets for the international market, as well as an additive in the creation of hydrogen.



We support economic transformation and integration of the rural economy, yet recognise the need to create value in a sustainable manner. To this end, we develop community-based businesses within our value chain through our ESD programme, establishing and supporting black-owned businesses from rural communities. We support decent work for all through modernised processes, the provision of wages above the stipulated sectorial minimum wage, and the upholding of basic conditions of employment.



We promote wood as a resilient building medium, hosting the first Forest Industrialisation Conference, and participating in the Department of Trade Industry and Competition working group to promote Green Building as a way of storing carbon sequestered from the atmosphere to address climate change.



We actively support inclusive economic growth through our Transformation Unit programmes, as well as equitable access to resources.

Social protection



We support sustainable and resilient settlements and communities by providing resources for community gardens and agroforestry projects, building facilities (schools, ECD centres, health clinics, etc.), and providing crucial skills to uplift local communities.

Building safer communities



We recognise that an extractive and exploitative economic model is unsustainable, and manage our forests in a responsible manner, as verified through our certification by the FSC®, confirming that our operations are conducted in a socially acceptable, environmentally responsible and economically viable manner.

An inclusive and integrated rural economy



We are well aware of the risks posed by the climate emergency, and we are quantifying our carbon footprint with the aim of setting science-based targets for emissions reduction. We are adapting our operations to mitigate the impact of climate change, and support our communities that are most vulnerable to the adverse effects of climate change.



Most of our forests are inland, but we voluntarily subscribe to the TIPWIG list of chemicals, thereby reducing the use of chemicals which permeate into waterways and so contaminate the oceans. We support recycling initiatives to reduce pollution, including micro plastics in the ocean. The delineation of our forests supports increased streamflow, while avoidance of soil erosion reduces siltation of streams, supporting life below water.

Transition to a low-carbon economy



As a commercial forestry company, we responsibly managing our operations in line with FSC® principles, which confirms that our operations are conducted in a manner there is socially acceptable, environmentally responsible and economically viable. We support biodiversity protection, High Conservation Value Forest (HCVF) monitoring, endangered species monitoring and reporting.



We support social development with multiple socio-economic development and CSI initiatives, including health clinics, community halls, victim care centres, ECD centres, community-based businesses, education and training. We participate in social compacts with 13 community clusters (more than 80 communities) to achieve mutually beneficial projects, social inclusion and upliftment.

Fighting corruption

We actively combat corruption through our Internal Audit Unit, Forensics, Delegation of Authority, Separation of Duties, our dedicated whistleblowing hotline and our Ethics Programme.

Reforming the public service

We recognise the importance of a public service which is dedicated to social justice, social cohesion and nation building. We acknowledge the basic values and principles governing public administration as set forth in Chapter 10 of the Constitution of South Africa, and have a dedicated Ethics Programme in place.



We actively collaborate and seek partnerships which will further our ambition of being the leading responsible and sustainable forestry company.

Strategic context: DPE statement of strategic intent

The Minister of the Department of Public Enterprises (DPE) has issued statements of strategic intent to all state-owned enterprises. This informs and guides SAFCOL's internal strategic deliberations. This includes the mandate as determined by SAFCOL's founding documents and prevailing legislation:

- Leveraging state capabilities to improve sustainability and economic viability
- Securing the economic future of the community and stakeholders it serves
- Enhancing coordination between SOC's to unlock real value in support of the NDP goals

- Optimising the social and economic impact of all interventions undertaken by the SOC in the achievement of these objectives

Strategic goals and objectives

For SAFCOL to achieve its 50:50 strategy it has set itself four strategic goals, which include an explicit separation of financial sustainability from organisational enablement and the introduction of governance excellence. The strategic goals, objectives and their updated objective statements, as seen in table below, are:

- Organisational enablement;
- Operational excellence;

- Growth and business development; and
- Stakeholder and economic transformation.

SAFCOL's consolidated strategic framework is aligned to the National Treasury Framework.

Each organisational goal has a corresponding set of strategic objectives to achieve the defined outcomes of improved financial and operational sustainability, and the development of South Africa and the communities neighbouring the operations.

Strategic goals	Strategic objectives	Alignment with SDGs and NDP
Organisational enablement	Develop and implement an appropriate operating model inclusive of development and optimisation of the business; structural and operating alignment between functions; and system specifications	 
Operational excellence	• Adopt appropriate processing technologies to reduce cost and maximise value addition • Increase biological asset value	 
Growth and business development	• Improve business development and market intelligence capabilities to extract maximum value from products • Invest in R&D for new products and optimise product portfolio across the value chain • Increase market share through strategic acquisitions and partnerships (horizontal and vertical opportunities)	 
Stakeholder and economic transformation	• Create shared value initiatives with a focus on: – Industry transformation – Local community economic development • Create sustainable value for shareholders	    

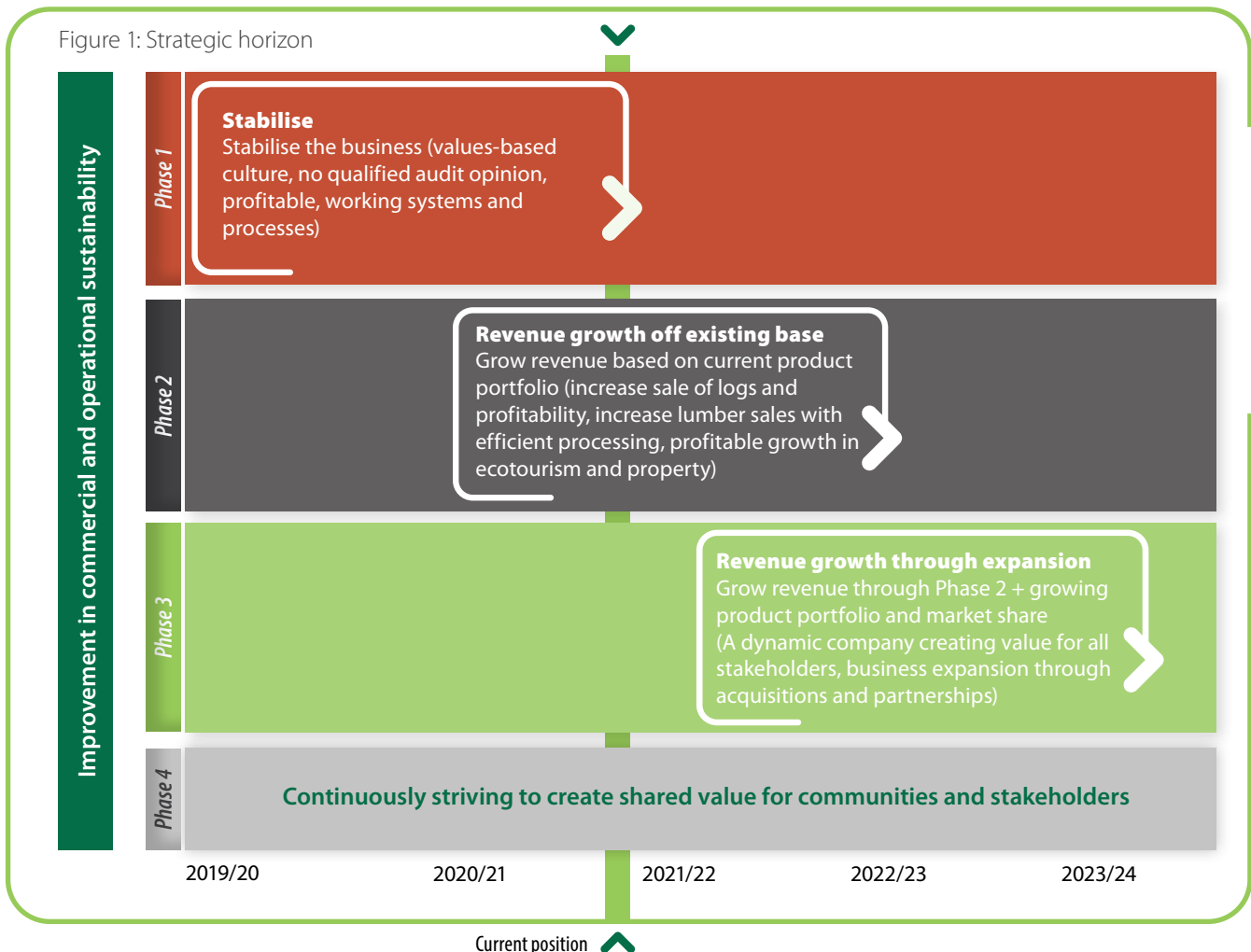


Strategic horizon

SAFCOL's work to improve its financial and operational sustainability and develop South Africa and communities neighbouring its operations will be delivered in four phases, namely stabilisation; revenue growth off existing base; revenue growth through expansion; and the continuous creation of shared value for communities and stakeholders.



Figure 1: Strategic horizon



Strategic horizon phases

Phase 1: Stabilise

The first phase of SAFCOL's strategic horizon prioritises stabilising the business and returning to profitability by improving working systems, processes and instilling a value-based culture across the organisation. The successful implementation of the first phase provides the base to carry out phase 2 and phase 3.

Phase 2: Revenue growth off existing base

The second phase of SAFCOL's strategic horizon seeks to extract greater value from current product portfolio and other revenue streams. This entails

focusing on working to increase sales and improve processing to increase value addition successfully and profitably. The second phase also entails further operationalising the ecotourism and property units and IFLOMA to achieve profitable growth.

Phase 3: Revenue growth through expansion

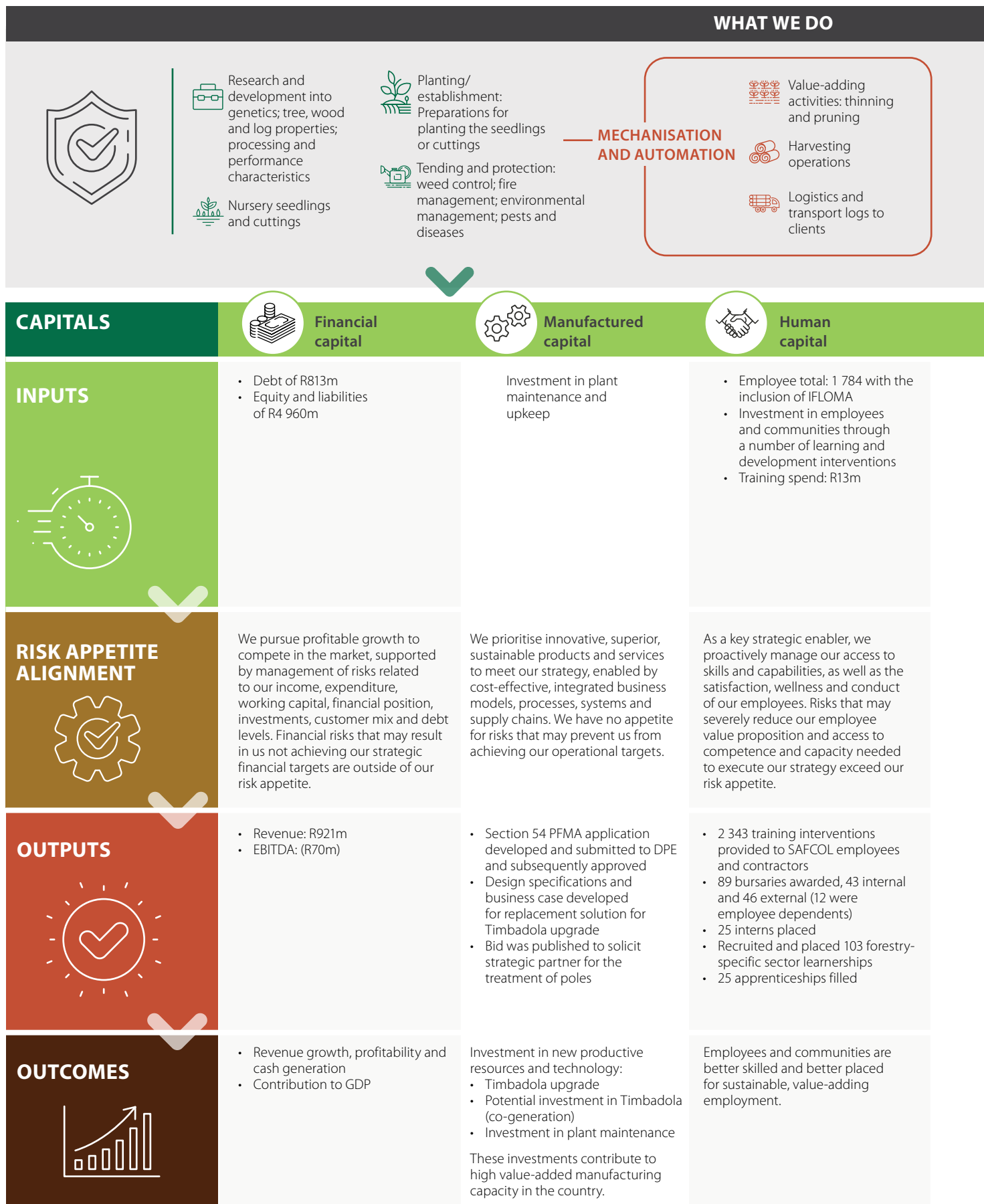
The third phase of the strategic horizon is an extension of phase 2 plus expansion into new product categories by optimising product portfolio across the value chain. Investments into R&D and market intelligence are strong enablers in this phase.

SAFCOL, as a state-owned company and a member of the broader community, is committed to facilitating sustainable economic transformation and maximising stakeholder value. This commitment is considered and carried out at each phase of the strategic horizon. This includes but is not limited to facilitating and implementing initiatives to upskill local community members to become future staff, suppliers and partners.

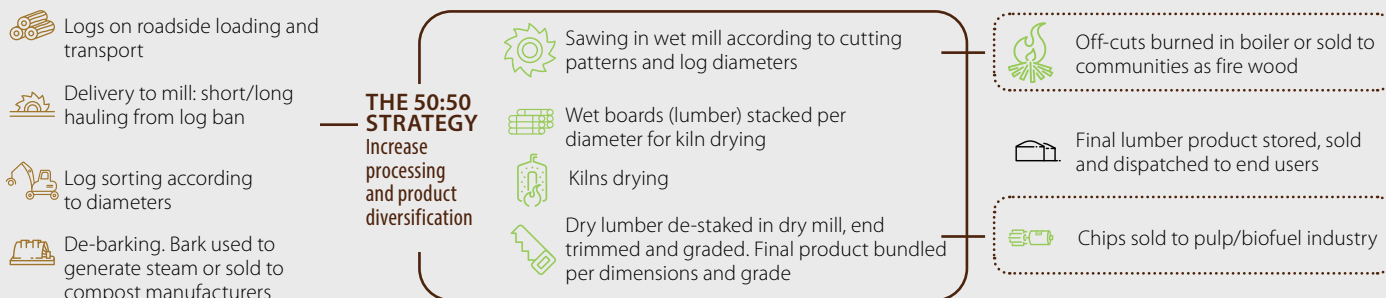
Phase 4: Creating shared value

The three phases therefore run in parallel with a fourth: a commitment to continuously strive to create shared value for all stakeholders, including communities.

OUR BUSINESS MODEL: HOW SAFCOL TRANSFORMS VALUE



THE SAFCOL VALUE CHAIN



Intellectual capital

- R&D spend of 1.5% of turnover
- A culture of innovation and improvement

We pursue improved technology and products to meet evolving customer needs through our R&D efforts. Risks that may negatively affect our intellectual property are outside of our risk appetite.

- Pine hybrid trials get measured and analysed annually to assure new possible hybrids
- Initial cross-laminated timber (CLT) and cellulose nanocrystal (CNC) research projects completed and reports received
- University of Stellenbosch, University of Pretoria and the Council for Scientific and Industrial Research (CSIR) were involved in research on behalf of SAFCOL

- R&D investment in product development
- Potential new products:
 - Timber-frame structures
 - Poles for infrastructure
 - Engineered wood products
- The maintenance of a culture of innovation and improvement



Relationship capital

Ongoing stakeholder relations

We strive to build strong relationships with customers, governments and communities, supported by compliance with legal and regulatory requirements, and management of possible impacts from our business on stakeholders. We do not consider risks that may detract from these efforts to be within our risk appetite.

Continued strong partnerships with key stakeholders

SAFCOL is able to deliver on its mandate and strategic vision due to collaboration with key stakeholders



Natural capital

- South Africa:**
- Total area under plantation management = 120 644 ha
 - Total area under environmental management = 68 790 ha
 - Total unplanted (TU) area = 3 949 ha
- Mozambique:**
- Total area under plantation management = 17 385 ha (to be increased, as per the planting strategy)
 - Total area under environmental management = 83 728 ha
 - TU area = 1 110 ha

We actively manage our reliance on natural resources and our impact on communities, human health and the environment. Risks that severely threaten these aspects exceed our risk appetite.

Maintained FSC® certification in South Africa, with only five minor Corrective Actions Requests raised against Komatiland Forests

- Sustainable management of forests. This includes a holistic approach to the management of forests, including financial, environmental and social dimensions.
- SAFCOL also manages non-plantation areas in terms of its environmental responsibilities



Social capital

- ESD spend of R30m
- Procurement spend for 30% black women-owned entities at 17% of TMPS in FY 2020/21
- Procurement spend for youth-owned entities of 6% of TMPS
- Procurement spend for disabled-owned entities of 0.55% of TMPS

We strive to commit social investment in line with communities' needs and in support of our brand and reputation. We do not consider risks that may detract from these efforts to be within our risk appetite.

B-BBEE Level 4 for the financial year 2020/21

- Equitable land claims model
- B-BBEE initiatives:
 - Ecotourism
 - Transport
 - Value chain
- B-BBEE and community development initiatives:
 - ESD programme
- Socio-economic development

RISKS AND OPPORTUNITIES

Risk appetite and risk management frameworks are closely aligned to our strategy.

Risk appetite and risk management framework

The effective management of risks that may affect the achievement of our strategy, mandate and ability to create value is of paramount importance in our decision-making processes. Our risk appetite framework is closely aligned to our strategy, and enables us to prioritise and provide resources for the mitigation of risks dynamically, based on quality risk information.

Our integrated risk management process allows management to explore opportunities while managing potential adverse impacts, and allows the Audit and Risk Committee of the Board to discharge its fiduciary duty concerning risk governance and oversight. We have continued to improve our risk management efforts through the development and/or strengthening of our risk intelligence map, risk appetite framework, top risk profile, risk financing arrangements and business continuity plans.

Figure 2: Our risk management framework



SAFCOL's most material risks and opportunities

Risk	Description	Mitigation strategy
Covid-19	The persistence of the pandemic, uncertainties relating to its mutation and the effectiveness of vaccines poses continued risk.	We adapted well during FY 2020/21 due to concerted efforts to protect our employees, stakeholders (including communities) and the overall business from the pandemic. The future impacts of the virus remain uncertain, and we will continually review and improve our mitigation efforts.
Fire	Unfavourable weather conditions and human activities may render our plantations vulnerable to fires.	We work with Forestry South Africa, Working on Fire, the Fire Protection Association of South Africa and others to maintain integrated firefighting strategies (including scientific fuel-reduction strategies during the rainy season).
Illegal activities (e.g. timber theft, illegal mining, land invasion)	The geographical spread of our plantations, insufficient socio-economic growth and poverty where we operate expose us to illegal activities.	We integrate with surrounding communities on beneficiation opportunities, work with law enforcement authorities, deploy physical security and explore the latest technologies to monitor our plantations as part of our holistic crime-mitigation approach. Prosecution and legal interventions rendered positive results in 2020/21.
Pests and diseases	Baboons can severely damage the bark of trees, and diseases affect our plantations and may result in lower volumes.	We work with the Baboon Damage Working Group and other industry stakeholders on solutions for damages caused by animals and pests. Our R&D focus areas include developing disease-resistant species to mitigate the risk more sustainably.
Climate change and natural disasters	Changing weather patterns affect our forests, given the 30-year life cycles of most of our trees. As a carbon sequester, we don't contribute materially to climate change, but droughts, storms and flooding impact our assets.	We work with industry and in-house experts and academia to implement our climate change response strategy. Our R&D team aims to develop drought-resistant species to counteract the effects of climate change on our business. Our plantation managers continuously update location-specific strategies and protocols to mitigate the impact of climate change and natural disasters.
Ageing infrastructure	Our ageing infrastructure may present a safety risk, result in inefficient operations and/or lead to increased cost.	We are making progress in securing strategic partnerships to expedite the upgrade of our key infrastructure, to improve productivity and enable us to deliver higher-quality products more effectively and efficiently to our customers.
Loss of access to forestable land	We lease most of our operating land from the Department of Environment, Forestry and Fisheries (DEFF) (of which ~57% is affected by land claims). When the land is ultimately transferred to successful claimants, we could lose access thereto, or face uncertain lease negotiations with the new landowners.	We monitor the land restitution process affecting our operations. Opportunities to collaborate with land reform beneficiaries have gained momentum as we accelerate our efforts to transform the forestry industry. We focus on our position as partner of choice to land reform beneficiaries to support community forestry initiatives and develop black industrialists in the sector. We explore various economic empowerment initiatives to integrate neighbouring communities into the forestry value chain.
Loss of access to water	Climate change may disrupt rainfall patterns, which will affect growing stock and water tables, aquifers and watercourses from which we draw water. We are further exposed to reputation risk due to the perception that commercial forests deprive downstream users of water, particularly during dry periods.	We comply with valid water use licences for all our operating sites. Before replanting after harvesting, we assess and implement delineation requirements to establish and maintain proper buffer zones beside wetlands and watercourses. We monitor the condition of streams and watercourses, and the quality of water in all the catchments where we operate. In addition to implementing interventions as recommended by independent assessors, our data is made available to the National River Health database of the Department of Water and Sanitation. Initiatives to reduce water usage are incorporated into our climate change response action plan.
Land reform	We strongly believe that our efforts to assist land beneficiaries to increase their economic participation in the forestry sector in general and in our value chain specifically are rendering sustainable results.	We engage with more than 80 adjacent communities, of which more than 40 are land claimants. Our post-settlement and proactive community engagement models enable us to build strong relationships with these communities. We aim for immediate and mutual benefits over and above the long-term benefits expected of land transfer. Although we have made significant progress, we are streamlining our processes and improving our engagement with stakeholders such as DPE, DEFF, Department of Agriculture, Land Reform and Rural Development (DALRRD), and the national and regional Land Claim Commissions to support our work.

* From 1 April 2021 Department of Environment, Forestry and Fisheries changed DEFF to DFFE, however, for the purposes of the FY 2021 integrated report we will refer to DEFF.

HEALTH AND SAFETY

Health and safety spotlight

HIGHLIGHTS



Zero fatalities



DIFR significantly below our Shareholder's Compact target



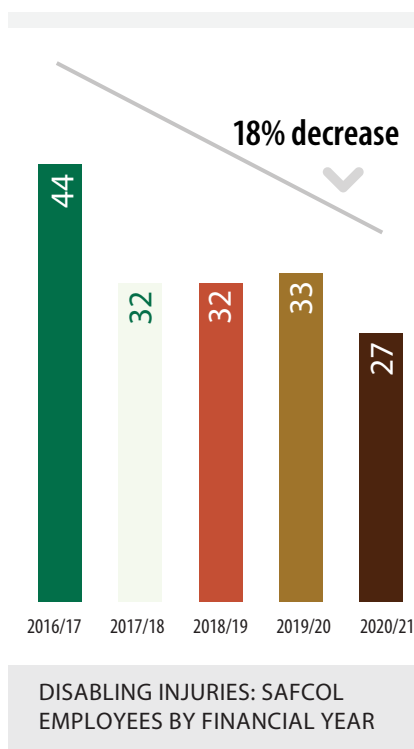
Effective response to Covid-19 pandemic, with rapid establishment of effective processes and protocols



Maintained a culture of safety compliance and safe behaviours across our organisation

For the second time in the past 10 years, we achieved a fatality-free year in 2020/21, and for the fourth consecutive year we maintained a disabling injury frequency rate (DIFR) significantly below our Shareholder's Compact target. Over the past five years we have recorded a steady reduction in the number of employees sustaining disabling injuries in the workplace, as shown in Figure 3 below, and 2020/21 was our best year thus far in this regard.

Figure 3: Disabling injuries



Improved internal health and safety auditing protocols and methodologies, combined with mentoring and skills improvement of our safety officers, enabled improved compliance levels across all business units. An average compliance score of 87% was achieved in the first round of audits, and improved to an average of 91% in the second round, with 100% closure of all findings.

These successes can be attributed to a focused and concerted effort to create and maintain a culture of safety compliance and safe behaviours across

all levels of the organisation. These efforts are bearing fruit, despite the additional challenges posed by the Covid-19 pandemic.

Effect of and response to Covid-19

As a result of prohibitions on gatherings, trade and travel imposed by the South African government to curtail the spread of the coronavirus, during the first three months of the financial year SAFCOL had to shut down its operations, and then conduct its operation with limited resources in June as directed by the regulations.

Although this impacted on revenue, SAFCOL was better able to withstand the effects of lockdowns than businesses in some other sectors. The following lessons learnt during the pandemic contributed to SAFCOL's successful management of the impact of Covid-19 on the business:

- Exco took direct control of the situation early in the pandemic and did not allow the business to become complacent.
- When planning for the unexpected, plans were impact-oriented and not overly focused on specific risks or causes. Although the initial stages of lockdown were sudden, improved planning during the pandemic enabled SAFCOL to adapt to unexpected incidents and circumstances.
- The nature of SAFCOL's business (which takes place mostly outdoors) contributed to the reduction of workplace-contracted Covid-19 infections and led to reduced Covid-19 related health risks for employees. Planning and corrective measures will continue to be a key focus area, especially with regard to SAFCOL villages.
- SAFCOL, providing what is considered an essential service, was allowed to return to business earlier than most of the economy during Alert Level 4. Even though the return to production was phased and resulted in lower productivity, this buffered the overall impact of the pandemic on the Company.

- Market demand (including from existing customers) remained strong and enabled SAFCOL to turn most of its production into revenue, even though production was negatively impacted by the months of lockdown and the phased return to work.
- Support functions were able to quickly transition to a work-from-home scenario with productivity overseen by executives in their specific areas. There is continuous focus on outcomes-based performance against tangible deliverables as opposed to the management of inputs and activities.
- ICT support successfully enabled remote working through reliable connectivity (learnings from this also inform Exco's strategy on office space planning into the future).
- Weekly compliance, awareness and health communications were implemented early on in the pandemic and are directly informed by the trends reported through various reporting channels implemented (i.e. employee relations, employee wellness, compliance coordinators, risk management and the SHEQ team).
- Centralised demand planning and procurement for Covid-19 personal protective equipment (PPE) has resulted in optimised expenditure and compliance. Management is in the process of implementing a panel (in support of Shareholder's Compact transformation targets) for PPE procurement to minimise ad hoc use of request for quotation (RFQ) processes.



TOGETHER WE GROW

SAFCOL's performance, despite the challenging environment, bodes well for our ability to continue to make progress against our commercial and sustainability objectives.



Highlights

Commissioning of a
FRAME SAW LINE
at Timbadola
Sawmill

**COST
MANAGEMENT**
initiatives bore fruit

IFLOMA **ACHIEVED**
operational targets

Maintained the FSC®
certification for the
**24TH SUCCESSIVE
YEAR**

Challenges being attended to

- The Covid-19 hard lockdown and the changes in operations that accompanied the pandemic to ensure a safe working environment.
- Termination of the custom cut contract that equated into reduced lumber sales.

Lowlights

Operations did not meet two of the agreed Shareholder's Compact KPIs, namely:

- TUP – South Africa. The target of 3% was missed by 0.3% mainly due to the accelerated clearfell operations to accommodate increased sales.
- The increase in plantable commercial forest area at Manica. Pre-establishment and establishment activities were severely impacted by torrential rains and the damage to the road network causing accessibility problems.

Forest operations performance

Overall, forest operations activities in the reporting financial year were impacted by a combination of factors which consisted of the Covid-19 lockdown (April to June 2020); dry weather at the beginning of the planting season delaying planting operations; and persistent heavy rainfall from January to February 2021 affecting accessibility to plantations to extract logs due to damaged roads and bridges. This affected the achievement of the silviculture targets, TUP target and budgeted production volumes. Forest operations continued to achieve higher saw logs productions resulting in higher log sales compared to budget for the month of March 2021. This was attributable to the positive market demand for logs, which remains high.

Processing operations performance

The processing division is responsible for processing raw material into structural lumber at Timbadola Sawmill situated in the Levubu area in Limpopo and a custom cut operation that was at Lothair in Mpumalanga. The volume that is processed by this division is below 15% of the annual sustainable volume of SAFCOL. In line with the SAFCOL strategy, the objective is to increase the internal processing capacity to process 50% of annual sustainable volume. This will be accomplished through partnerships with the industry and communities, custom cut, and through the use of the latest technology.

Timbadola's performance has been impacted by a combination of factors including Covid-19 lockdowns, log supply shortages due to rainfall experienced in January to February impacting deliveries to the sawmill, logistics contract challenges and sawmill inefficiencies due to antiquated technology.

IFLOMA operations performance

Forest operations at IFLOMA are slowly coming out of care and maintenance, and efforts are being made to establish new plants and other silviculture operations that lagged during the care and maintenance period. The TUP target of 6.5% was achieved for the 2020/21 financial year for Manica operations.

The newly established target at the fibre project at Galinha was achieved thanks to sufficient rainfall during the year. Overall, IFLOMA has been able to break even in this financial year and its performance has shown a positive trend.

Ecotourism performance

Ecotourism was severely affected by the Covid-19 global pandemic. The movement and travel restrictions affected the department heavily during the first half of the financial year, particularly the ban on international travel. The outdoor ecotourism sites, however, were frequented by local travellers. The team continues efforts to improve the visitor experience, especially at the Lakenvlei Lodge, as the upgrading of facilities has commenced. Further expansion will be done by means of facilitating strategic partnerships in the investment of the facility.

Sales performance

Lumber sales followed the production trends and were below budget. The demand for lumber remains high and the division was unable to take advantage of the demand due to limited capacity and use of old technology. Measures are in place to address internal inefficiency in order to reduce production costs. Log sales revenue targets did not meet increased market demand, mainly due to lost production time as a result of Covid-19 lockdowns, resulting in a 20% deficit in planned revenue. The initiatives implemented, however, have reduced the overall impact of Covid-19.



FINANCIAL CAPITAL

FINANCIAL CAPITAL SPOTLIGHT



Highlights

- Growth in cash balance from R252m last year to R336m this year
- Revenue growth of 12% year on year to R921m
- Total operating costs 25% below budget
- Unqualified audit achieved

Challenges being attended to:

- Loss incurred of R45m for the year
- EBITDA margin missed target by (10%)
- Irregular expenditure of R8.7m incurred during the year



CHIEF FINANCIAL OFFICER'S REPORT



J Maruma

Acting Chief Financial Officer

The financial year under review has been challenging due to the effects of the pandemic on the operating environment. We entered the current financial year on the back of stringent lock down protocols. The executive team responded swiftly and decisively in dealing with risks imposed by the pandemic on the Company. Scenario planning and strategic foresight allowed the executives to react decisively and with required urgency to the changing economic environment. The executives managed to realign the business accordingly and this resulted in an improved financial performance and a strongly positioned balance sheet.

Financial performance

The Company managed to make significant improvements in cost management over FY 2020/21. Our revenue improved, as did our management of cash. The following are highlights of the year:

- The Company managed to grow its cash balance to R336m, a 33% increase from the prior year balance. The improved liquidity profile of the Company is as a result of swift action implemented by executives to manage costs and preserve cash during the pandemic.
- The Company improved its revenue generated in the current year by

12% compared to the prior year. A customer-centric approach adopted in the current year ensured that the Company provided a seamless customer experience. This resulted in the Company attracting more sales orders and generating repeat orders.

- The Company operating profit improved by more than 387% on the back of cost efficiency and effectiveness measures implemented by the executives. Cost efficiency ensured that the company performed activities with the least waste of time and effort. This resulted in a decrease in the unit costs of a number of activities. Cost effectiveness ensured that activities that resulted in little value to the Company were terminated and discontinued.

We are improving on our financial performance and look to realise additional improvements as we progress on our phased strategic approach. Despite the significant challenges to our operations posed by the pandemic, SAFCOL managed to post an impressive financial performance, which can be attributed to the resilience of the executive team and strong demand for our products. Our ability to perform even under exceptional circumstances bodes well for our ability to achieve our goals over the next financial period.

Asset maintenance

Our asset maintenance programme is lagging somewhat, and many assets need to be replaced with more modern technology in order to unlock further value. Until they are, their repair and maintenance costs could continue to increase. That said, the efficiencies we have been able to extract from our existing equipment are reasonable.

Operating expenses

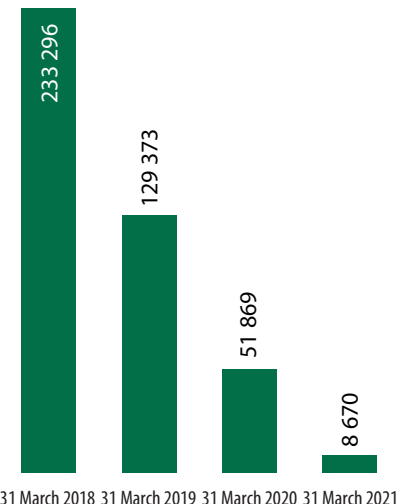
We have managed to improve cost efficiencies in the current year due to tighter cost management. Further cost efficiencies will be achieved through investing in technology and new equipment. Management has initiated processes to invest in technology and mechanise its operations.

Compliance

Issues in terms of compliance will continue to be identified and rectified. We are in the process of strengthening the systems we have in place to identify, reduce and address such issues.

Fruitless, wasteful and irregular expenditure

We have managed to record a significant decrease in instances of fruitless, wasteful and irregular expenditure, but this is a process that must continue. We will continue to put in place existing controls, and strengthen additional controls, in order to properly manage expenditure. The Company has managed to significantly reduce the irregular expenditure incurred in each financial year. This is a testament to the internal controls implemented by the executives. The graph below shows the irregular expenditure incurred by the Company in each financial year.



INCURRED IN EACH FINANCIAL YEAR
(R million)

Future projections

We expect strong demand for our products to pertain over the next financial year. The Company will continue to seek to realign costs between its fixed and variable cost to ensure the sustainability of the business. Our strategic and executive frameworks are proving effective, and we look forward to proceeding on much the same trajectory in order to realise additional gains. The realisation of our 50:50 strategy (see page 23) will significantly improve our revenue generation capacity and ameliorate risk.



MANUFACTURED CAPITAL

MANUFACTURED CAPITAL SPOTLIGHT

Challenges being attended to

Due to Covid-19 lockdowns, capital expenditure was limited to maintenance and replacement of old equipment.

Investment in plants and equipment

Location:
Timbadola Sawmill

Investment:
Replaced old machines to increase production and reduce maintenance costs for Timbadola as SAFCOL's main processing sawmill.

Location:
Nelspruit office

Investment:
Replaced old machines to increase production and reduce maintenance costs.

Location:
Belfast Plantation

Investment:
Replaced old pumps to save future costs, avoid jamming and slowing down production.

Location:
Woodbush Plantation

Investment:
Increasing the performance of the machine, which will lead to an increase in production and a reduction in breakdowns.



RELATIONSHIP CAPITAL

RELATIONSHIP CAPITAL SPOTLIGHT

Highlights



Participation in the development of the Forestry Masterplan geared to achieve growth and transformation of the forestry industry

Facilitation of access to **funding opportunities for black women-owned and PWD enterprises**

Covid-19 vaccination drive within our communities and employees

Ongoing **Covid-19 safety guidelines and compliance**

Challenges being attended to

Covid-19 lockdowns hampered physical interaction. The need to maintain physical distancing and to make use of technological platforms presented both an opportunity and a challenge in terms of stakeholder management activities.



Stakeholder engagement table

Stakeholder group	Stakeholder	Communication message or area of interest	Key engagement issues	Outcomes
Government of the Republic of South Africa and agencies 	Mpumalanga Department of Economic Development, Finance and Tourism	Economic recovery plan	Establishment of Eucalyptus oil processing plant and pallet manufacturing plant	The Mpumalanga provincial government is willing to collaborate with SAFCOL as both projects are aligned to the province's economic recovery plan
	Mpumalanga Economic Growth Agency (MEGA)	Facilitation of access to funding of orders for customers	Funding opportunities for black-owned saw millers and existing silviculture service providers	MEGA is eager to support SAFCOL's service providers and customers
	Department of Health, Thaba Chweu Municipality, Graskop community	Partnership opportunities to improve the healthcare facilities for employees and communities Official handover of Glory Hill Clinic – plenary meeting	Offering healthcare services to employees and community members Official handover of Glory Hill	New clinic handed over to the Department of Health
	Small Enterprise Development Agency (SEDA) (Mpumalanga)	Supplier Development – Township and Rural Enterprise Programme	Presentation on SEDA's business development support programme for black women-owned and PWD enterprises	PWD and black women-owned enterprises were encouraged to participate in SEDA's programme in order to grow and sustain their businesses
	South African Revenue Service (SARS)	Supplier Development – Corporate Tax Compliance	Presenting the importance of business to comply with tax and VAT registration	The enterprises to increase level of compliance and access business opportunities with state institutions
	Small Enterprise Finance Agency (Mpumalanga)	Funding opportunities for women-owned and PWD entities.	Funding opportunities for black women-owned and PWD	Facilitation of access to funding for women-owned and PWD enterprises
	Planning and Economic Development, Gert Sibande District Municipality	Discuss SAFCOL management of municipal plantations	Options possible for partnership	Parties agreed to conclude an MOU to explore implementation of the collaboration
	Competition Commission, Department of Trade, Industry and Competition (DTIC) and DPE	Competition Commission presenting Forestry Impact Assessment Report (Processing) SAFCOL updating the Commission on the fair and competitive distribution of logs to customers	SAFCOL supported the report and Competition Commission supported the SAFCOL strategy of commercial growth and industry transformation	Alignment with key stakeholder
Parliament 	Public Enterprises Portfolio Committee and DPE	Updating key stakeholder of the business performance	Update on the implementation of the turnaround plan and diversification programme	SAFCOL's efforts to diversify the forestry industry while driving an economically viable business has been recognised
	Parliament Portfolio Committee	Business update	Briefing by SAFCOL on the annual report and financial statements for 2019/20	Successful presentation of the unqualified results and improved governance by SAFCOL

Stakeholder group	Stakeholder	Communication message or area of interest	Key engagement issues	Outcomes
DPE 	DPE Minister and Deputy Minister	Impact of economic downgrade on SOCs SOCs' contribution to the country's fight against Covid-19	Urgent response to the economic challenge posed by the Covid-19 pandemic	Pledged availability of places for quarantine if required The Company could produce masks and sanitisers
	DPE Director-General (DG) and Deputy DG (DDG) and DTIC officials	York Timbers closure of its two sawmills (Driekop and Nicholson & Mullin) in Mpumalanga and retrenchment of over 400 employees	Retrenchment and sawmill closure in the forestry industry	Aligned on the business continuity position to take with York Timbers so that York can avert section 189
	Deputy Minister	Shareholder kept abreast of business issues	Business strategy implementation and performance update	Alignment between Deputy Minister and SAFCOL Board of Directors
	Minister of Public Enterprises Minister of Public Works and Infrastructure	Priority infrastructure projects from SOCs	Engagement with SOCs Board Chairpersons and CEOs regarding SA Infrastructure Investment Plan	Access to funding for SAFCOL infrastructure projects
	Minister, Deputy Minister and Chairpersons and CEOs of SOCs	Meeting with SOCs to discuss the role on the Covid-19 pandemic vaccination and distribution	Covid-19 pandemic vaccination	SAFCOL committed to support government project of vaccination within its communities and employees
	Minister, Deputy Minister and DPE officials	Compliance and alignment with the Shareholder's Compact	Annual General Meeting (AGM)	Successful tabling of SAFCOL's performance and other AGM matters to the Shareholder
Customers and Competitors 	ELS Timber	Business lockdown challenges	Covid-19 lockdown challenges to business	Customer challenges and payment plan
	Tzaneng Treated Timbers	Business challenges	Improved relationship with customer and product supply contract	Elimination of barriers and multi-year contracts
	John Wright Veneers (JWV)	Current custom-cut business performance and challenges.	The future of the custom-cut relationship	Improved working relationship. Confirmation by JWV to invest in modern technology to improve efficiency
	MTO	Areas of collaboration and improved service of log supply contract	Alignment achieved with MTO management	Improved working relationship and increase in future revenue
Organised labour 	Union leadership	The negative impact of the economic downturn, Covid-19 and national lockdown on the business. This impact affects the salary increase negotiation	The negative impact of the economic downturn, Covid-19 and national lockdown on the business. This impact affects the salary increase negotiation	Organised labour and management was aligned on the impact of economic downturn and the national lockdown has on the business
Forestry industry 	Strategy consultants and the forestry industry leadership	SAFCOL participation in the development of the Forestry Masterplan	The development of the Forestry Masterplan Working Group	Achieve growth and transformation of the forestry industry through participation in the development of the Forestry Masterplan
	Sawmilling South Africa	Sawmilling SA members developing strategy to offer alternative social housing solutions in response to Covid-19 impact	Collaboration with industry to market capabilities and products to government departments	Proposals to be delivered to departments of Human Settlements and Cooperative Governance
	Forestry South Africa (FSA)	FSA Executive Committee meeting	FSA presenting the forestry industry as essential and its importance to the economy to the national Command Council	Opening of business during Alert Level 4

Stakeholder group	Stakeholder	Communication message or area of interest	Key engagement issues	Outcomes
Government of the Republic of South Africa 	DEFF, Deputy Minister of DEFF and senior department leadership	Introductory meeting with Deputy Minister of DEFF and category A tenants' CEOs	Presentation of SAFCOL and its business to Deputy Minister	Alignment with the department as a key stakeholder
	DPE DG and DDG and DTIC officials	York Timbers closure of its two sawmills (Driekop and Nicholson & Mullin) in Mpumalanga and retrenchment of over 400 employees	Alignment on the business continuity position to take with York Timbers so that York can avert section 189	Avert loss of two customer sawmills. Agreed and concluded to contract with York for supply of logs. Retrenchments in York were averted. Business continues
	AGSA, KLF and SAFCOL Auditors	Discussion of the letter communicating implementation of the amendments to the Public Audit Act, No 25 of 2004 – Presentation of the Material Irregularity process	Presentation of the Material Irregularity process	Alignment with AGSA. Understanding of Material Irregularity and implications thereof An improvement in controls resulting SAFCOL receiving an unqualified audit
	Competition Commissioner and officials from DTIC DPE DG and DDG invited	Competition Commission presenting Forestry Impact Assessment Report (Processing) SAFCOL updating the Commission of the fair and competitive distribution of logs to customers	Forestry Impact Assessment Report (Processing) Fair and competitive distribution of logs to customers	SAFCOL supported the report and Competition Commission supported SAFCOL strategy of commercial growth and industry transformation
	DTIC DDG	SAFCOL's B-BBEE facilitator's status application and DTI support to develop and transform forestry processing industry	SAFCOL's B-BBEE facilitator's status application and DTI support to develop and transform forestry processing industry	Appointed a workgroup (DTIC and SAFCOL) to identify and execute processing SMME projects Expand the processing capacity in the country and hence increase customer base
	Department of Human Settlement, Water and Sanitation (DHSWS) and South African Housing and Infrastructure Fund (SAHIF)	Presentation of proposed modern timber building solutions and alternative social housing solutions	Positioned alternative housing solutions with DHSWS and SAHIF for collaboration Developing new market for timber products	Appoint a joint project team (SAFCOL and SAHIF) to develop the collaboration model
	South African Police Service (SAPS) (Mpumalanga)	Timber theft	To stop illegal harvesting and the resultant loss of revenue	A working group to work on stopping the theft was established between SAFCOL representative and SAPS officers
	Mpumalanga Department of Finance, Economic Development and Tourism (DFEDT) and the CSIR	Positive socio-economic impact on the community	Meeting with DFEDT to discuss sustainable solution for Mgadzeni community and wood beneficiation projects in Sabie	Community stopped timber theft Engaged the community on potential development projects Agreement on positive socio-economic impact projects

RELATIONSHIP: CAPITAL

Stakeholder group	Stakeholder	Communication message or area of interest	Key engagement issues	Outcomes
International stakeholders and strategic partners 	Southern Palace Group	Exporting opportunities	New international markets	Improved revenue from new markets
	Democratic People's Republic of Korea (DPRK)	Development of new customers	Introduction of the Ambassador to discuss projects for collaboration	A draft MOU is under review by DPRK to support in the re-establishment of the forestry plantations in DPRK through a collaboration, research funding and partnerships
	Embassy of Qatar	Revenue growth and strategy implementation	Supply of timber to Qatar and financing of strategic projects	Agreement on market links as soon as SAFCOL has volumes of processed timber to supply
	Department of International Relations and Cooperation (DIRCO) and United Nations	Inter-departmental meeting on the second draft SA-UN Sustainable Development Cooperation Framework (UNSDCF)	Alignment with key stakeholders	Ongoing plans to expand market share for SAFCOL to international markets
Employees 	All SAFCOL employees	Covid-19 safety awareness	Covid-19 safety guidelines and compliance	Ongoing awareness in line with the movement of the pandemic to keep employees safe and aware
Media 	SABC News GPS News Rise FM Mpumalanga News Forestry SA Wood SA Phalaphala FM Capricorn FM	Profiling SAFCOL	Positive publicity for SAFCOL	Ongoing activity with positive outcomes
Land claimants and communities 	Entabeni land claimants and adjacent communities	Land beneficiaries	Identification and facilitation of strategic projects Discussions on governance and reporting channels	Registration of a formal collaborative programme Appointment of a programme work group with representatives Identification of three strategic projects Finalisation of terms of reference for working group Sign-off of the collaboration partnership agreement in February 2021
	Makhubu Family (land claimants)	Land beneficiaries	Collaborative initiatives that will enable the community to derive value	A Makhubu task team was established to implement strategic projects that will add value to the community SAFCOL's Proactive Community Engagement Model guides the task team's work
	Mmamahlola community (land claimants)	Land beneficiaries	Engagement on various collaboration initiatives to be considered between SAFCOL and the CPA	SAFCOL, DEFF and DARDLR continued to engage with the community to collaborate on projects
	Makgoba community	Forest Sector Charter Council (FSCC) and SAFCOL dealing with issues raised by the Makgoba Community	Working relationship with the Joint Community Forum and economic partnership with community	SAFCOL workshopped the solutions to the issues raised by community to the satisfaction of the FSCC and the community



NATURAL CAPITAL

NATURAL CAPITAL SPOTLIGHT

Highlights



- KLF celebrated 24 years of consecutive forest management certification by the FSC® in FY 2020/21.
- Our dedicated climate change response strategy and plan were approved.
- We have launched a dedicated climate change response campaign logo which will be used to create identity and obtain traction among employees and communities.
- We are actively gathering baseline data for our carbon footprint analysis which is the precursor for setting greenhouse gas (GHG) emissions reduction targets and reporting.
- We have launched an ongoing awareness campaign within SAFCOL to make employees aware of the impact of climate change on our operations and adjacent communities.



Challenges being attended to

We are actively engaging industry on a carbon sequestration determination model which is being developed by the University of Stellenbosch.



Environmental responsibility

We view our plantations as a biological asset. Their sustainability is assured by responsible management, application of best practice, and compliance with the principles and criteria of our FSC® certification. We monitor our environmental impacts through scheduled processes, using independent specialists where appropriate, and mitigate where necessary. This is not just best practice, but also an FSC® requirement.

SAFCOL has a responsibility to care for the ecosystem by protecting the environment in which it operates. We are, therefore, fully committed to the continual improvement of environmental performance across all our business activities and recognise the key environmental impact of our business. SAFCOL also recognises the impact of climate change, both broadly within the global and South African contexts, and specifically as it impacts on the domestic forestry industry and SAFCOL operations and on the communities within which we operate.

SAFCOL is committed to reducing our contribution to climate change through GHG emissions, and continues to explore means of further mitigating their impact.

We subscribe to the principles and criteria of the FSC® and through KLF, we celebrated 24 consecutive years of Forest Management certification in the 2020/21 financial year.

Almost a third of the land managed by KLF is designated and managed as a conservation area. Requirements include the control of alien and invasive species, minimising the use of chemical pesticides, prevention of soil erosion and protection of grasslands and indigenous forests. The impacts of our operations on the environment are continuously monitored through in-house and independent surveys, covering aspects such as wetlands, streams and watercourses, rare, threatened and endangered species, heritage sites, areas of high conservation value and protection of biodiversity. Where undesirable impacts are identified, management interventions

are implemented to prevent further damage and, where required, to rehabilitate any degraded areas.

Dedicated climate change expertise was appointed during 2020/21, and our climate change response strategy (with supporting action plan) was updated. We aim to quantify and reduce our carbon footprint through appropriate, effective control measures aligned to our overall environmental management programmes.

Protection of the environment and biodiversity in the areas where we operate is an integral and essential component of our responsible and sustainable forest management strategy.



HUMAN CAPITAL

HUMAN
CAPITAL SPOTLIGHT

OUR
PEOPLE,
OUR
TALENT,
OUR
FUTURE

Highlights



- Achieved 100% of Human Capital Shareholder's Compact targets
- Leadership successors for executive positions identified
- Successor developmental intervention in progress
- Relaunch of SAFCOL values
- Introduction of behavioural indicators
- Electronic performance management system launched
- Top structure realignment and review for improved synergies
- All executive positions filled to drive the implementation of strategy
- There were no fatalities reported during the year under review.

Challenges being attended to

Delay in implementation of medical aid scheme subsidy

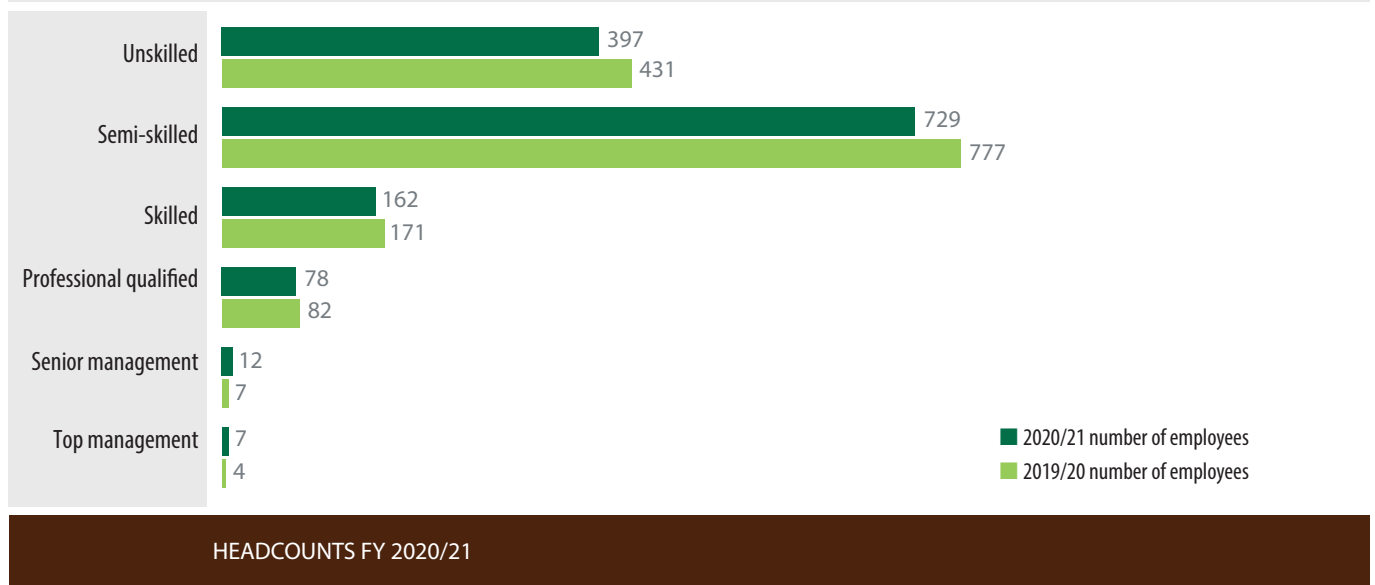
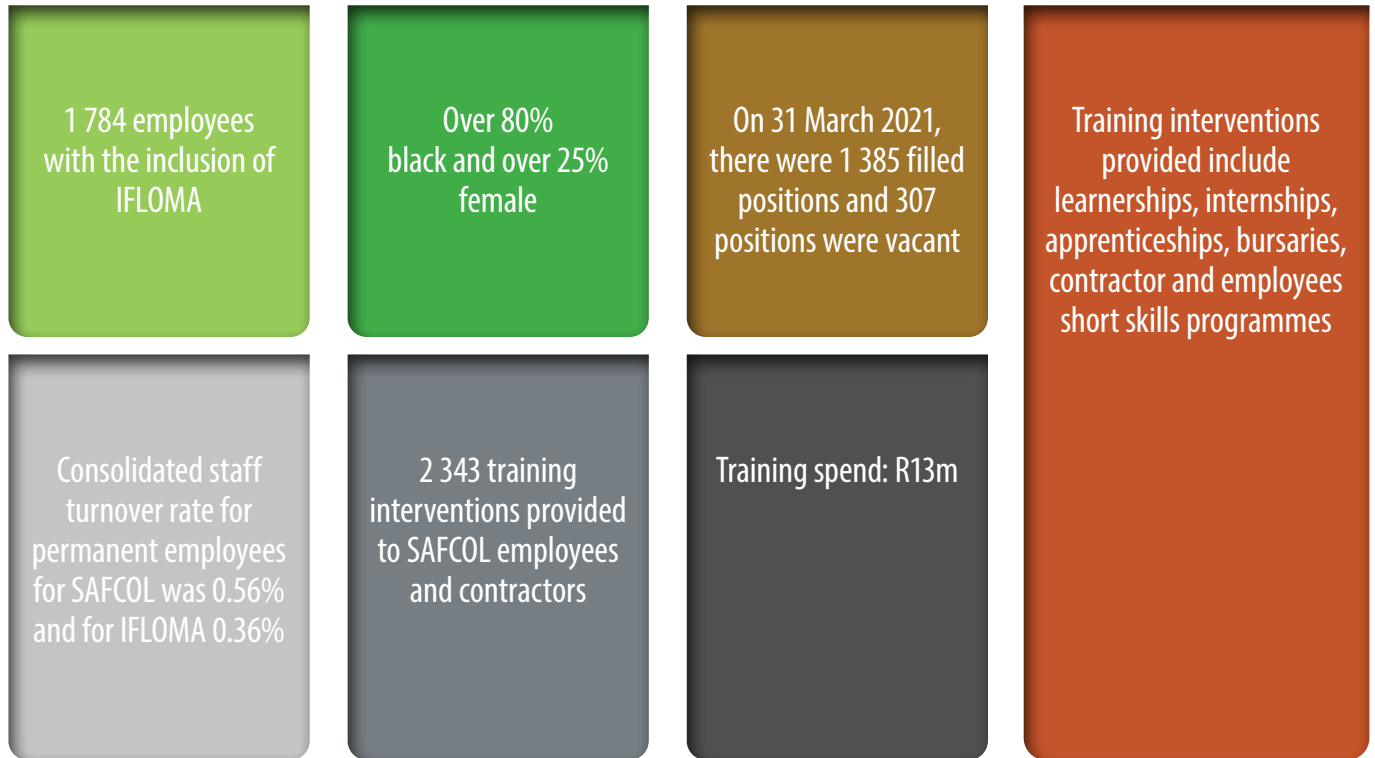


Figure 4: SAFCOL headcounts per occupational level FY 2020/21 vs FY 2019/20



Figure 5: Human Capital strategic enablers

Our people, our talent, our future

SAFCOL believes that employees have an important role to play in delivering exceptional customer service. During the year under review, Human Capital, in partnership with business, continued to ensure effective collaboration of employees across the Group through organisational and structural review and realignment and design. It is the Company's belief that only when employees are engaged and truly understand every part of the business, they will be empowered to satisfy customers. This assisted the Company to create exceptional experiences for both employees and customers.

Culture change interventions positioned SAFCOL as a great place to work where employees can achieve their career aspirations. Greater focus was placed on diversity and employment equity in the workforce, which resulted in better representation and enabled the Company to build a culture that promotes inclusion. Structural realignments emphasised dual career pathing, strategic talent acquisition and development.

Skills development

SKILLS DEVELOPMENT SPOTLIGHT

Highlights



- **R13m invested** in training and development to capacitate employees and drive internal career advancement
- **2 343 beneficiaries** trained on forestry-specific short skills programmes, of whom 1 870 were contractors
- **103 sector-specific learnerships** implemented targeting rural communities within operations
- **25 apprentices** participated in the artisan programme, which includes diesel mechanics, millwrights and boilermakers
- **89 bursars funded** in line with SAFCOL's critical and scarce skills
- **25 interns placed** for workplace experiential learning

Challenges being attended to

- The sector-specific learnerships' curriculum interrupted due to national lockdown regulations
- Limited representation from designated groups on learnerships (i.e. Indians and coloureds)

Future outlook

- Provision of training in line with SAFCOL's critical, scarce and future business skills requirements
- Leadership development programmes
- Partnership with NYDA and other industry players for entrepreneurship and life skills training
- Upskilling and reskilling of operations personnel for mechanisation
- Extension of scope with SETAs and maintain Quality Management System (QMS) for SAFCOL training centre (Platorand)

SAFCOL is committed to the development of employees and communities. Despite the impact of Covid-19 and the national lockdown, the training centre managed to adapt to changing conditions by utilising technology and virtual platforms to implement training interventions. All delegates and learners who were enrolled on development programmes completed their programmes successfully.

Talent management and succession planning

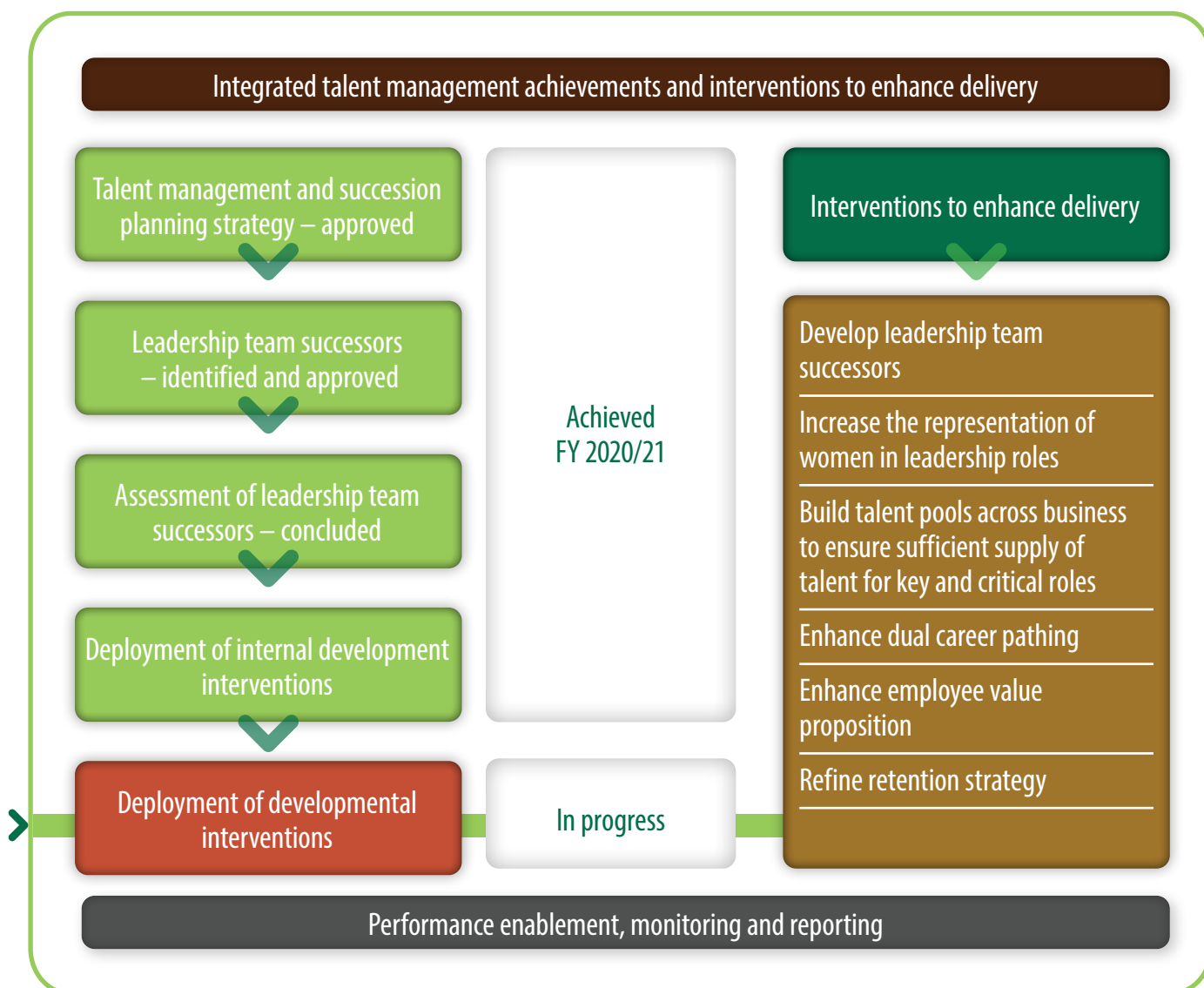
To address talent-related issues such as an ageing workforce, skills gaps and shortages, which were challenges

even before the Covid-19 pandemic, SAFCOL established a well-thought-out succession plan, talent management strategy and action plans to assist with the implementation of talent management initiatives. During the year under review, the focus was on succession planning for executive positions. This entailed the identification of leadership team successors in order to build a strong leadership bench and ensure business continuity at any given time.

In terms of our integrated talent management initiatives, we made real progress against objectives in the year under review. Our talent

management and succession planning strategy was approved, our leadership team successors were identified and approved, their assessments concluded and internal development interventions were deployed.

We continue our work on interventions to enhance delivery, including further developing leadership team successors, increasing female representation in leadership roles, building talent pools across the business to ensure sufficient talent supply for critical roles, enhancing the employee value proposition and refining our retention strategy.



Reward and remuneration

In FY 2020/21 SAFCOL revised key elements of reward and remuneration in order to strengthen governance and enhance compliance and SAFCOL's ability to attract and retain suitably qualified and experienced talented individuals to enable SAFCOL to achieve its strategic objective and Shareholder's Compact.

Key job-grading process linked to structural alignment

SAFCOL successfully reviewed and completed the job evaluation and grading process for certain roles as

part of the process to streamline group and business unit structures in order to enhance alignment of capabilities and increase synergies between business units.

Remuneration policies review

SAFCOL undertook and successfully completed strategic mandatory review of its policies to ensure that they provide the business with expert guidance, enhanced decision-making, incorporate changes from labour legislation and enable appropriate and consistent application.

Bargaining unit employees' salary adjustment

SAFCOL successfully concluded wage negotiations with the union (SAFFCAWU) and implemented an across-the-board 3% salary adjustment for all bargaining unit employees.

Board and committee fees

The Shareholder approved an inflationary adjustment of 4.5% for SAFCOL Board and committees fees. Due consideration was taken into account in approving this in line with the Company's financial position, austerity measures and performance targets.



Our culture

During the year under review, strides were made to reinforce and inculcate a high-performance and values-based culture. The intent is to build a positive and enabling environment for employees to perform effectively. Highlights included the launch of a web-based performance management system; investment in employee development; the relaunch of company values; values rollout, performance upskilling sessions and the introduction of behavioural indicators associated with company values.

People solutions to enhance the company culture included strengthening strategic alignment by cascading and aligning corporate and business unit strategies; aligning individual performance contracts with business unit objectives; driving continuous conversations and performance monitoring; strengthening people-related governance and compliance; rolling out positive consequence management to progressively correct behaviours; and driving and entrenching a people transformation agenda.



Employee relations

To promote the ethos of section 80 of the Labour Relations Act, No 66 of 1995, SAFCOL created several structures for employee participation where workplace relations are nurtured and enhanced.

Employees are free to exercise their right of association, which led to the union recognition agreement between SAFCOL and the South African Forestry, Farming Catering Workers Union (SAFFCAWU). SAFFCAWU represents all employees in the bargaining unit.

During the year under review, as in the three previous consecutive years, wage negotiations were concluded without any industrial actions. This can be attributed to the quarterly engagements between senior management of the Company and the leadership of the unions where strategic matters and reviews are discussed.



Wellness

SAFCOL's Employee Wellness Programme (EWP) aims to assist employees to navigate life and its challenges. Several workshops were facilitated to create awareness of wellness service offerings, which include, a toll-free EWP hotline; face-to-face counselling; trauma counselling; assistance with alcohol and/or drug abuse; and debt management assistance. SAFCOL provided an integrated occupational health programme which emphasises medical surveillance for all SAFCOL employees, and production employees in particular.

Employment equity

The employment equity (EE) consultative forums met on a quarterly basis to review policies, procedures and practices as well as to identify and ensure that barriers to employment and promotion of designated groups are eliminated. The Company continued to comply with section 21 of the Employment Equity Act, No 55 of 1998 by timeous submission of the applicable EE reports to the Department of Employment and Labour. The percentage of PWD was maintained at 2% of the total workforce.





INTELLECTUAL CAPITAL

INTELLECTUAL CAPITAL SPOTLIGHT



Highlights

- Target R&D spend KPI of 1.5% of turnover met
- Success of agroforestry research and publication in peer-reviewed journal
- University of Stellenbosch cross-laminated timber (CLT) project concluded
- Initial cellulose nanocrystal (CNC) research project completed and reports received
- Feasibility studies on both the above projects underway

SAFCOL's R&D centre outside Sabie conducts research on:

- Silviculture practices
- Wood and lumber-quality testing
- Pest and disease control
- New downstream products like CLT
- Seed orchard management and optimisation
- Tree breeding and genetic improvement of existing material
- Agro/social forestry

The Tweefontein Plantation houses the commercial forestry nursery which supplies all KLF plantations with seedlings and cuttings on an annual basis, thereby ensuring sustainable feedstock for all our plantations.

The DPE Shareholder's Compact target KPI of 1.5% of turnover was met.

R&D performance

The main outcomes of the FY 2020/21 R&D spend of R15m included:

- **Tree-breeding study**

Twenty-three research trials were conducted from April 2020 to May 2021. Measurements included eight-year, five-year, three-year and

survival assessments across 60.82 ha. Mixed pine species trials included new families from companies in USA and South America, which could contribute to broadening the gene base of breeding programmes. Data was analysed and reports were developed.

- **Agro/social forestry**

SAFCOL's Agroforestry Programme leverages relationships between industry, government and academic institutions. For the past year, the primary objective of the research has been to accelerate the growth and success of the groundnut and Eucalyptus grandis integration project at JDM Keet plantation. The aforementioned goal was enabled by SAFCOL's relationship with the Agriculture Research Council and the DEFF.

Research output included an analysis of land suitability, which entailed an evaluation of the soil, climate, weeds, pest and disease challenges. In parallel, a trial was established to test commercially available groundnut varieties. Recommendations from these studies would not capture the full picture without an understanding

of the socio-economic status of the beneficiaries of the project. Focus-group interviews were therefore conducted with 62 community growers during the distribution of seed.

This translated into an article titled "A case study of Agrosilviculture Community Growers in Limpopo and

Mpumalanga Provinces, South Africa" that was published in a special issue of the journal *Circular Economy and Sustainability*. Besides internal reports, highlights included SAFCOL's researchers being involved as authors and co-authors in book chapters, peer-reviewed publications and presentations.



• **Wood and lumber**

SAFCOL concluded a three-year project with the University of Stellenbosch to establish a theoretical and practical understanding for the use of South African grown Pine and Eucalyptus in new engineered products like cross-laminated timber (CLT). The project results and reports were presented to SAFCOL and the DPE, and involved the work of several MSc and PhD students further generating industry capacity in the form of specialist expertise.

Continuing this research for 2021/22, SAFCOL will further evaluate the business feasibility of CLT production as a value-added downstream product.

• **Relationships were built with the following outside institutions:**

- University of North Carolina
- Camcore Coop
- University of Stellenbosch (Wood and Lumber Department)

- University of Pretoria Tree Protection Co-operative Programme and Forest Molecular Genetics Programme
- CSIR
- Agriculture Research Council
- Institute for Commercial Forestry Research (ICFR)
- Baboon Working Group of South Africa



SOCIAL CAPITAL

SOCIAL CAPITAL SPOTLIGHT



Highlights

- Facilitated training for a total of 84 black-owned emerging and aspiring forestry companies in the completion of their theoretical pesticide control operator (PCO) training
- More than 16 000 community members impacted by CSI projects over the past five years

Challenge being attended to:

- Covid-19 lockdown restrictions affected the execution of some CSI and ESD programmes

Lowlight

- SAFCOL B-BBEE rating dropped from Level 3 to Level 4

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

This is central to the business of SAFCOL, given that SAFCOL's operations are largely in rural areas where there is a need for economic development through various initiatives such as the inclusion of SMMEs into SAFCOL's value chain, job creation, access to markets, enterprise and supplier development and technical skills transfer.

SAFCOL hosted its first ESD webinar focused on PWD and women-owned businesses in order to bridge the notable gaps in accessing specifically PWD-owned companies to work with SAFCOL. The dialogue on procurement opportunities for the designated groups and development of such suppliers will continue into the coming financial year with the aim of broader economic empowerment and development of these designated groups.

Though progress on most CSI and ESD projects was stalled due to the Covid-19 lockdowns and the unprecedented challenges the pandemic caused to the Company and the country, real progress was made in a number of areas.

SAFCOL's transformation agenda also focuses on the economic participation of SMMEs through programmes focused on the inclusion of such entities in our value chain.

Enterprise and supplier development (ESD)

SAFCOL is committed to transforming the forestry industry by ensuring that Black people, youth, people with disabilities and women participate in the economy and in the process of creating jobs.

- The Company facilitated training for 84 black-owned emerging and aspiring forestry companies in the completion of their theoretical PCO training in various areas. This is to

address the shortages of qualified silviculture contractors in the communities adjacent to SAFCOL operations.

- Internal and external mentorship programmes for silviculture and gardening contractors were initiated in all operational regions.
- United Nations Industrial Development Organisation continues to collaborate with SAFCOL on the development of small businesses. Forestry tools for silviculture contractors were supplied.
- SAFCOL put concerted efforts in targeting the procurement of goods and services from black-owned SMMEs with an emphasis on black women and youth.
- The company has conducted PCO training for 54 black-owned companies based in Vhembe and Mopani districts.

CASE STUDY

LIMPUMA CO-OPERATIVE



The Limpuma Co-operative is a black-youth-owned furniture manufacturing co-operative established in 2015. The co-operative was founded by 18 young people from villages in Limpopo and Mpumalanga – hence the name – and was formally registered in 2015. The founders had taken part in a SAFCOL learnership programme at Timbadola Sawmill, and the co-operative was enrolled in SAFCOL's enterprise incubation programme for four years. SAFCOL initially contracted them to produce 3 000 school desks, which were donated to schools in SAFCOL's operating areas. SAFCOL has assisted the co-operative with equipment and skills support.

The co-operative currently manufactures coffins and furniture for households and offices and sells it to local communities, lodges, churches, lodges, taverns and markets. They have been contracted to Cash Crusaders and Vhutambo Edu-care to supply household furniture including trays, ironing boards, tables, cot beds and toys. The co-operative has gone from strength to strength, and has recently acquired land on which to build a dedicated workshop. The co-operative has created 32 jobs, and has received an award from Vhembe District and a grant from the Department of Social Development in recognition of their work.

Corporate social investment

In 2020/21 we invested in priority high-impact CSI projects. While the number of projects supported has reduced over the past five years, the impact of the projects on the lives of their beneficiaries has been substantial. More than 16 000 community members were impacted by these projects.

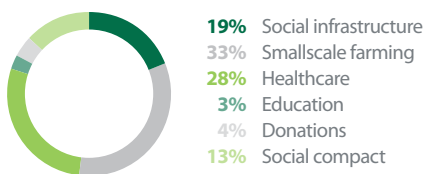


Figure 6: CSI spend composition

Key projects and performance

Dignity Drive

The annual flagship programme to preserve the dignity of girls and keep them at school continued in this financial year. This year, 241 dignity packs were donated to Chief Funwako Secondary School at Emjindini town, close to Nelshoogte Plantation. The school has been declared a no-fee school by the Education Department as most of the parents either are unemployed or depend on government grants to sustain their livelihoods. The dignity packs included sanitary towels and toiletries.

Ngome Primary School Computer Centre

Ngome Primary school, another no-fee school, is situated in rural KwaZulu-Natal at Ntendeka Village under the Zululand District. We believe that education is a right, not a privilege, and thus schools in rural areas must receive the same resources as those in urban areas.

To support this, Ngome Primary School was equipped with 10 computers running Microsoft Windows Professional.

The school principal reported that this contribution to the school will bring continual change and enhance learning in all subjects. All the learners from Ngome Primary School are from impoverished backgrounds and need resources to keep up with the ever-changing technological world. Through the technological resources that are now becoming available, learners can take much more active roles in their learning.

A Grade 6 learner said during an interview: "As a learner coming from a rural community, computers are too far from us. We only saw them on the television screens, and we did not know that one day we will be able to touch and actually work on them. We will use these facilities to the best of our abilities and we hope that these opportunities will also be made available to more rural schools."

CASE STUDY

GRASKOP CLINIC



A state-of-the-art clinic built at Graskop town, Mpumalanga province, was completed as the result of a partnership between SAFCOL, the Department of Health, Thaba Chweu Municipality and Tzaneng Treated Timbers. The facility provides quality primary healthcare services to more than 1 500 patients monthly. The event was attended by, amongst others, the Mpumalanga MEC for Health, the Executive Mayor for Thaba Chweu, and the CEO of SAFCOL.



BOGOGO SIYABANAKEKELA CENTRE

SAFCOL provides social protection services aligned to government's efforts to forge partnerships with vulnerable individuals, groups and communities in an effort to assist them to become capable and active participants in the development of their societies. The centres built through the social infrastructure programme support initiatives focused on food relief through establishing gardens, capacity building, and response to social distress. The pictures alongside depict some of the centres built by the Company.

Agroforestry projects

Agriculture plays a critical role in reducing poverty and creating sustainable jobs for the local community. The Covid-19 pandemic has brought a new appreciation of the pivotal role that South Africa's agriculture sector plays in the provision of healthy, sufficient and affordable food for the local communities. SAFCOL has supported 11 small-scale farmers by supplying seedlings, fertilisers, garden tools, farming equipment and mentorship. In total, 106 jobs were sustained via the following projects.

Project	Progress in FY 2020/21
Hlabekisa smallscale farming	A project aimed at reducing poverty and creating jobs for the local community living outside the Graskop town yielded fruit. During the second quarter, more than 2 700 kg of maize was harvested and sold to the local market. This project created sustainable jobs for 31 women who were previously unemployed.
Simile Agroforestry Project	Farming tools and seedlings were issued to beneficiaries who are planting vegetables within Tweefontein's compartments.
Khuphukani Women Co-operative	A group of women farming close to SAFCOL's Jessievale Plantation have harvested and sold over 35 tonnes of cabbages to the local market. This project has created 25 jobs and improved the livelihoods within their families and community.
Main Force Co-operative	This small-scale farming project is located in the deep rural areas of Dundonald close to Jessievale Plantation in the Mpumalanga province. A group of five project members are planting a variety of vegetable crops. In the quarter under review, the beneficiaries were assisted with land preparation, vegetable seedlings, garden tools, water supply and personal protective clothing. Main Force Co-operative is owned by five women located in the deep rural area of Mpumalanga province close to SAFCOL's Jessievale Plantation.
Sidlasonke Co-operative	Sidlasonke Co-operative is located at Makhambane village close to SAFCOL's Palmridge research centre. Five hectares have been planted with a variety of vegetables. The demand for locally produced vegetables increased during lockdown, which enabled the co-operative to supply to local supermarkets.

CASE STUDY



KHUPHUKANI WOMEN AGRICULTURAL CO-OPERATIVE PROJECT

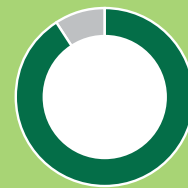
Supporting the development of small-scale farmers is key in promoting economic growth, reducing poverty, and improving food security in South Africa. SAFCOL has supported the Khuphukani Women Agricultural Co-operative in meeting its objectives by assisting the community to produce vegetables in a sustainable manner. The co-operative, which is situated in Redhill Village, eNgodini, Mpumalanga benefits 26 women, and operates three hectares of crop production on a rotating basis. Through support from SAFCOL, the beneficiaries have improved the quality of life for the eNgodini community and managed to address underlying socio-economic challenges.

TOGETHER WE GROW

An unwavering commitment
to ethical, visible and effective
leadership

Board composition

Board racial diversity



91% ACI
9% White

Board gender diversity



63.6% Male
36.4% Female



Mr Hulisani Murovhi
(Company Secretary)

Company Secretary

The Company Secretary plays an important role in the governance and administration of the organisation. In executing this role, the Company Secretary ensures the effective and efficient functioning of the Board by providing advice and support to Board members. Board members have unrestricted access to the services of the Company Secretary.

Mr H Murovhi was appointed as the Company Secretary with effect from 15 August 2019, and is responsible, amongst others, for administering the proceedings and affairs of the Board(s) within the Group to ensure overall governance compliance. The Company Secretary is the primary point of contact between the Board and Exco and maintains an arm's length relationship with Board members and Executives. The Company Secretary reports administratively to the CEO and functionally to the Board of SAFCOL.

Legislative framework and mandate

SAFCOL was established in 1992, and derives its mandate from the Management of State Forests Act,

No 128 of 1992. SAFCOL is a state-owned company as defined in the Companies Act, No 71 of 2008 and is a Schedule 2 Public Entity in terms of the Public Finance Management Act (PFMA). While ensuring that it fulfils its role in the broader transformation and development of our economy, SAFCOL also adheres and complies with other legislation and regulations relevant to its operations.

As a state-owned company, SAFCOL has a dual mandate of commercial viability and socio-economic development. Our mandate is to conduct the commercial forestry business, and realise an effective return to the Shareholder, while contributing to economic development mainly in rural areas.

SAFCOL's Board remains committed to the principles of the King IV Report. Sound corporate governance practices are implicit in the values, culture, policy and processes of the Company. In addition, the Board promotes compliance and good governance in every aspect of the business.

Board of Directors composition

The Board is appointed by the Minister of Public Enterprises as the shareholder representative. The majority of the directors are Non-executive Directors to ensure independence and objectivity in decision-making and oversight, with only the Chief Executive Officer and the Chief Financial Officer being Executive Directors.

Board member	Gender		Race				Tenure	Status	
	M	F	A	I	C	W		Executive Director	Non-executive Director
PM Makwana (Chairperson)	✓		✓				Effective from 1 October 2018		✓
MF Baleni	✓		✓				Effective from 1 October 2018		✓
NI Balton	✓			✓			Effective from 1 October 2018		✓
B Hanise		✓	✓				Effective from 1 October 2018		✓
LH Malema		✓	✓				Effective from 1 October 2018		✓
Adv L Mokgatle	✓		✓				Effective from 1 October 2018		✓
Y Pillay	✓			✓			Effective from 1 October 2018		✓
JR Yawitch		✓				✓	Effective from 1 October 2018		✓
ZP Zatu		✓	✓				Effective from 1 October 2018		✓
OT Monaheng (CEO)	✓		✓				Effective from 1 December 2017	✓	
J Maruma (Acting CFO)	✓		✓				Effective from 1 March 2020	✓	
Total	7	4	8	2	0	1		2	9

Board meeting attendance

The following Board meetings were convened and the attendance of members is captured below:

Number of meetings in FY 2020/21	Planned meetings	Ad hoc/special meetings
9	4	5

Board member	Meeting attendance	Percentage (%)
PM Makwana (Chairperson)	9/9	100
MF Baleni	7/9	78
NI Balton	8/9	89
B Hanise	9/9	100
LH Malema	9/9	100
Adv. LG Mokgatle	9/9	100
Y Pillay	7/9	78
JR Yawitch	9/9	100
ZP Zatu	9/9	100
OT Monaheng (CEO)	9/9	100
J Maruma (acting CFO)	9/9	100

FY 2020/21 Board activities

- SAFCOL remuneration alignment project
- Board performance evaluation report: 2019/20
- Economic transformation strategy
- Land excision: withdrawal of the Thathevondo Forest from forestry purposes
- Succession planning: implementation of the first phase
- Consolidated Covid-19 risk register
- Possible Covid-19 scenarios
- Proposal: SAFCOL and DEFF land lease agreement
- Section 54 pre-notification application: Timbadola
- Misalignment between the MOIs of KLF and SAFCOL
- Update: impact of Covid-19 on business
- AGSA Presentation: amendments to the Public Audit Act
- Interim annual financial statements: Group and subsidiaries
- Interim annual performance information report
- Enterprise and supplier development policy
- Pre-notification applications: ecotourism; combined heat and power plant; and pole treatment plant
- Updated Covid-19 risk register
- Legal opinion: SAFCOL's rights as a beneficial user of the land
- Revised Shareholder's Compact
- Recruitment of the Chief Financial Officer
- DEFF lease payment plan
- Board vacancy
- Update and implications: AGSA audit
- SAFCOL's pre-Covid-19 Shareholder's Compact: 2019/20
- Corporate and social investment policy
- Board code of conduct
- Proposed changes: KLF MOI
- Management position: Singisi Forest Products (Pty) Ltd
- Scenario planning report
- Proactive community engagement model
- Audited annual financial statements and management report for SAFCOL and its subsidiaries: 2020/21
- Changes to the Shareholder's Compact: 2020/21
- Alignment of the corporate plan to the Shareholder's Compact
- Implementation plan: Board performance evaluation report 2019/20
- Forestry Industry Masterplan
- Terms of reference of Board committees: 2021/22
- Climate change strategy
- Wage mandate: 2021/22
- Updated HR policies
- Covid-19 TERS funding
- Progress update: business turnaround plan
- Legal update: Expropriation Bill
- Approval of the integrated report: 2019/20
- Approval of the strategic plan and corporate plan: 2021/22
- Approval of the Shareholder's Compact: 2021/22
- Dividend declaration: financial year ending 31 March 2019/20

Combined assurance

Compliance with Covid-19 regulations



While we continue with our risk-based compliance efforts, additional focus was required to ensure compliance with regulations issued under the Disaster Management Act, No 57 of 2002 due to the Covid-19 pandemic, including the following:

- A Covid-19 Compliance Officer and Compliance Coordinators for all sites were appointed.
- A workplace readiness plan was implemented.
- A detailed Covid-19 risk assessment was conducted and mitigation plans were implemented.
- Procurement of Covid-19 personal protective equipment was centralised and monitored for compliance purposes.
- Engagement with organised labour on our initiatives to keep employees safe from the virus took place.
- Weekly communication took place with all our employees to keep them focused on the need for Covid-19 vigilance and compliance in order to protect themselves, their families and SAFCOL.

Internal Audit

SAFCOL's Internal Audit has continued to fulfil its primary role and purpose of providing independent and objective assurance and advice to management and the Board, in order to improve the organisation's operations, and to assist the organisation accomplish its objectives.

This was achieved by full coverage of the Internal Audit plan, and its responsiveness to management's requests for assurance when needed for decision making. The Internal Audit plan was informed by the company-wide risk assessment as well as the approved Group strategy. The three-year rolling plan is updated annually, before approval by the Audit and Risk Committee.

The overall control environment within SAFCOL for the year under review is considered to be "partially effective" in ensuring that inherent risks are appropriately managed and that business objectives are attained.

Fraud and corruption prevention

The SAFCOL Fraud Hotline is managed by an external service provider. In 2020/21, four fraud and corruption-related allegations were recorded, indicating a decrease of 86% in the number of reported allegations compared to the previous corresponding period. The nature of the reported cases relates to three allegations of corruption and one of theft. At least 70% of all reported cases to date have been investigated and finalised.

Ethics and code of conduct

SAFCOL ETHICS

WE DO THE RIGHT THINGS, RIGHT

During 2020/21 we renewed our commitment to the embedding of an ethical culture and the visible demonstration of ethical leadership. We reinforced the alignment of ethical conduct with our corporate values, as well as our safety, health, environmental, risk and compliance responsibilities. Focus was placed on the responsibility of all employees, customers, service providers, suppliers and other role players to participate in the building of an ethically sound network of stakeholders.

TOGETHER **WE GROW**

Robust and responsive
processes and
frameworks for
an empowered
organisation

Governance

Oversight

Integrity

Compliance

Transparency

Report of the Audit and Risk Committee

Composition

Five Non-executive Directives including the Chairperson Members in FY 2020/21* • ZP Zatu (Chairperson) • B Hanise • LH Malema • Y Pillay • J Yawitch <i>* Executive Directors (CEO, CFO) and other key executives participate in meetings by invitation.</i>	Number of meetings in FY 2020/21		
	Planned meetings		Ad hoc/special meetings
	9		6
	Meeting attendance		
	Board member	Meeting attendance	Percentage (%)
ZP Zatu	9/9	100	
B Hanise	9/9	100	
LH Malema	8/9	89	
Y Pillay	8/9	89	
JR Yawitch	9/9	100	

Responsibilities

- Oversight of the integrity in the preparation of financial statements in compliance with all applicable laws and regulations
- Oversight regarding the integrity of the financial reporting system
- Oversight of the organisation's assurance functions including external assurance providers, internal audit, and the finance function
- Monitoring, assessing, and managing financial and other risks
- Assist the Board in carrying out its functions relating to safe-guarding SAFCOL's assets, the operation of adequate risk management, and ensuring the effectiveness of the Company's internal controls
- Support the Board in carrying out its role relating to ICT by ensuring the ethical and responsible use of ICT, compliance with relevant laws, ensuring an appropriate control environment and managing material ICT risks

Challenges, key focus areas and achievements

- An unqualified audit opinion has been obtained for the successive year, with a marked reduction in audit findings.
 - The amount of irregular expenditure has significantly reduced. The amount has reduced from R52m in the prior year to R9m.
 - The inability to upgrade or replace the ERP system remains a significant risk in the ICT control environment. To address this risk, a Chief Information Officer has been appointed and together with the CFO has started to look at various options regarding the system and funding thereof.
 - Profitability improved as the prior year Operating Loss of R14m moved to an Operating Profit of R40m. Despite the Covid-19 lockdown, which impacted our first quarter of FY 2020/21, revenue improved in the current year. The improvement together with cost-containment measures contributed to the overall improvement in operating profit.
 - Lack of forensic capacity within Internal Audit resulted in delays in finalising investigations. However, 74% of investigations have been finalised to date, as at 31 March 2021.
 - The finance department should stabilise with the appointment of a permanent CFO and optimal team composition is in the process of being assessed, including a new oversight role in supply chain management to monitor ongoing compliance with legislation.
 - The National Prosecuting Authority (NPA) has declined all the cases that were referred to it in 2017. The matter has been closed.
 - With the support of the Board and Exco, appointed a Chief Financial Officer, Chief Audit Executive, Chief Risk Officer and a Chief Information Officer.
 - Independent review of annual financial statements and assurance over the previous audit findings raised by the AGSA through follow-up reviews conducted by Internal Audit, particularly material misstatements, incorrect application of accounting policies and disclosures contained in the financial statements, and irregular expenditure.
 - Implemented a Covid-19 risk management process based on a detailed Covid-19 risk register.
 - Reviewed and recommended the updated Shareholder's Compact and Corporate Plan 2020/21:
 - Section 54 of the PFMA pre-notifications
 - The DEFF Land Lease Payment Plan
 - Board Code of Conduct
 - Proposed amendments to the KLF MOI, and alignment of the SAFCOL and KLF MOIs
 - Covid-19 impact on the business
 - The position on Singisi Forest Products (Pty) Ltd
 - The legal opinions on SAFCOL's rights as a beneficial user of the land impacted by land claims; and
 - The Security Services tender.
 - Approval of the foundational principles of the Risk Appetite Framework.
 - Reviewed the potential impact of the following pending or new legislation on the business: Expropriation Bill 2020, Competition Amendment Act, No 18 of 2018, and the Draft Procurement Bill 2020.
-

Conclusion

The committee has regulated its affairs in compliance with its charter for the reporting period, and has discharged its responsibilities successfully as contained therein, as reflected in the key focus areas presented above.



Ms Z Zatu

Chairperson of the Audit and Risk Committee

Report of the Human Resources and Remuneration Committee

Composition

Five Non-executive Directors including the Chairperson Members in FY 2020/21* • B Hanise (Chairperson) • MF Baleni • PM Makwana • Adv L Mokgatle • Y Pillay * Executive Directors, (CEO, CFO) participate in meetings by invitation.			
	Number of meetings in FY 2020/21	Planned meetings	Ad hoc/special meetings
	5	4	1
Meeting attendance			
Board member	Meeting attendance		Percentage (%)
B Hanise	5/5		100
LG Mokgatle	5/5		100
MF Baleni	5/5		100
Y Pillay	5/5		100
PM Makwana	5/5		100

Responsibilities

- Provide oversight in determining the Human Capital strategy, practices, and policies, and remuneration
- Assist the SAFCOL Board to discharge its responsibility of oversight of the management of reward and remuneration matters
- Ensure that SAFCOL remunerates fairly, responsibly, and transparently to promote the achievement of SAFCOL's strategic targets, goals, and objectives
- Provide support on the acquisition of executive talent, set the terms and conditions of employment of executives, and on the succession planning for the CEO and other Executive Directors
- Review and determine the various remuneration programmes, in particular the compensation of Executive Directors and prescribed officers as well as employee benefits
- Review and approve, through the Board and ultimately by shareholders, the executive's proposals on the compensation of Non-executive Directors
- Oversee a fair, responsible, transparent and open approach regarding SAFCOL's remuneration framework, philosophy and policy
- Continuously monitor human resources and remuneration-related risks, which could potentially have a negative impact on the execution of SAFCOL's strategic objectives
- Ensure applicability of the Company's Shareholder's Compact and scorecards

Challenges, key focus areas and achievements

The role and strategic importance of Human Capital have become key and now widely recognised both internally and externally due to the impact they have in driving our transformational agenda by inculcating high-performance culture, people development, employee wellness, and creating an enabling and innovative environment that stimulates employees to deliver on organisational strategic objectives. During the year under review, SAFCOL's strategic focus was on the following: improving organisational effectiveness, its remuneration philosophy, enhancing the employee value proposition, the alignment project on state-owned company remuneration, key structural alignment and integrated talent management and succession planning. Below is SAFCOL's progress against key focus areas:

Challenges, key focus areas and achievements continued

Internal impact spotlights:

- Completed and implemented high-level structural review for most Business Units to optimise and improve efficiencies and also to ensure that SAFCOL has future fit structures that support the execution of strategy.
- In the past year the following key executive positions were filled to close the leadership gap that existed and also to drive the execution of company strategy:
 - Chief Operating Officer, Chief Risk Officer, Chief Audit Executive and Executive: Strategy and Commercial
- All Human Capital Shareholder's Compact targets were achieved.
- The Company received a R1.5m FP&M SETA discretionary grant.
- In efforts to build and inculcate high-performance culture, a digitised performance management system was introduced and successfully implemented.
- Concluded wage negotiations amicably.
- Reviewed key policies such as Reward and Remuneration in order to strengthen and enhance governance, compliance, and decision making.
- In the midst of the challenges emanating from the Covid-19 pandemic, we successfully relaunched the company values with behavioural indicators as a culture change drive.
- Focused development of leadership successor through the deployment of developmental interventions.

In progress

- SAFCOL is working towards the implementation of key employee benefits, such as a medical aid scheme and a 13th cheque to compete fairly in the market and for talent attraction purposes to enhance our employee value proposition.

Our success journey and highlights

- People-related strategies including integrated talent management and succession planning were developed in line with the Company's strategic direction and purpose.
- Introduced the SAFCOL Leadership Competency Framework to drive the Company's strategic objectives.
- Developed leadership bench strength through implementation of a succession planning process, whereby a pipeline of leadership successors for executive positions were identified and developed.
- Transformed our people processes and systems by migrating from manual to digital (ESS).
- In our efforts to embed a high-performance culture, we introduced a digital performance management system (ec@ps).
- Introduced an HCIS function to provide business with people-related metrics and reports to enable business to make timeous decisions and also enable the committee to assess and measure its return on investment.
- Achievement of the Shareholder's Compact target for the past three years, which contributed to the continuous development of communities particularly youth from rural areas within SAFCOL operations.
- Capacitated and trained all senior management and Exco members on PFMA and Bid committees training to entrench ethical financial management.
- The Company successfully concluded wage negotiations in the past three years without any industrial action, meaning no production time lost.
- During the pandemic, the Company did not make any salary cuts and continued to pay employees their full salaries with the assistance of the TERS fund made available by the government.

Conclusion

The committee has adopted an appropriate terms of reference as its charter, has regulated its affairs in compliance with this charter, and has discharged its responsibilities as contained therein.



Ms B Hanise

Chairperson of the Human Resources and Remuneration Committee

Report of the Finance, Investments and Transactions Committee

Composition

Five Non-executive Directors including the Chairperson Members in FY 2020/21* • NI Balton (Chairperson) • PM Makwana • L Malema • Y Pillay • Z Zatu * Executive Directors (CEO, CFO) and other key executives participate in meetings by invitation.	Number of meetings in FY 2020/21			Planned meetings		Ad hoc/special meetings	
	9			3		6	
	Meeting attendance						
	Board member			Meeting attendance		Percentage (%)	
	NI Balton			9/9		100	
	ZP Zatu			9/9		100	
	LH Malema			9/9		100	
	Y Pillay			9/9		100	
	PM Makwana			8/9		89	

Responsibilities

- Assists the Board of Directors in providing oversight of investment and financial planning, funding models, implementation of major projects and investments, and proposed partnerships
- In support of the abovementioned objectives, the committee reviews and approves:
 - SAFCOL's annual budget;
 - Funding models, including their respective funding sources in line with the approved delegation of authority;
 - Procurement transactions that are above the mandate of Executive authority;
 - The Company's financial performance (and highlights any areas of concern to the Board); and
 - Management proposals and progress reports, and reports on these to the Board.
- Maintains oversight and obtains assurances on the robustness of the Company's key income sources and contractual safeguards

Challenges, key focus areas and achievements

- Improvements in cash conservation, with cash and equivalents increasing by 33% to over R300m compared to prior year.
- Operating costs are being reduced as a percentage of revenue to ensure alignment with revenue growth through resource optimisation. A 26% positive variance was achieved on operating costs compared to budget.
- A dynamic Business Turnaround Plan informed by scenarios and risk evaluation was updated and implemented to respond to the economic downturn and the Covid-19 pandemic and future-oriented thinking.
- Product pricing strategy was reviewed, which entailed the approval of a 9.7% price reduction to respond to the decline in the market.
- The Annual Procurement Plan was reviewed to support the efficient operations of the business and compliance with relevant legislation.
- A section 54 application was made for the Timbadola Sawmill upgrade following the development of a business case and design specifications.
- The horizontal integration strategy in terms of acquiring plantations to grow the resource base is progressing more slowly than planned and stakeholder engagements are taking longer than anticipated.
- We are exploring opportunities to leverage the balance sheet in a sustainable way to support strategic projects.

Conclusion

Committee members have performed their roles admirably in what was a challenging year. The committee adopted appropriate terms of reference as its charter, regulated its affairs in compliance with this charter, and discharged its responsibilities as contained therein.



Mr N Balton

Interim Chairperson of the Finance, Investments and Transactions Committee

Report of the Safety, Health, Environment, Health and Quality Committee

Composition

Five Non-executive Directors including the Chairperson Members in FY 2020/21* - MF Baleni (Chairperson) - J Yawitch - L Malema - Adv L Mokgatle - NI Balton * Executive Directors (CEO, CFO) and other key executives participate in meetings by invitation.			
	Number of meetings in FY 2020/21	Planned meetings	Ad hoc/special meetings
	5	3	2
	Meeting attendance		
	Board member	Meeting attendance	Percentage (%)
	MF Baleni	5/5	100
	LH Malema	5/5	100
	LG Mokgatle	5/5	100
	JR Yawitch	5/5	100
	NI Balton	4/5	80

Responsibilities

- Assist the Board to ensure the continuous safety of employees and other stakeholders
- Review frameworks and guidelines for safety, health, environment (including climate change) and quality management
- Assess the impact the business has on the environment and the mitigation thereof
- Assist the Board in discharging its duties by reviewing safety, health, environment and quality-related strategies, policies and processes
- Monitor key indicators on incidents, and communicate where appropriate
- Review high-severity incidents, and ensure that accurate and consistent internal reporting systems are in place
- Consider substantive national and internal regulatory and technical developments in the field of safety, health, environment and quality management

Challenges, key focus areas and achievements

- We recorded a fatality-free period due to a proactive approach to maintaining safety and security standards and mitigating related risks.
- Exceeded the Shareholder's Compact DIFR target by a significant margin for the fourth consecutive year, and recorded the least number of disabling injuries in any financial year for the last five years.
- Maintained a well-established Health and Safety Management System, compliant with the requirements of applicable legislation, and based on the minimum requirements of the National Occupational Safety Association (NOSA) 5-Star Integrated System, adapted to suit SAFCOL's specific needs.
- Policies and standards that set out mandatory requirements in all areas of SHEQ, together with dedicated expertise, are in place, committing SAFCOL to:
 - Value the health and safety of employees and contractors;
 - Protect the environments in which it operates;
 - Supply safe, quality products to customers;
 - Address the potential consequences of climate change through an approved Climate Change Response Strategy; and
 - Formalise a Quality Management System to support efficiencies.

Report of the Safety, Health, Environment, Health and Quality Committee continued

Challenges, key focus areas and achievements continued

- Implemented a Covid-19 risk register, together with management of Covid-19 related compliance and risks to the business.
 - Effective environmental management and compliance are reflected in the continued certification of KLF, the operating arm of SAFCOL to the FSC® Standard for 24 consecutive years.
 - All employees are required to take personal responsibility for SHEQ compliance and are required to demonstrate this in their everyday actions and activities. Unsafe acts, behaviours and conditions are addressed through direct action where identified.
 - Considerable focus and effort towards the development of a sustainable safety culture has resulted in significant progress, as reflected in SAFCOL's overall safety performance.
 - During two rounds of internal audits, an average 91% compliance against SAFCOL's SHE Standards across all business units was recorded. An audit by SAFCOL's Internal Audit function in the second quarter of the reporting period found that SHEQ systems are both adequate and effective.
 - Dedicated SHEQ training was delivered to committee and Board members during July 2020.
-

Conclusion

The committee has regulated its affairs in compliance with its charter for the reporting period, and has discharged its responsibilities as contained therein successfully, as reflected in the key focus areas presented above.



Mr MF Baleni

Chairperson of the Safety, Health, Environment and Quality Committee

Report of the Social and Ethics Committee

Composition

Four Non-executive Directors including the Chairperson Members in FY 2020/21* • J Yawitch (Chairperson) • F Baleni • N Balton • Adv L Mokgatle * Executive Directors (CEO, CFO) and other key executives participate in meetings by invitation.			
	Number of meetings in FY 2020/21	Planned meetings	Ad hoc/special meetings
	5	3	2
	Meeting attendance		
	Board member	Meeting attendance	Percentage (%)
	JR Yawitch	5/5	100
	NI Balton	5/5	100
	MF Baleni	5/5	100
	LG Mokgatle	5/5	100

Responsibilities

- Govern and oversee SAFCOL's socio-economic transformation imperatives, as well as its drive to instill an ethical culture across the organisation at all levels
- Ensure that the Board has a sound fraud and anti-corruption policy in place
- Ensure that SAFCOL is a socially responsible corporate citizen
- Adopting an action plan that is intended to achieve the acceleration and adoption of social and transformation initiatives in communities in which SAFCOL operates, as well as to establish the building blocks necessary to guarantee the Company's ethical foundation

Challenges, key focus areas and achievements

- While community engagements were impacted as a result of Covid-19 restrictions that were placed on social gatherings, significant progress was made through innovative virtual engagements to maintain progress on community work plans.
- Despite the unfortunate regression in B-BBEE from Level 3 to Level 4 in the past financial year, we continue to play an active role in transforming the forestry sector through supporting black-owned sawmillers that wish to enter the industry.
- The outcome of the B-BBEE Facilitator status is still awaited. A proposal to modify the ownership and preferential procurement elements on the B-BBEE scorecard was approved by the Forest Sector Charter Council (FSCC) as an interim measure.
- SAFCOL's organisational structure now includes an Ethics office mandated to embed SAFCOL's ethical values, policies, framework, and systems necessary for a sound ethical culture.
- Reviewed and recommended the Board Code of Conduct to the Board for approval.
- Approved and oversees the implementation of the Proactive Community Engagement Model, which enables the building of constructive engagements with land claimants.
- Adoption of a Covid-19 Risk Register and dynamic management of Covid-19 related risks.
- Approval of an Economic Transformation Strategy; Enterprise and Supplier Development Policy, and a Corporate Social Investment Policy.
- Approval of land excision: withdrawal of the Thandevondo Forest from land utilised for forestry purposes to allow economic development initiatives for local communities.
- Handover of the Glory Hill Clinic (a CSI project) to Graskop and the neighbouring communities.
- Monitored the ethical conduct of the Company, its executives, and all officials in terms of the provisions of the Code of Ethics, as well as matters that were reported, the action taken and the results in respect of whistleblowing activities.
- Working to inculcate a high-performance culture, based on accountability for performance.
- To make a sustainable impact, the committee realised a need to understand business concerns on the ground, and this was achieved through a culture survey conducted in FY 2018/19, after which the Company took a phased approach in implementing culture change interventions. Critical to this initiative was to change employees' behaviour and redefining the SAFCOL culture. This necessitated the relaunch of the company values and behavioural indicators that outline the kind of behaviours acceptable for a successful SAFCOL.

Report of the Social and Ethics Committee continued

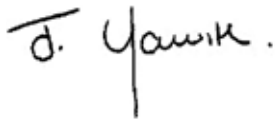
Challenges, key focus areas and achievements continued

- SAFCOL continuously invests in its employees and communities through several learning and development interventions listed below:
 - SAFCOL recruited and placed 103 forestry-specific sector learnerships
 - The Company placed 25 interns and provided them with an opportunity to gain workplace experience
 - 89 bursaries in the pipeline, of which 43 are for internal candidates, while 46 are for external candidates. Of the 46 external candidates, 12 are dependants of the Company's employees
 - 25 apprentices are in the system, and these include a diesel mechanic, millwright, and electricians
 - Invested 3% of the total personnel cost (R13m) towards skills development, and a total of 2 343 employees benefited from training in the past financial year.
 - Building partnerships and relationships with industry stakeholders and institutions of higher learning to promote continuous learning and benchmark industry best practices.
 - Working well with successful land claimant communities and establishing formal collaborative partnerships.
 - Started making payments with respect to the land lease agreement with DEFF, including paying off the historical lease debt.
 - As part of wider stakeholder engagement, a labour union representative has become a permanent invitee to the meetings of the committee.
 - On the recommendation of the committee, the Board approved a position paper on the exiting of minority shares while protecting community shareholding interests.
-

Conclusion

The committee has adopted appropriate terms of reference as its charter, regulated its affairs in compliance with this charter, and discharged its responsibilities as contained therein. Going forward, the committee will prioritise oversight of SAFCOL's internal and external transformation initiatives. Recommendations from the Culture Survey were implemented by management using a phased approach. A Leadership Charter was introduced and organisational values were embedded with behavioural indicators.

The committee will also monitor SAFCOL's community beneficiation, enterprise, and SMME development initiatives and will ensure that work is done to increase SAFCOL's impact. The committee will also oversee and support management in resolving land claims.



Ms J Yawitch

Chairperson of the Social and Ethics Committee

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A report of the directors has not been prepared as the Group is a wholly owned subsidiary of the Government of the Republic of South Africa represented by the Minister of Public Enterprises.

BUILDING OUR
SUCCESS THROUGH
**TRANSFORMATION,
INNOVATION
AND MUTUALLY
BENEFICIAL
PARTNERSHIPS**

CONSOLIDATED ANNUAL
FINANCIAL STATEMENTS
for the year ended 31 March 2021

South African Forestry Company SOC Limited and its subsidiaries
(Registration number 1992/005427/30)

These consolidated annual financial statements were prepared under the supervision of:

D Human

Group Chief Financial Officer

These consolidated annual financial statements have been prepared in compliance with the applicable requirements of the Companies Act, No 71 of 2008.

Issued date: 31 August 2021

GENERAL INFORMATION

Country of incorporation and domicile	South Africa
Nature of business and principle activities	Development in the long term of the South African forestry industry and the optimising of its assets and land value
Directors	OT Monaheng J Maruma (resigned: 31 March 2021) D Human (appointed: 1 April 2021) PM Makwana ZP Zatu B Hanise L Malema Y Pillay J Yawitch N Balton FM Baleni L Mokgatle
Registered office	Podium at Menlyn 43 Ingersol Road Lynnwood Glen Pretoria 0081
Business address	Podium at Menlyn 43 Ingersol Road Lynnwood Glen Pretoria 0081
Ultimate shareholder	Government of the Republic of South Africa represented by the Minister of Public Enterprises
Auditors	Auditor-General South Africa Chapter 9 institution 300 Middel Street New Muckleneuk Pretoria, 0081
Company Secretary	H Murovhi

DIRECTORS' RESPONSIBILITIES AND APPROVAL

The directors are required in terms of the Companies Act, No 71 of 2008 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 period 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 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 judgements and estimates. The appropriate framework to be used has also been assessed per Directive 12. Per the requirements of Directive 12, the appropriate framework to be used by the Company is International Financial Reporting Standards.

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 period to 31 March 2022 and, in light of this review and the current financial position, they are satisfied that the Group has access to adequate resources and funding to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing 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 79 to 82.

Despite the outbreak of the Covid-19 pandemic, which adversely affected the demand for the Group's services and consequently its projected financial results, the directors believe that the Group has adequate financial resources to continue in operation in the foreseeable future and accordingly the consolidated financial statements set out on pages 83 to 139 have been prepared on a going concern basis.

The consolidated annual financial statements were approved by the Board on 31 August 2021 and were signed on their behalf by:

Approval of financial statements



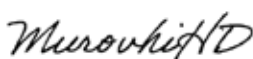
PM Makwana
Board Chairperson



OT Monaheng
Chief Executive Officer

CERTIFICATE BY COMPANY SECRETARY

The Company Secretary certifies to the best of his knowledge that the Group has lodged with the Companies and Intellectual Property Commission all such returns as are required of a public company in terms of the Companies Act, No 71 of 2008 and that all such returns are true, correct and up to date.



H Murovhi

REPORT OF THE AUDITOR-GENERAL

To Parliament on the South African Forestry Company SOC Limited

Report on the audit of the consolidated and separate financial statements

Opinion

1. I have audited the consolidated and separate financial statements of the South African Forestry Company SOC Limited (SAFCOL) and its subsidiaries (the Group) set out on pages 83 to 139, which comprises the consolidated and separate statement of financial position as at 31 March 2021, the consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, as well as notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Group as at 31 March 2021, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act, No 1 of 1999 (PFMA) and the Companies Act, No 71 of 2008 (Companies Act).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor-General's responsibilities for the audit of the consolidated and separate financial statements section of my report.
4. I am independent of the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA Code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matter

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Events after the reporting period

7. I draw attention to note 42 in the financial statements, which deals with subsequent events and, specifically, the possible effects of the future implications of Covid-19 on the public entity's future prospects, performance and cash flows. My opinion is not modified in respect of this matter.

Responsibilities of the accounting authority for the financial statements

8. The Board of Directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the IFRS and the requirements of the PFMA and the Companies Act, and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
9. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor-General's responsibilities for the audit of the consolidated and separate financial statements

10. My objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.
11. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

REPORT OF THE AUDITOR-GENERAL *continued*

Report on the audit of the annual performance report

Introduction and scope

12. In accordance with the Public Audit Act, No 25 of 2004 (PM) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
13. My procedures address the usefulness and reliability of the reported performance information, which must be based on the approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the public entity of enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
14. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the public entity's annual performance report for the year ended 31 March 2021:

Objectives

Objective 1.3 – operational excellence

Pages in the annual performance report

19 to 21

15. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
16. I did not identify any material findings on the usefulness and reliability of the reported performance information for this objective: Objective 1.3 – operational excellence

Other matter

17. I draw attention to the matter below.

Achievement of planned targets

18. Refer to the annual performance report on pages 19 to 21 for information on the achievement of planned targets for the year.

Report on the audit of compliance with legislation

Introduction and scope

19. In accordance with the PM and the general notice issued in terms thereof, I have a responsibility to report material findings on the public entity's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
20. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements, performance reports and annual reports

21. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 55(1)(b) of the PFMA. Material misstatements of disclosure items identified by the auditors in the submitted financial statement were corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

22. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R1 598 000 as disclosed in note 44 to the annual financial statements, as required by section 51(1)(b) of the PFMA. The majority of the irregular expenditure was caused by non-compliance with supply chain management processes.

Other information

23. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the directors' report, the Audit Committee's report and the Company Secretary's certificate, as required by the Companies Act. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.
24. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.
25. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
26. If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

27. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form, of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the findings on compliance with legislation included in this report.
28. Management did not adequately implement internal review controls regarding financial reporting resulting in material misstatements on the financial statements.
29. Management did not adequately implement monitoring processes to prevent non-compliance with laws and regulations relating to supply chain management, resulting in irregular expenditure being incurred in the current year.

Auditor General

Pretoria

29 August 2021



ANNEXURE – AUDITOR-GENERAL’S RESPONSIBILITY FOR THE AUDIT

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements and the procedures performed on reported performance information for selected objective and on the public entity’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this auditor’s report, I also:
 - Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
 - Obtain an understanding of internal control relevant to the audit 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 public entity’s internal control.
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors, which constitutes the accounting authority.
 - Conclude on the appropriateness of the accounting authority’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the SAFCOL and its subsidiaries to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause an entity to cease operating as a going concern.
 - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
 - Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the Group audit. I remain solely responsible for my audit opinion.

Communication with those charged with governance

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also provide the accounting authority with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

STATEMENT OF FINANCIAL POSITION

		Group		Company	
			Restated*		Restated*
	Note(s)	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Assets					
Non-current assets					
Property, plant and equipment	3	177 782	215 497	3 427	4 118
Investment property	4	456	456	–	–
Biological assets	5	3 418 272	3 303 758	–	–
Intangible assets	6	1 753	2 848	1 753	2 848
Other financial assets	8	1 855	2 735	112	992
Right-of-use asset	24	312 957	323 187	–	3 458
Deferred tax	10	111 704	114 367	64 442	62 820
		4 024 779	3 962 848	69 734	74 236
Current assets					
Biological assets	5	394 521	457 359	–	–
Inventories	11	41 886	101 984	243	483
Loans to Group companies	7	–	–	310 508	380 296
Trade and other receivables	12	161 171	189 733	1 472	1 690
Current tax receivables	13	772	24 658	–	–
Cash and cash equivalents	14	336 542	252 358	316 510	231 037
		934 892	1 026 092	628 733	613 506
Non-current assets held for sale	15	698	673	–	–
Total assets		4 960 369	4 989 613	698 467	687 742
Equity and liabilities					
Equity					
Equity attributable to equity holders of parent					
Share capital	16	318 013	318 013	318 013	318 013
Reserves		11 460	52 473	129 043	129 043
Retained income		2 784 959	2 836 331	88 213	92 966
		3 114 432	3 206 817	535 269	540 022
Non-controlling interest		(49 768)	(61 368)	–	–
		3 064 664	3 145 449	535 269	540 022
Liabilities					
Non-current liabilities					
Finance lease liabilities	20	661 575	578 065	–	–
Deferred tax	10	791 242	850 273	–	–
Provisions	21	6 432	7 601	–	–
		1 459 249	1 435 939	–	–
Current liabilities					
Finance lease liabilities	20	151 368	140 665	–	3 771
Provisions	21	9 241	36 466	–	–
Trade and other payables	23	275 847	231 094	163 198	143 949
		436 456	408 225	163 198	147 720
Total liabilities		1 895 705	1 844 164	163 198	147 720
Total equity and liabilities		4 960 369	4 989 613	698 467	687 742

* See note 39.

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for the year ended 31 March 2021

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note(s)	Group		Company	
		2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
Revenue	25	920 817	824 318	140 997	166 232
Cost of sales	26	(840 015)	(819 882)	–	–
Gross profit/(loss)		80 802	4 436	140 997	166 232
Other operating income	27	40 240	6 167	10 349	3 463
Fair value gain on biological assets	28	852 453	903 440	–	–
Other operating expenses	30	(912 847)	(901 513)	(165 832)	(179 990)
Allowance for bad debts	30	(20 959)	(26 344)	–	–
Operating profit/(loss)		39 689	(13 814)	(14 486)	(10 295)
Investment income	31	5 605	7 146	8 815	14 828
Finance costs	32				
Lease finance costs		(150 149)	(223 661)	(454)	(568)
Other finance costs		(32)	(1 795)	(249)	(1 352)
Profit/(loss) before taxation		(104 887)	(232 124)	(6 374)	2 613
Taxation	34	60 065	165 789	1 621	(1 581)
Profit/(loss) for the year		(44 822)	(66 335)	(4 753)	1 032
Other comprehensive income:					
Items that may be reclassified to profit or loss:					
Exchange differences on translating foreign operations		(40 978)	12 610	–	–
Other comprehensive income for the year net of taxation		(40 978)	12 610	–	–
Total comprehensive income for the year		(85 800)	(53 725)	(4 753)	1 032
Total comprehensive income for the period attributable to owners of SAFCOL Group arises from:					
Owners of SAFCOL Group SOC Ltd		92 350	(55 908)		
Non-controlling interests		(6 550)	2 183		
		(85 800)	(53 725)		

* See note 39.

STATEMENT OF CHANGES IN EQUITY

	Share capital R'000	Foreign currency translation reserve R'000	Retirement fund reserve R'000	Other NDR R'000	Total reserves R'000	Retained income R'000	Total equity of the parent R'000	Non- controlling interest R'000	Total equity Group R'000
Group									
Balance at 31 March 2019	318 013	(100 757)	64 000	65 043	28 286	2 898 649	3 244 948	(53 114)	3 191 834
Profit/(loss) for the year	–	–	–	–	–	(68 518)	(68 518)	2 183	(66 335)
Current year movement in translation reserve	–	(44 020)	–	–	(44 020)	–	(44 020)	(10 437)	(54 457)
Other comprehensive income	–	68 207	–	–	68 207	–	68 207	–	68 207
Balance at 31 March 2020	318 013	(76 570)	64 000	65 043	52 473	2 830 131	3 200 617	(61 368)	3 139 249
Prior period adjustment	–	–	–	–	–	6 200	6 200	–	6 200
Balance at 31 March 2020 as restated*	318 013	(76 570)	64 000	65 043	52 473	2 836 331	3 206 817	(61 368)	3 145 449
Profit/(loss) for the year	–	–	–	–	–	(51 372)	(51 372)	6 550	(44 822)
Current year movement in translation reserve	–	20 194	–	–	20 194	–	20 194	5 050	25 244
Other comprehensive income**	–	(61 207)	–	–	(61 207)	–	(61 207)	–	(61 207)
Balance at 31 March 2021	318 013	(117 583)	64 000	65 043	11 460	2 784 959	3 114 432	(49 768)	3 064 664
Note(s)	17	18	19	20					

* See note 39.

** Unrealised forex loss/gain, as a result of movement on foreign currency translations.

	Share capital R'000	Retirement fund reserve R'000	Other NDR R'000	Total reserves R'000	Retained income R'000	Total equity of the Company R'000
Company						
Balance at 31 March 2019	318 013	64 000	65 043	129 043	84 747	531 803
Total comprehensive loss for the year	–	–	–	–	614	614
Balance at 31 March 2020	318 013	64 000	65 043	129 043	85 361	532 417
Prior period adjustment*					7 605	7 605
Balance at 31 March 2020 restated*	318 013	64 000	65 043	129 043	92 966	540 022
Total comprehensive loss for the year	–	–	–	–	(4 753)	(4 753)
Balance at 31 March 2021	318 013	64 000	65 043	129 043	88 213	535 269
Note(s)		16	18	19		

* See note 39.

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2021

STATEMENT OF CASH FLOWS

	Note(s)	Group		Company	
		2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
Cash flows from operating activities					
Cash generated from operations	33	162 019	156 181	10 471	15 563
Interest received		5 589	7 087	5 447	6 202
Dividend received		16	59	16	1
Finance costs paid		(32)	(1 796)	(249)	(1 352)
Tax received/(paid)	34	(24 389)	(338)	–	–
Net cash from operating activities		143 203	161 193	15 685	20 414
Cash flows from investing activities					
Purchase of property, plant and equipment	3	(3 082)	(27 575)	–	–
Loans to Group companies repaid		–	–	69 788	82 070
Net cash from investing activities		(3 082)	(27 575)	69 788	82 070
Cash flows from financing activities					
Finance lease payments		(55 937)	(36 006)	–	–
Financial liabilities		–	(1 333)	–	(1 333)
Net cash from financing activities		(55 937)	(37 339)	–	(1 333)
Total cash movement for the year		84 184	96 279	85 473	101 151
Cash at the beginning of the year		252 358	156 079	231 037	129 886
Total cash at the end of the year	14	336 542	252 358	316 510	231 037

* See note 39.

ACCOUNTING POLICIES

General information

South African Forestry Company SOC Limited (SAFCOL), a public company and holding company of the Group, is incorporated and domiciled in the Republic of South Africa. The Group's main business is the development in the long term of the South African forestry industry and the optimisation of its assets and land value.

1. Significant accounting policies

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 preparation of the annual financial statements in conformity with International Financial Reporting Standards, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the South African Companies Act, No 71 of 2008 and the Public Finance Management Act, No 1 of 1999 requires the directors to make judgements, 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.

The level rounding used in presenting amounts in the financial statements is thousands.

1.1 Basis of preparation

The consolidated and separate consolidated annual financial statements have been prepared on the going concern basis in accordance with, and in compliance with, International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued and effective at the time of preparing these consolidated annual financial statements and the Companies Act, No 71 of 2008 of South Africa, as amended.

These consolidated annual financial statements comply with the requirements of the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council.

The consolidated annual financial statements have been prepared on the historical cost convention, unless otherwise stated in the accounting policies, which follow and incorporate the principal accounting policies set out below. They are presented in Rand, which is the Group and Company's functional currency.

1.2 Consolidation

Basis of consolidation

The consolidated annual financial statements incorporate the consolidated annual financial statements of the Company and all subsidiaries. Subsidiaries are entities, which are controlled by the Group.

The Group has control of an entity when it is exposed to or has rights to variable returns from involvement with the entity and it has the ability to affect those returns through use of its power over the entity.

The results of subsidiaries are included in the consolidated annual financial statements from the effective date of acquisition to the effective date of disposal.

Adjustments are made when necessary to the consolidated annual financial statements of subsidiaries to bring their accounting policies in line with those of the Group.

All intercompany transactions, balances, and unrealised gains on transactions between Group companies are eliminated in full on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Industrias Florestais de Manica SA (IFLOMA) is a company situated in Mozambique. It is fully controlled by Komatiland Forest SOC Limited (KLF) with an 80% shareholding. Although KLF holds only 80% of the shares, it has an irrevocable option to acquire the minority interest at a fixed price of R1 641 949 (equivalent to US\$112 500). Non-controlling interests are initially recognised at fair value. The net assets of consolidated subsidiaries are identified and recognised separately from the Group's interest therein, and are recognised within equity. Losses of subsidiaries attributable to non-controlling interests are allocated to the non-controlling interest even if this results in a debit balance being recognised for non-controlling interest.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions and are recognised directly in the statement of changes in equity.

The difference between the fair value of consideration paid or received and the movement in non-controlling interest for such transactions is recognised in equity attributable to the owners of the Company.

ACCOUNTING POLICIES **continued**

1. Significant accounting policies **continued**

1.2 Consolidation **continued**

Basis of consolidation **continued**

Where a subsidiary is disposed of and a non-controlling shareholding is retained, the remaining investment is measured to fair value with the adjustment to fair value recognised in profit or loss as part of the gain or loss on disposal of the controlling interest. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

1.3 Significant judgements and sources of estimation uncertainty

The preparation of consolidated annual financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Key sources of estimation uncertainty

Provisions

Provisions are inherently based on assumptions and estimates using the best information available. Additional disclosure of these estimates of provisions are included in the provisions note.

Provision for impairment of trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to its recognised amount is recognised in profit or loss, as an impairment loss or a reversal of an impairment loss. Trade and other receivables are written off (either partially or in full) when there is no reasonable expectation of recovery.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the trade receivables. Expected credit losses on trade receivables are calculated by using the provision approach. Trade receivables are categorised by common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The provision is determined based on historical observed default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

Fair value estimate of biological assets

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 or when there are market conditions, which impact:

- 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 modelled tree shape at various ages, is used to split the tree-lengths into predefined 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 modelled 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, insect and fungal damage such as sirex and fusarium. Natural elements such as extreme wind, rain and hail conditions may damage the trees, as well as reduced rainfall or uneven rainfall affects tree growth. In the case of fires, the actual volume is recalculated per compartment.
- 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:
 - 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; and
 - Inflation assumptions, which have been adjusted to incorporate the market view at the valuation date.

Taxation

The Group is subject to income taxes in the South Africa and Mozambique jurisdictions. Significant judgement is required in determining the provision for income tax. 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.

1.4 Biological assets

Biological assets are pine, wattle and eucalyptus trees planted; where the Group controls the assets, future economic benefits are probable and the fair value can be reliably measured. Biological assets are measured at their 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 of the Group. 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. Costs to sell are the costs of harvesting and bringing the timber to roadside. Increases or decreases in value are recognised in the statement of profit and loss. Biological assets that are expected to be consumed in the next 12 months are disclosed under current assets. Biological assets are transferred to inventory upon harvesting.

1.5 Investment property

Investment properties are properties held for earning rental income or for capital appreciation or both, and are initially recognised at cost or deemed cost. Investment properties are subsequently measured at cost less accumulated depreciation and accumulated impairment. Land is not depreciated as it is considered to have an indefinite useful life. Transaction costs are included in the initial measurement.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service, a property.

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 enterprise, and the cost of the investment property can be measured reliably.

ACCOUNTING POLICIES *continued*

1. Significant accounting policies *continued*

1.6 Investment in subsidiaries

Komatiland Forests SOC Limited, Kamhlabane Forests SOC Limited and Abacus Forests SOC Limited are subsidiaries of SAFCOL Group. Significant judgements and assumptions relating to control relates to ownership of the subsidiaries. SAFCOL Group wholly owns the subsidiaries. An assessment of control arises from the basis that SAFCOL Group wholly owns and has the ability to direct all the activities of the subsidiaries. In making judgement, there are no limitations in terms of rights.

SAFCOL entity applies the cost method for measurement of investments in subsidiaries.

1.7 Property, plant and equipment

Property, plant and equipment are tangible assets that the Group holds for its own use or for rental to others and which are expected to be used for more than one year.

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.

Owned assets

Property, plant and equipment is initially measured at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment loss. 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.

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 with 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. Items such as spare parts, standby equipment and servicing equipment are recognised in accordance with IFRS when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory. 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 profit or loss and other comprehensive income. 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 profit or loss and other comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Depreciation will not be charged to the statement of profit or loss and other comprehensive income if it has been included in the carrying amount of another asset. Land and capital work-in-progress are not depreciated. The methods of depreciation, useful lives and residual values are reviewed at the end of each reporting period. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate 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 useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Useful life
Buildings and utilities	Straight line	5 – 50 years
Plant and machinery	Straight line	3 – 35 years
Furniture and fixtures	Straight line	5 – 30 years
Motor vehicles	Straight line	4 – 30 years
Computer equipment	Straight line	3 – 20 years
Roads	Straight line	5 – 35 years
Leasehold improvements – buildings and utilities	Straight line	5 – 35 years
Leasehold improvements – telephone lines and fences	Straight line	5 – 30 years
Leasehold improvements – roads	Straight line	5 – 35 years

1.8 Intangible assets

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.

Acquired computer software is 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.

Amortisation is charged to the statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful life of the asset.

The methods of amortisation, 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	3 – 20 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 profit or loss and other comprehensive income. The gain or loss is the difference between the net disposal proceeds and the carrying amount of the asset.

1.9 Financial instruments

Financial instruments held by the Group are classified in accordance with the provisions of IFRS 9: Financial Instruments. Broadly, the classification possibilities, which are adopted by the Group, as applicable, are as follows:

Financial assets, which are debt instruments:

- Amortised cost (this category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is met by holding the instrument to collect contractual cash flows).

Financial liabilities:

- Amortised cost

Financial instruments and risk management presents the financial instruments held by the Group based on their specific classifications.

The specific accounting policies for the classification, recognition and measurement of each type of financial instrument held by the Group are presented below:

Loans receivable at amortised cost

Classification

Loans to Group companies are classified as financial assets subsequently measured at amortised cost.

Loans to Group have been classified in this manner because the contractual terms of these loans give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding and the Group's business model is to collect the contractual cash flows on these loans.

Recognition and measurement

Loans receivable are recognised when the Group becomes a party to the contractual provisions of the loan. The loans are measured, at initial recognition, at fair value plus transaction costs, if any.

Subsequently measured at amortised cost

The amortised cost is the amount recognised on the loan initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

ACCOUNTING POLICIES **continued**

1. Significant accounting policies **continued**

1.9 Financial instruments **continued**

Impairment

The Group recognises a loss allowance for expected credit losses on all loans receivable measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective loans.

The Group measures the loss allowance at an amount equal to lifetime expected credit losses (lifetime ECL) when there has been a significant increase in credit risk since initial recognition. If the credit risk on a loan has not increased significantly since initial recognition, then the loss allowance for that loan is measured at 12-month expected credit losses (12-month ECL).

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a loan. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a loan that are possible within 12 months after the reporting date.

In order to assess whether to apply lifetime ECL or 12-month ECL, in other words, whether or not there has been a significant increase in credit risk since initial recognition, the Group considers whether there has been a significant increase in the risk of a default occurring since initial recognition rather than at evidence of a loan being credit impaired at the reporting date or of an actual default occurring.

Trade and other receivables

Classification

Trade and other receivables, excluding, when applicable, Value Added Tax (VAT) and prepayments, are classified as financial assets and subsequently measured at amortised cost.

They have been classified in this manner because their contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding and the Group's business model is to collect the contractual cash flows on trade and other receivables.

Recognition and measurement

Trade and other receivables are recognised when the Group becomes a party to the contractual provisions of the receivables. They are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the receivable initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Impairment

The Group recognises a loss allowance for expected credit losses on trade and other receivables, excluding VAT and prepayments. The amount of expected credit losses is updated at each reporting date.

The Group calculated the expected credit loss under the simplified approach using a provision matrix. The expected credit loss is calculated by applying an expected loss ratio to each age receivable Group. The loss ratio is calculated as the historical payment profile and adjusted for macroeconomic forecasts. A default credit loss ratio is applied to ageing periods of 90 days and over.

Derecognition

Any gains or losses arising on the derecognition of trade and other receivables is included in profit or loss in the derecognition gains/(losses) on financial assets at amortised cost.

Borrowings

Classification

Borrowings are classified as financial liabilities subsequently measured at amortised cost.

Recognition and measurement

Borrowings are recognised when the Group becomes a party to the contractual provisions of the loan. The loans are measured, at initial recognition, at fair value less transaction costs, if any.

They are subsequently measured at amortised cost using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Interest expense, calculated on the effective interest method, is included in profit or loss in other finance costs paid. Borrowings expose the Group to liquidity risk and interest rate risk. Refer to the note for details of risk exposure and management thereof.

Trade and other payables

Classification

Trade and other payables, excluding VAT and amounts received in advance, are classified as financial liabilities and subsequently measured at amortised cost.

Recognition and measurement

Trade and other payables are recognised when the Group becomes a party to the contractual provisions, and are measured, at initial recognition, at fair value plus transaction costs, if any, and are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

If trade and other payables contain a significant financing component, and the effective interest method results in the recognition of interest expense, then it is included in profit or loss in finance costs.

Trade and other payables expose the Group to liquidity risk and possibly to interest rate risk. Refer to the note for details of risk exposure and management thereof.

Derecognition

Any gains or losses arising on the derecognition of trade and other payables is included in profit or loss in the derecognition gains (losses) on financial assets at amortised cost.

Cash and cash equivalents

Cash and cash equivalents are classified as financial assets and subsequently measured at amortised cost. Cash and cash equivalents are initially and subsequently recognised at amortised cost.

1.10 Tax

Current tax

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to/ (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction, which at the time of the transaction affects neither accounting profit nor taxable profit or tax loss.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction, which at the time of the transaction affects neither accounting profit nor taxable profit or tax loss.

The Group shall disclose the amount of a deferred tax asset and the nature of evidence supporting its recognition, when: the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and the entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

ACCOUNTING POLICIES **continued**

1. Significant accounting policies **continued**

1.10 Tax **continued**

The consumption of biological assets is uncertain. The Group has used historical information to estimate future consumptions. The consumption rates have an impact on volumes available and the value of the biological assets disclosed. The value of biological assets has an impact on the deferred tax estimated.

Dividend withholding tax

Dividends withholding tax (DWT) is a tax levied on the beneficial owner of the share. The tax is withheld by the Company and paid over to the revenue authorities on the beneficiaries' behalf.

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- A transaction or event which is recognised, in the same or a different period, to other comprehensive income; or
- Directly in equity.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

1.11 Leases

Where the Group is a lessee, a right-of-use asset and lease liability are recognised, except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Company's incremental borrowing rate on a commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

Right of use

The following policies apply subsequent to the date of initial application, 1 January 2019. On initial recognition, the carrying value of the lease liability also includes:

- Amounts expected to be payable under any residual value guarantee;
- The exercise price of any purchase option granted in favour of the Company if it is reasonably certain to assess that option; and
- Any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- Lease payments made at or before commencement of the lease;
- Initial direct costs incurred; and
- The amount of any provision recognised where the Company is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Company revises its estimate of the term of any lease (because, for example, it reassesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases, an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

When the Company renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- If the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional right of use obtained, the modification is accounted for as a separate lease in accordance with the above policy.
- In all other cases where the renegotiation increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount.
- If the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

For contracts that both convey a right to the Company to use an identified asset and require services to be provided to the Company by the lessor, the Company has elected to account for the entire contract as a lease, i.e. it does not allocate any amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

Nature of leasing activities (in the capacity as lessee)

The Group leases land from Department of Environment, Forestry and Fisheries (DEFF). Right-of-use assets have been recognised over the leased land. The lease contracts provide for payments to increase each year by a pre-agreed rate that is usually linked to inflation. The Company has also recognised right of use over building leased from a related party and computer equipment leased from an independent third party. Leases of land and buildings comprise only fixed payments over the lease terms. There were no rent concessions received on any of the leases the Company has entered into.

The percentages in the table below reflect the current proportions of lease payments that are either fixed or variable.

At 31 March 2021	Lease contracts number	Fixed payment %
Land and property lease	3	75
Leases of computer equipment	1	25

1.12 Inventories

Inventories are measured at the lower of cost and net realisable value. 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.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity. When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories is recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Cost is determined on the following basis:

- Finished goods and work in progress comprise 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, 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.
- The cost of harvested timber transferred from biological assets is its fair value less costs to sell at the date of harvest.

ACCOUNTING POLICIES **continued**

1. Significant accounting policies **continued**

1.13 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered 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) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal) are measured at the lower of its carrying amount and fair value less costs to sell. A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in profit or loss.

1.14 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, to the extent 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.

1.15 Share capital and equity

Ordinary shares are classified as equity.

1.16 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care) is recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

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.

Defined contribution plans

The SAFCOL Provident Fund is a defined contribution plan. The contribution plan under which the Group pays fixed contributions into a separate entity.

The Group pays 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.

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.

1.17 Provisions, contingencies and commitments

A provision is recognised when the Company has a present legal or constructive obligation because 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 Company has approved a detailed and formal restructuring plan, and the restructuring has either commenced or been announced publicly. Costs relating to ongoing activities are not provided for.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognised for future operating losses. Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in notes to the annual financial statements. A commitment is an agreement or a pledge to assume a financial obligation at a future date. The Company discloses commitments incurred by the Company at year end.

1.18 Revenue

Under IFRS 15, revenue is recognised based on the satisfaction of performance obligations. In applying IFRS 15, entities would follow this five-step process:

- Identify the contract with a customer;
- Identify the separate performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the separate performance obligations; and
- Recognise revenue when (or as) each performance obligation is satisfied.

Sales of services

Where the Company charges management services to its subsidiaries, the fees are eliminated on consolidation level. Revenue arising from such services is recognised on the decimal basis over the period the services are rendered in accordance with the substance of the relevant agreements.

Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer. The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of product/services Revenue recognition under IFRS 15 (applicable from 1 April 2018)

Timber products	Revenue is recognised at a point in time when the goods leave the premises at the standalone selling prices. When the customer collects the goods at the premises, the Group no longer directs the use of the goods and the customer accepts responsibility.
Forestry products	Revenue is recognised at a point in time when the goods are delivered and have been accepted by customers at the delivery point. The Group's contracts permit the customers to return an item; revenue is thus recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Therefore, the amount of revenue recognised is adjusted for expected returns, which are estimated based on the historical data for specific products. In these circumstances, a refund liability is recognised. The Group reviews its estimate of expected returns at each reporting date and updates the amounts of the liability accordingly.

ACCOUNTING POLICIES **continued**

1. Significant accounting policies **continued**

1.19 Translation of foreign currencies

Functional and presentation currency

These consolidated financial statements are presented in Rand, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the Group at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss and presented within finance costs.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Rand at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into Rand at the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interest (NCI). The SAFCOL Group applies the proportionate share method for measurement and recognition of NCI.

1.20 Reserves

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.

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 profit or loss.

Retirement fund reserve

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

Capital profit reserve

Where profits made on disposal of assets and the proceeds from insurance claims are deemed exceptional, these profits are classified as distributable reserve.

1.21 Post-balance sheet

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.

1.22 Related parties

An entity is related to a reporting entity if the following condition applies:

- The entity and the reporting entity are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- SAFCOL also considers all other entities controlled by Department of Public Enterprises as related.

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

1.23 PFMA reportable expenditure

In terms of section 55(2)(b)(i) of the Public Finance Management Act, No 1 of 1999 (PFMA) the financial statements must include particulars of any material losses through criminal conduct and any irregular and fruitless and wasteful expenditure.

Section 1 of the PFMA, as amended, defines irregular expenditure as expenditure, other than unauthorised expenditure, incurred in contravention of or that is not incurred in accordance with a requirement of any applicable legislation, and defines fruitless and wasteful expenditure as expenditure that was made in vain and would have been avoided had reasonable care been exercised.

All PFMA reportable expenditure is accounted for in the statement of profit or loss and other comprehensive income in the period in which it is identified.

PFMA reportable expenditure is recorded in the notes to the annual financial statements when confirmed. The amount recorded is equal to the value of the expenditure incurred, unless it is impractical to determine, in which case reasons therefore must be provided.

PFMA reportable expenditure receivables are derecognised when settled, or written off as irrecoverable or condoned by the relevant authority.

1.24 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. The note on other income provides further information on how the Group accounts for government grants.

The Group recognises a conditional government grant as a trade payable when the grant is initially received. Other government grants related to assets are initially recognised as deferred income at fair value if there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant; they are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the periods in which the expenses are recognised.

1.25 Research and development

Research and development expenditure is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

1.26 Leases (IFRS 16)

Effective 1 January 2019, IFRS 16 has replaced IAS 17 Leases and IFRIC 4: Determining whether an Arrangement Contains a Lease.

IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, together with options to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17, with the distinction between operating leases and finance leases being retained. The Group does not have significant leasing activities acting as a lessor.

Transition method and practical expedients utilised

The Group elected to apply the practical expedient to not reassess whether a contract is, or contains a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. The definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 31 March 2020.

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Group applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- (a) Apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- (b) Exclude initial direct costs from the measurement of right-of-use assets at the date of initial application for leases where the right-of-use asset was determined as if IFRS 16 had been applied since the commencement date;
- (c) Reliance on previous assessments on whether leases are onerous as opposed to preparing an impairment review under IAS 36 as at the date of initial application; and
- (d) Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership.

Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases. However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets based on the value of the underlying asset when new or for short-term leases with a lease term of 12 months or less.

ACCOUNTING POLICIES *continued*

1. Significant accounting policies *continued*

1.26 Leases (IFRS 16) *continued*

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

Classification under IAS 17	Right of use	Lease liabilities
Operating leases	Land: Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. Office space: The carrying value that would have resulted from IFRS 16 being applied from the commencement date of the leases, subject to the practical expedients noted above.	Measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as at 31 March 2020. The Company's incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions. The weighted average rate applied was 12.13%.
Finance leases	Measured based on the carrying values for the lease assets and liabilities immediately before the date of initial application (i.e. carrying values brought forward, unadjusted).	

2. New standards and interpretations

Standards and interpretations effective and adopted in the prior year

In the current year, the Group has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/interpretation	Effective date: Years beginning on or after	Expected impact
IFRIC 23: Uncertainty over Income Tax Treatments	1 January 2019	Immaterial impact
Amendments to IAS 40: Transfers of Investment Property	1 January 2019	Immaterial impact
IFRIC 22: Foreign Currency Transactions and Advance Consideration	1 January 2019	Immaterial impact
The standard listed below has been issued but is not yet effective:		
IFRS pronouncement		Effective date
IFRS 17: Insurance Contracts		1 January 2021

The standard is not applicable to the Company and will not have an impact on the financial statements.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

3. Property, plant and equipment

Group	2021			Restated* 2020		
	Cost or revaluation R'000	Accumulated depreciation R'000	Carrying value R'000	Cost or revaluation R'000	Accumulated depreciation R'000	Carrying value R'000
Land	2 481	–	2 481	2 481	–	2 481
Buildings	34 797	(20 536)	14 261	37 183	(21 993)	15 190
Leasehold improvements: Buildings	17 655	(7 295)	10 360	18 535	(7 116)	11 419
Plant and machinery	296 965	(215 297)	81 668	289 314	(201 085)	88 229
Furniture and fixtures	4 654	(3 898)	756	4 563	(3 775)	788
Motor vehicles	156 052	(123 342)	32 710	153 645	(108 803)	44 842
Computer equipment	44 481	(35 235)	9 246	45 582	(29 589)	15 993
Leasehold improvements: roads, telephone lines and fences	44 611	(22 046)	22 565	43 263	(18 628)	24 635
Capital work in progress	3 735	–	3 735	11 920	–	11 920
Total	605 431	(427 649)	177 782	606 486	(390 989)	215 497

Company	2021			Restated* 2020		
	Cost or revaluation R'000	Accumulated depreciation R'000	Carrying value R'000	Cost or revaluation R'000	Accumulated depreciation R'000	Carrying value R'000
Buildings	3 138	(430)	2 708	3 138	(304)	2 834
Leasehold improvements: Buildings	107	(75)	32	107	(72)	35
Plant and machinery	94	(80)	14	94	(72)	22
Furniture and fixtures	2 725	(2 703)	22	2 725	(2 687)	38
Motor vehicles	3 907	(3 292)	615	3 907	(2 903)	1 004
Computer equipment	5 131	(5 095)	36	5 159	(4 974)	185
Total	15 102	(11 675)	3 427	15 130	(11 012)	4 118

Reconciliation of property, plant and equipment

Group 2021	Other changes: write-backs, write-offs and transfers				
	Opening balance R'000	Additions R'000	Depreciation R'000	Closing balance R'000	
Land	2 481	–	–	–	2 481
Buildings	15 190	–	(307)	(620)	14 263
Leasehold improvements: Buildings	11 419	469	437	(1 964)	10 361
Plant and machinery	88 229	961	12 558	(20 080)	81 668
Furniture and fixtures	788	92	(108)	(15)	757
Motor vehicles	44 842	–	(1 250)	(10 882)	32 710
Computer equipment	15 993	1 016	(241)	(7 522)	9 246
Leasehold improvements: roads, telephone lines and fences	24 635	–	(579)	(1 495)	22 561
Capital work in progress	11 920	544	(8 729)	–	3 735
	215 497	3 082	1 781	(42 578)	177 782

* See note 39.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS **continued**

3. Property, plant and equipment **continued**

Reconciliation of property, plant and equipment

	Opening balance R'000	Additions R'000	Other changes: write-backs, write-offs and transfers R'000	Depreciation R'000	Closing balance R'000
Group – 2020 (restated*)					
Land	2 481	–	–	–	2 481
Buildings	17 876	–	(1 463)	(1 223)	15 190
Leasehold improvements: Buildings	43	506	11 820	(950)	11 419
Plant and machinery	100 290	9 919	805	(22 785)	88 229
Furniture and fixtures	749	146	59	(166)	788
Motor vehicles	54 451	377	2 171	(12 157)	44 842
Computer equipment	10 201	13 558	515	(8 281)	15 993
Leasehold improvements: roads, telephone lines and fences	38 572	–	(11 490)	(2 447)	24 635
Capital work in progress	4 751	11 040	(3 871)	–	11 920
	229 414	35 546	(1 454)	(48 009)	215 497

	Opening balance R'000	Other changes/ transfers R'000	Depreciation R'000	Closing balance R'000
Company 2021				
Buildings	2 834	–	(126)	2 708
Leasehold improvements: Buildings	36	–	(4)	32
Plant and machinery	22	–	(8)	14
Furniture and fixtures	37	–	(15)	22
Motor vehicles	1 004	–	(389)	615
Computer equipment	185	(28)	(121)	36
	4 118	(28)	(663)	3 427

	Opening balance R'000	Other changes/ transfers R'000	Depreciation R'000	Closing balance R'000
Company 2020 (restated*)				
Buildings	2 960	–	(126)	2 834
Leasehold improvements: Buildings	43	–	(7)	36
Plant and machinery	30	–	(8)	22
Furniture and fixtures	57	–	(20)	37
Motor vehicles	1 367	–	(363)	1 004
Computer	557	–	(372)	185
	5 014	–	(896)	4 118

A schedule containing the information required by Regulation 25(3) of the Companies Regulations is available for inspection at the registered office of the Company.

4. Investment property

Group	2021			2020		
	Cost/ valuation R'000	Accumulated depreciation R'000	Carrying value R'000	Cost/ valuation R'000	Accumulated depreciation R'000	Carrying value R'000
Investment property	456	–	456	456	–	456

Reconciliation of investment property – Group 2021

	Opening balance R'000	Additions R'000	Impairments R'000	Depreciation R'000	Closing balance R'000
Land and building	456	–	–	–	456

Reconciliation of investment property – Group 2020

Land and building	456	–	–	–	456
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Investment property consists of land and buildings, which form part of the remainders of portions 1 and 2 of the Farm Mooiplaats No 537; and portion 1 of the Farm Zaagkuil No 777 situated at R618 Ngome, KwaZulu-Natal, South Africa. The fair value of the land as determined by an independent valuator is R10.4 million.

The level of hierarchy within which the fair value measurement is categorised as Level 3. A register containing the details of the investment property is available for inspection at the registered office of the Company.

The fair value of investment property was determined by external independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

The fair value measurement for all of the investment properties has been categorised as a Level 3 fair value based on the inputs to the valuation technique used:

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Discounted cash flows: The valuation model considers the present value of net cash flows to be generated from the property, taking into account the expected rental growth rate, void periods, occupancy rate, lease incentive costs such as rent-free periods and other costs not paid by tenants. The expected net cash flows are discounted using risk adjusted discount rates. Among other factors, the discount rate estimation considers the quality of a building and its location (prime vs secondary), tenant credit quality and lease terms.	The method of valuation employed to determine the fair value of the property is the comparable sales approach. The value is established by comparing the subject property with similar properties. The international valuation standards 2007 defines the sales comparison method as "The comparative approach considers the sales of similar or substitute properties and related market data, and establishes value estimated by processes involving comparison."	The estimated fair value would increase/ (decrease) if: a. Expected market rentals increase/decrease; b. Growth were higher/(lower); c. Void periods were shorter/(longer); and d. The occupancy rate were higher/(lower).

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS **continued**

5. Biological assets

Biological assets are measured at fair value less costs to sell with any change therein recognised in profit or loss. At 31 March 2021, standing timber comprised approximately 189 620 hectares of pine, eucalyptus, wattle and other tree plantations, which ranged from newly established plantations to plantations that were 30 years old. The Group recognises biological assets when the Group controls the assets because of past events, it is probable that future economic benefits associated with such assets will flow to the Group and the fair value or cost of the assets can be measured reliably. Expenditure incurred on biological assets is recognised as a period cost in the period that it is incurred.

Group	2021		2020	
	Fair valuation R'000	Carrying value R'000	Fair valuation R'000	Carrying value R'000
Non-current portion	3 418 272	3 418 272	3 303 758	3 303 758
Current portion	394 521	394 521	457 359	457 359
Total	3 812 793	3 812 793	3 761 117	3 761 117

Reconciliation of biological assets – Group – 2021

	Opening balance R'000	Increase/ (decrease) due to harvest/ sales R'000	Gains/(losses) arising from change in fair value R'000	Closing balance R'000
Total	3 761 117	(800 777)	852 453	3 812 793

Reconciliation of biological assets – Group – 2020

	Opening balance R'000	Increase/ (decrease) due to harvest/ sales R'000	Gains/(losses) arising from change in fair value R'000	Closing balance R'000
Total	3 582 937	(725 260)	903 440	3 761 117

Measurement of fair values

(i) Fair value hierarchy

The fair value measurements for the standing timber have been categorised as Level 3 fair values based on the inputs to the valuation techniques used.

(ii) Level 3 fair values

The following table shows a breakdown of the total gains/(losses) recognised in respect of Level 3 fair values (standing timber). Gains included in other operating gains and losses:

	Group		Company	
	2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
Fair value gains	852 453	903 440	–	–

* See note 39.

(iii) Valuation techniques and significant unobservable inputs

The following table shows the valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used.

Type	Valuation techniques	Significant unobservable inputs	Inter-relationship between unobservable inputs and fair value measurement
Standing timber Standing timber older than 30 years (the age at which it becomes marketable)	Discounted cash flows: The valuation model considers the present value of the net cash flows expected to be generated by the plantation. The cash flow projections include specific estimates for 30 years. The expected net cash flows are discounted using a risk-adjusted discount rate.	– Estimated future timber market prices weighted average per cube (2021: R660, 2020: R733). – Estimated volumes (2021: 1 141 022, 2020: 975 669). – Risk-adjusted discount rate (2021: 14.9%; 2020: 16.8%).	The estimated fair value would increase/(decrease) if: – The estimated timber prices per tonne were higher/(lower); – The estimated yields per hectare were higher/(lower); – The estimated harvest and transportation costs were lower/(higher); or – The risk-adjusted discount rates were lower/(higher).

Level 3 fair value

The valuation model considers the present value of the net cash flows expected to be generated from the plantations. The cash flow projections include specific estimates for 30 years (2020: 30 years). The expected net cash flows are discounted using a risk-adjusted comparable discount rate that takes into account the Beta factors of a comparable company of forestry companies.

Methodology and assumptions are used in determining fair value.

Volumes

The expected yields per log class are calculated with reference to growth models relevant to the planted area. The growth models are derived from actual trial data that is measured annually. A merchandising model, using the modelled tree shapes at various ages, is used to divide the trees into predefined products as basis for calculating log yields.

Volume adjustment factor

Due to the susceptibility of the plantations to the environment, an adjustment factor is used to reduce the volumes obtained from the merchandising model. This percentage is based mainly on factors such as animal damage and damage due to natural elements, such as wind, rain, hail, droughts and fires. The reduction in volumes was done in an effort to acknowledge deviations such as the impact from baboon damage and other natural elements, genetic defects and pest and diseases from the planned harvesting volumes. In a manner consistent with prior years, volumes expected from KLF plantations in Micro Forest are adjusted down with 5% (2020: 5%).

Log prices

The price per cubic metre per log class is based on current and future expected market prices per log class. The log prices have not been increased by either inflation or a real price increase in the subsequent years. Log prices are computed as a weighted average of external market prices and internal prices charged to the Group's processing operations. Internal prices are generally higher than external prices and are limited to levels that result in the profitability of the processing operations.

Operating costs

The costs are based on the unit cost of the forest management activities required for the trees to reach the age of felling. The costs include the current and expected future costs of harvesting, maintenance and risk management, as well as an appropriate amount of fixed overhead costs. The costs exclude the costs necessary to get the asset to the market.

Costs to sell

Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes. The only costs to sell applied are harvesting costs, which are included under operating costs. No other selling costs are included.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS **continued**

5. **Biological assets** **continued**

Level 3 fair value continued

Discount rate

The directors used a comparable forestry company of Group's Beta to calculate the pre-tax weighted average cost of capital (WACC), which was applied to the pre-tax cash flows.

Risk management strategy related to agricultural activities:

The Group is exposed to the following risks relating to its pine tree plantations.

(i) Regulatory and environmental risks

The Group is subject to laws and regulations in the various countries in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws.

(ii) Supply and demand risks

The Group is exposed to risks arising from fluctuations in the price and sales volume of pine. When possible, the Group manages this risk by aligning its harvest volume to market supply and demand. Management performs regular industry trend analyses for projected harvest volumes and pricing.

(iii) Climate and other risks

The Group's pine plantations are exposed to the risk of damage from climatic changes, diseases, forest fires and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular forest health inspections and industry pest and disease surveys. The Group is also partly self-insured against natural disasters such as floods and hurricanes.

Components of biological assets

Biological assets are made up of the following plantation trees:

- Pine trees
- Eucalyptus trees
- Wattle trees

Biological assets – standing timber

The valuation methodology used to determine the fair value of the biological assets at year end is the discounted cash flow method, which is complex, highly judgemental and based on significant assumptions.

The most significant judgements and assumptions relate to:

- The weighted average cost of capital (WACC) calculation;
- A volume adjustment factor due to susceptibility of the plantations to the environment;
- The price per cubic metre based on the current and future expected market prices per log class (profit margin); and
- Operating costs based on unit cost of the forest management activities.

In the current year, there were no additions to biological assets through acquisitions of either forests or other plantations.

Key assumptions used in the calculation of the discount rate

Risk-free rate (%)	10.00	10.77
Beta factor	0.96	0.99
Cost of equity (%)	24.36	23.11
Cost of debt (%)	10.30	13.78
Capital structure (%)	70.30	85.00
Pre-tax discount rate	14.90	16.81

Sensitivity

A variation of 10% on the significant assumptions will have the following impact on the valuation of biological assets fair value.

	Weighted average range of probabilities	
	High	Low
10% change in cost of weighted average cost of capital	3 358	4 020
10% change in price	5 101	2 277
10% change in costs	3 528	3 851
10% change in volume	4 291	3 087

The higher the timber price and yield per hectare, the higher the fair value. The lower the discount rate, the higher the fair value.

6. Intangible assets

Group	2021			2020		
	Cost/ valuation R'000	Accumulated amortisation R'000	Carrying value R'000	Cost/ valuation R'000	Accumulated amortisation R'000	Carrying value R'000
Computer software	66 158	(64 405)	1 753	66 158	(63 310)	2 848
Company	2021			2020		
	Cost/ valuation R'000	Accumulated amortisation R'000	Carrying value R'000	Cost/ valuation R'000	Accumulated amortisation R'000	Carrying value R'000
Computer software	59 202	(57 449)	1 753	59 202	(56 354)	2 848

Reconciliation of intangible assets: Group – 2021

	Opening balance R'000	Amortisation R'000	Closing balance R'000
Computer software	2 848	(1 095)	1 753

Reconciliation of intangible assets: Group – 2020

	Opening balance R'000	Amortisation R'000	Closing balance R'000
Computer software	3 943	(1 095)	2 848

Reconciliation of intangible assets: Company – 2021

	Opening balance R'000	Amortisation R'000	Closing balance R'000
Computer software	2 848	(1 095)	1 753

Reconciliation of intangible assets: Company – 2020

	Opening balance R'000	Amortisation R'000	Closing balance R'000
Computer software	3 943	(1 095)	2 848

The remaining amortisation period of the intangible asset is one year and seven months.

7. Loans to Group companies Subsidiaries

	Group		Company	
	2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
Komatiland Forests SOC Limited			310 052	379 840
Abacus Forestries SOC Limited			456	456
Kamhlabane Timber SOC Limited			–	–
			310 508	380 296

Intercompany loan in Komatiland is unsecured, bears interest at prime rate of 7% (2020: 8.75%), and has no fixed terms of repayment.

Loans are held in Komatiland Forests SOC Limited, Abacus Forestries SOC Limited and Kamhlabane Timber SOC Limited, which are wholly owned subsidiaries of SAFCOL. The loans in Kamhlabane and Abacus bear no interest. The loan in Kamhlabane is at R100. SAFCOL entity applies the cost method for measurement of all loans in subsidiaries.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS **continued**

8. Other financial assets

	Group		Company	
	2021	Restated*	2021	Restated*
	R'000	2020	R'000	2020
		R'000		R'000
Investments	1 855	2 735	112	992
Non-current assets				
Other financial assets	1 855	2 735	112	992
	1 855	2 735	112	992

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.

	Group		Company	
	2021	Restated*	2021	Restated*
	R'000	2020	R'000	2020
		R'000		R'000
Level 1				
Insurance policy – Guardrisk	110	990	110	990
Level 3				
Transvaal Wattle Growers Co Op Agriculture Company	1	1	1	1
KAAP Agri	1	1	1	1
NTE Investments	1 743	1 743	–	–
	1 745	1 745	2	2
	1 855	2 735	112	992

Reconciliation of financial assets measured at Level 3 – Group – 2021

	Opening balance	Closing balance
	R'000	R'000
Transvaal Wattle Growers Co Op Agriculture Company	1	1
KAAP Agri	1	1
NTE Investments	1 743	1 743
	1 745	1 745

Reconciliation of financial assets measured at Level 3 – Group – 2020

	Opening balance	Closing balance
	R'000	R'000
Transvaal Wattle Growers Co Op Agriculture Company	1	1
KAAP Agri	1	1
NTE Investments	1 743	1 743
	1 745	1 745

Reconciliation of financial assets measured at Level 3 – Company – 2021

	Opening balance R'000	Closing balance R'000
Transvaal Wattle Growers Co Op Agriculture Company	1	1
KAAP Agri	1	1
	2	2

Reconciliation of financial assets measured at Level 3 – Company – 2020

	Opening balance R'000	Closing balance R'000
Transvaal Wattle Growers Co Op Agriculture Company	1	1
KAAP Agri	1	1
	2	2

Other financial assets

	Group		Company	
	2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
Balance at the beginning of the year	2 735	3 096	992	1 353
Movement for the year	(880)	(361)	(880)	(361)
	1 855	2 735	112	992

The directors value all unlisted investments at cost.

None of the available-for-sale assets are past due or impaired.

9. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

	Loans and receivables R'000	Other financial assets R'000	Total R'000
Group – 2021			
Trade and other receivables	158 169	–	158 169
Other financial assets	–	1 855	1 855
Cash and cash equivalents	336 542	–	336 542
	494 711	1 855	496 566
Group – 2020			
Trade and other receivables	186 613	–	186 613
Other financial assets	–	2 735	2 735
Cash and cash equivalents	252 358	–	252 358
	438 971	2 735	441 706
Company – 2021			
Loans to Group companies	310 508	–	310 508
Trade and other receivables	1 472	–	1 472
Other financial assets	–	112	112
Cash and cash equivalents	316 510	–	316 510
	628 490	112	628 602
Company – 2020			
Loans to Group companies	380 296	–	380 296
Trade and other receivables	1 690	–	1 690
Other financial assets	–	992	992
Cash and cash equivalents	231 037	–	231 037
	613 023	992	614 015

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

10. Deferred tax

	Group		Company	
	2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
Deferred tax asset	111 704	114 367	64 442	62 820
Deferred tax liability	(791 242)	(850 273)	–	–
Total net deferred tax asset/(liability)	(679 538)	(735 906)	64 442	62 820
Reconciliation of deferred tax asset/(liability)				
At the beginning of the year	(735 905)	(909 652)	62 821	64 402
Prior year under/(over) provision	846	17 035	(28)	(550)
Reversing/originating temporary differences on property, plant and equipment, right-of-use assets	8 172	(41 730)	1 334	(603)
Reversing/originating temporary differences on provisions	(157)	14 446	500	1
Translation reserve	–	7 746	–	–
Reversing/originating temporary differences on other allowances	17 151	(19 104)	–	–
Reversing/originating temporary differences on fair value	(13 735)	(42 533)	–	–
Reversing/originating temporary differences on retirement benefit asset	–	56	–	4
Reversing/originating temporary differences on borrowings	26 380	187 305	(1 056)	1 056
Originating temporary difference on assessed loss	17 710	50 525	871	(1 490)
	(679 538)	(735 906)	64 442	62 820

Deferred tax in SAFCOL is due to an assessed loss, which has been accumulated over the years. The timing differences in property, plant and equipment, right-of-use provisions gives rise to deferred tax assets, and will be realised over a period of time at the applicable tax rate.

11. Inventories

	Group		Company	
	2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
Raw materials	3 288	9 518	–	–
Work in progress	4 711	15 210	–	–
Finished goods	25 463	57 621	–	–
Consumables	21 295	24 841	243	483
	54 757	107 190	243	483
Provision for obsolete stock	(12 871)	(5 206)	–	–
	41 886	101 984	243	483

Assigning costs to inventories

The costs of individual items of inventory are determined using weighted average costs with the exception of harvested logs that are valued at fair value at the point of harvest.

Provision for obsolete stock

The Group has provided for an inventory based on the history on write-downs in the prior years. This has been assumed to estimate correct provisions as the business model and products have not changed over the years.

Amounts recognised in profit or loss

Inventories recognised as an expense under cost of sales during the year amounted to R688 million (2020: R583 million).

Inventory write-downs

Inventory has been reduced by R69 million because of the write down to net realisable value. This write down was recognised as an expense during 2021. Inventories items listed below are held at fair value less cost to sell:

	Group		Company	
	2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
Raw materials	3 288	9 518	–	–
	3 288	9 518	–	–

There are no inventories pledged as security at the date of these financial statements.

12. Trade and other receivables

	Group		Company	
	2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
Trade receivables	207 325	216 911	–	–
Prepayments	3 002	3 121	–	–
Other receivables	16 562	14 486	1 472	1 715
Provision for impairment	(65 718)	(44 785)	–	(25)
	161 171	189 733	1 472	1 690

Classification as trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Group's impairment policies and the calculation of the loss allowance are provided in the accounting policies.

Fair values of trade receivables

Due to the short-term nature of the current receivables, their carrying amount is considered the same as their fair value.

Impairment and risk exposure

Information about the impairment of trade receivables and the Group's exposure to credit risk and interest rate risk can be found in the Risk Management note.

Trade and other receivables pledged as security

In the current year, there are no trade and other receivables pledged as security.

Fully performing trade and other receivables

Trade receivables and other receivables

	Group		Company	
	2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
Fully performing trade receivables	105 669	60 252	–	–
Fully performing other receivables	4 244	1 262	359	602
	109 913	61 514	359	602

Trade and other receivables which would have been past due or impaired, but which have been renegotiated are as follows:

Included in the Group's trade and other receivables are trade and other receivables with a carrying amount of R158 million (2020: R189 million) and for the Company R0.7 million (2020: R1.3 million) which are past due at the reporting date for which the Group has not provided as there has been a significant change in the credit quality and the amounts are still considered recoverable.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS **continued**

12. Trade and other receivables **continued**

	Group		Company	
	2021	Restated*	2021	Restated*
	R'000	R'000	R'000	R'000
Trade receivables	42 603	118 505	–	–
Other receivables	227	105	–	–
	42 830	118 610	–	–

Trade and other receivables not impaired

The ageing of amounts past due but not impaired is as follows:

	Group		Company	
	2021	Restated*	2021	Restated*
	R'000	R'000	R'000	R'000
30 – 60 days	29 497	62 148	–	12
60 – 90 days	8 164	25 773	–	–
90 – 120 days	3 886	3 620	–	–
120 – 150 days	1 283	–	–	–
More than 150 days	–	27 069	–	14
	42 830	118 610	–	26

Reconciliation of loss allowance:

	Group		Company	
	2021	Restated*	2021	Restated*
	R'000	R'000	R'000	R'000
Opening balance	(44 785)	(18 430)	–	(15)
Increase in loss allowance	(20 933)	(26 355)	–	(11)
	(65 718)	(44 785)	–	(26)

The Group has applied the IFRS 9 simplified approach to measure expected credit losses that use a lifetime expected loss allowance for all trade receivables.

13. Current tax receivables/(payable)

	Group		Company	
	2021	Restated*	2021	Restated*
	R'000	R'000	R'000	R'000
Consists of:				
SA normal tax: Normal taxation	772	24 658	–	–
	772	24 658	–	–

Tax receivable relates to an overestimated taxable income, which resulted in a higher provisional tax payment made to SARS. The refund is expected to be paid after the submission of the income tax return this financial year.

* See note 39.

14. Cash and cash equivalents

	Group		Company	
	2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
Cash and cash equivalents consist of:				
Bank balances	32 506	22 428	12 474	1 108
Short-term deposits	304 030	229 924	304 030	229 923
Petty cash	6	6	6	6
	336 542	252 358	316 510	231 037

15. Non-current assets held for sale

Non-current assets held for sale consist of property, plant and equipment. In the current year, no assets held for sale were disposed of through the auction process. Gains realised through the sale of assets held for sale are normally recognised in other income in the current year. In the current year, certain assets will be recovered through sale and not use in the operations. Based on past practice, assets identified for sale will be auctioned in accordance with Treasury prescripts and regulations. Management is committed to the sale of the assets in the next financial period through an auction process. Significant changes to the plan are unlikely. As at 31 March 2021, all assets held for sale were stated at the lower of carrying amount or fair value less costs to sell and comprised the following assets.

Assets and liabilities

	Group		Company	
	2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
Non-current assets held for sale				
Property, plant and equipment	698	673	–	–

Measurement of fair values:

(i) Fair values

The non-recurring fair value measurement for assets held for sale of R698 has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

Valuation technique

Fair value approach: The valuation of property, plant and equipment was based on comparable fair values of assets in the market in the same location and condition of assets held for sale. Inferences to previous selling prices were used for specialised assets that did not have readily available market information.

Significant unobservable inputs

There are no significant unobservable inputs used by management to determine the fair values of assets held for sale in the prior year.

16. Share capital

	Group		Company	
	2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
Authorised				
1 500 000 000 ordinary shares of R1 each	1 500 000	1 500 000	1 500 000	1 500 000
Issued				
318 013 254 ordinary shares of R1 each	318 013	318 013	318 013	318 013

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS **continued**

17. Foreign currency translation reserve

Translation reserve comprises exchange differences on consolidation of foreign subsidiaries.

	Group		Company	
	2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
Foreign exchange – IFLOMA	(117 583)	76 570	–	–

18. Retirement fund reserve

	Group		Company	
	2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
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

19. Capital profit reserve

	Group		Company	
	2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
Capital surplus on sawmill insurance claims	37 061	37 061	37 061	37 061
Cancellation of provision for cost of transfer of land	27 982	27 982	27 982	27 982
	65 043	65 043	65 043	65 043

20. Finance lease liabilities

	Group		Company	
	2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
Minimum lease payments due				
– within one year	184 088	171 134	–	3 771
– in second to fifth year inclusive	700 355	613 561	–	–
– more than five years	10 724 118	9 294 443	–	–
	11 608 561	10 079 138	–	–
Less: Future finance charges	(10 795 618)	(9 360 408)	–	–
Present value of minimum lease payments	812 943	718 730	–	3 771
Present value of minimum lease payments due				
– within one year	151 368	140 665	–	3 771
– in second to fifth year inclusive	367 428	326 792	–	–
– more than five years	294 147	251 273	–	–
	812 943	718 730	–	3 771
Non-current liabilities	661 575	578 065	–	–
Current liabilities	151 368	140 665	–	–
	812 943	718 730	–	–

Finance lease obligations are capitalised between prime plus 2.1% and prime less 4.4% (2020: prime plus 0.3% and prime less 2.6%). The effective interest rate prevailing at year end was 10.6% (2020: 16.4%). Instalment sale agreements are secured over assets with a carrying value R31.7 million (2020: R50.1 million). Monthly repayments are R1.5 million (2020: R2 million).

* See note 39.

21. Provisions

Reconciliation of provisions Group – 2021

	Opening balance R'000	Additions R'000	Reversed during the year R'000	Closing balance R'000
Non-current liabilities				
Provisions – IFLOMA	7 601	–	(1 169)	6 432
Current liabilities				
Provision for quality claims on log products	36 466	–	(27 225)	9 241
	44 067	–	(28 394)	15 673

The provision on logs relates to claims as a result of poor quality of log products. The provision on IFLOMA relates to withholding tax payable to the Mozambique tax authority.

Reconciliation of provisions Group – 2020

	Opening balance R'000	Additions R'000	Reversed during the year R'000	Closing balance R'000
Non-current liabilities				
Provisions – IFLOMA	6 831	770	–	7 601
Current liabilities				
Provision for quality claims on log products	7 080	29 386	–	36 466
	13 911	30 156	–	44 067

The provision for returns is calculated based on the anticipated returns on products delivered to customers. The sales contracts and past practice of the Group allow the customers to return products that are out of specifications or damaged. In practice, the Group allows claims that can be substantiated and verified to be adjusted on the price of the product collect. Past practice has shown that there are no actual returns that are made by customers but an adjustment on the price of the product collected. The Group business model has not substantially changed from prior year. The provision for returns has thus been calculated based on prior years rate of returns. The expected timing of the outflow of economic benefits is estimated to be during the next two to five years.

22. Financial liabilities by category

Financial liabilities at amortised cost. The accounting policies for financial instruments have been applied to the line items below:

	Group		Company	
	2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
Trade and other payables	253 356	200 732	157 283	129 852

* See note 39.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS **continued**

23. Trade and other payables

	Group		Company	
	2021	Restated*	2021	Restated*
	R'000	R'000	R'000	R'000
Trade payables	55 996	38 265	3 632	5 548
VAT	5 020	1 973	2 819	2 643
Accruals and other payables	71 097	64 561	13 013	9 463
Minority shareholders	143 734	116 368	143 734	116 368
DPE grant	–	9 927	–	9 927
	275 847	231 094	163 198	143 949

DPE grant

In the 2016/17 financial year the Company received a conditional grant of R9 million from the Department of Public Enterprises (DPE). The grant was not utilised based on the conditions stipulated by the DPE and was paid back during the year.

Minority shareholders

Included in trade and other payables is dividends and interest of R143.7 million, which is held on behalf of minority shareholders.

24. Right of use

The Group leases land from the Department of Environment, Forestry and Fisheries. The lease term has been estimated over 70 years. This corresponds to two rotation periods of pine trees, which is the main product of the Group. The Group's obligations under its leases are secured by the lessor's title to the leased assets. The Group leases building from a third party. The building are used as offices for administration purposes. The Group also leases computer equipment from a third party. Some of the Group's vehicles, property, plant and equipment are financed through finance leasing with financial institutions.

Right-of-use assets 2021

	Group		Company	
	2021	Restated*	2021	Restated*
	R'000	R'000	R'000	R'000
Balance at 1 April 2020	323 187	337 967	3 458	8 069
Depreciation charge for the year	(10 230)	(14 780)	(3 458)	(4 611)
Balance at 31 March 2021	312 957	323 187	–	3 458
Maturity analysis – contractual undiscounted cash flows				
– within one year	184 088	171 134	–	4 226
– in second to fifth year inclusive	700 355	613 561	–	–
– more than five years	10 724 118	9 294 443	–	–
	11 608 561	10 079 138	–	4 226
<i>Less: Future finance charges</i>	(10 795 618)	(9 360 408)	–	(455)
Present value of minimum lease payments	812 943	718 730	–	3 771
Present value of minimum lease payments due				
– within one year	151 368	140 665	–	3 771
– in second to fifth year inclusive	367 428	326 792	–	–
– more than five years	294 147	251 273	–	–
	812 943	718 730	–	3 771
Amount recognised in the statement of cash flows				
Total cash outflow for leases	55 937	36 006	4 226	5 285
Lease liability included in statement of financial position				
Non-current liabilities	661 575	578 065	–	–
Current liabilities	151 368	136 894	–	3 771
	812 943	718 730	–	3 771

* See note 39.

Nedbank finance lease obligations are capitalised between prime plus 2.1% and 4.4% (2020: prime plus 0.7% and 2.7%). The effective interest rate prevailing at year end was 10.6% (2020: 16.4%). The lease terms are five years with between one and four years (2020: one and five years). These liabilities are secured by instalment sale agreements over assets with a carrying value R53.9 million (2020: R58.2 million). Monthly repayments are R1.5 million (2020: R2 million).

The finance lease portion relating to land has been capitalised using weighted average cost of capital. The weighted average cost of capital of 21.7% has been determined by an independent third party at the inception of the lease. The lease relating to land is escalated with a portion of CPI every year.

	Group		Company	
	2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
Reconciliation of finance leases				
Opening balance	718 730	49 786	3 771	–
Additions	246	481 289	–	8 488
Disposals	–	–	–	–
Interest	149 904	223 661	454	568
Payments	(55 937)	(36 006)	(4 226)	(5 285)
Closing balance	812 943	718 730	–	3 771

25. Revenue

The Group harvests, manufactures and sells timber products in the timber market. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

It is the Group's policy to sell its products to the end customer with a right of return within a reasonable time. Therefore, a refund liability (included in provisions) and a right to the returned goods (included in other current assets) are recognised for the products expected to be returned. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method). Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

The effect of initially applying IFRS 15 on the Group's revenue from contracts with customers is described in significant changes in accounting policies. Due to the transition method chosen in applying IFRS 15, comparative information has not been restated to reflect the new requirements.

Revenue streams

The Group generates revenue primarily from the sale of logs and lumber products. Other sources of revenue include rental income from its tourism facilities.

	Group		Company	
	2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
Provision of services: Management fees	–	–	140 997	166 232
Sale of goods: Log sales	762 234	587 325	–	–
Sale of goods: Lumber sales	139 350	203 829	–	–
Other revenue	19 233	33 164	–	–
	920 817	824 318	140 997	166 232

* See note 39.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS **continued**

25. Revenue **continued**

Other revenue includes

Other revenue arises mainly from property management, ecotourism and sundry sales. The Group does not consider this to be part of main revenue-generating activities.

	Group		Company	
	2021	Restated*	2021	Restated*
	R'000	2020 R'000	R'000	2020 R'000
Property and housing management	11 341	14 622	–	–
Ecotourism	6 056	8 126	–	–
Sundry products	1 836	10 416	–	–
	19 233	33 164	–	–

26. Cost of sales

Cost of sales includes only expenses directly or indirectly attributable to the production process. Cost of harvested logs at point of harvest is valued at fair value less cost to sell. The fair value of harvested logs has been estimated to equal the prevailing market price in an open market between a willing buyer and a willing seller. The costs of harvesting are negligible and thus selling price is assumed to approximate fair value less costs to sell.

	Group		Company	
	2021	Restated*	2021	Restated*
	R'000	2020 R'000	R'000	2020 R'000
Harvested timber	688 431	583 130	–	–
Lumber processing	151 549	236 551	–	–
Other	35	201	–	–
	840 015	819 882	–	–

27. Other operating income

	Group		Company	
	2021	Restated*	2021	Restated*
	R'000	2020 R'000	R'000	2020 R'000
Other recoveries	13	330	–	–
Other income	6 990	5 896	3 759	3 463
Government grant – UIF Covid-19	33 237	–	6 590	–
	40 240	6 226	10 349	3 463

Other recoveries comprises insurance claims and other recoveries made by the Group in the current year.

In the current year, the Group received a government grant in terms of UIF Covid-19 TERS system. The government grant was provided in the form of monetary assistance. The Minister of Employment and Labour, through a directive issued on 26 March 2020 (Government Gazette Number 43161), initiated a Covid-19 TERS through the Unemployment Insurance Fund (UIF) to aid employers in providing wage benefits to employees as a result of the effects of the Covid-19 pandemic. In order to qualify for the government assistance, the Group had to prove that it had closed its operations or part of its operations for a period of three months or less. The grant supplemented the cost of salary for employees during the closure.

The Group closed its operations for more than a month during the hard lockdown. The Group faced restrictions in some of its operations as certain activities were not considered critical. The Group met the conditions of the government assistance and thus reconsidered the amounts received as a government grant per IAS 20: Accounting for Government Grants and Disclosure of Government Assistance. There are no unfulfilled conditions or other contingencies attaching to these grants. The Group did not benefit directly from any other forms of government assistance.

* See note 39.

28. Fair value gain on biological assets

	Group		Company	
	2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
Fair value gains				
Biological assets	852 453	903 440	–	–

Fair valuation performed by an independent service provider.

29. Operating profit/(loss)

Operating profit for the period is stated after charging the following, amongst others:

30. Other operating expenses

	Group		Company	
	2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
Auditor's remuneration – external	8 519	8 375	2 345	7 526
Fees for services				
Administrative and legal services	5 256	5 946	4 188	5 946
Managerial services	30 329	28 563	13 243	15 508
	35 585	34 509	17 431	21 454
Employee costs				
Basic	285 827	292 226	80 362	76 546
Incentive bonus – (production)	13 457	12 792	1 731	1 497
Unemployment Insurance Fund	1 760	1 861	310	322
Workmen's Compensation Association	6 473	5 514	1 267	952
Skills development levy	1 941	2 921	566	814
Leave pay provision charge	4 384	3 639	2 402	721
Other short-term costs	41 740	44 333	15 386	20 977
Retirement defined contribution plans	33 992	32 496	8 892	7 904
	389 574	395 782	110 916	109 733

* See note 39.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

30. Other operating expenses *continued* Depreciation, amortisation and impairment losses

	Group		Company	
	2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
Depreciation				
Property, plant and equipment	42 578	48 009	663	896
Right of use	10 230	14 780	3 458	4 611
Amortisation				
Intangible assets	1 095	1 095	1 095	1 095
Total depreciation, amortisation and impairment	53 903	63 884	5 216	6 602
Leases				
Premises	60	–	60	130
Equipment	3 346	4 223	–	–
	3 406	4 223	60	130
Other operating costs				
Repairs and maintenance	50 808	38 695	800	875
Risk management	17 621	16 889	15 295	9 317
Inventory write-down	69 222	44 897	–	–
Travel and accommodation	1 202	7 014	575	4 772
Contractors and material management	191 408	209 961	486	189
Indirect taxes	2 970	2 602	777	750
Subscriptions and levies	17 808	14 964	161	52
Office and admin	63 454	46 606	4 403	5 478
Bursaries	3 004	3 310	3 004	3 310
Corporate social investment	4 363	9 802	4 363	9 802
	421 860	394 740	29 864	34 545
Allowance for bad debts	20 959	26 344	–	–
Total	933 806	927 857	165 832	179 990

The Group applies the IFRS 9 simplified approach to measure expected credit losses, which uses a lifetime expected loss allowance for all trade receivables. The loss allowance for trade receivables as at 31 March 2021 has been reconciled in trade receivables note. Allowance for bad debts recognised in the profit and loss account is as shown above.

31. Investment income

	Group		Company	
	2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
Dividend income				
From Group entities:				
Dividends received from NTE	16	59	16	1
Interest income				
From investments in financial assets:				
Bank and other cash	5 304	5 536	5 304	5 536
Other interest	285	1 551	143	666
From loans to Group and other related parties:				
Subsidiaries	–	–	3 352	8 625
Total interest income	5 589	7 146	8 799	14 827
Total investment income	5 605	7 146	8 815	14 828

Investment income on financial instruments which are held to maturity has been reclassified in compliance with IFRS 9. Investment income consists of interest earned from investments.

* See note 39.

32. Finance costs

	Group		Company	
	2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
Lease finance costs	150 149	223 661	454	568
Other finance costs	32	1 795	249	1 352
Total finance costs	150 181	225 456	703	1 920

33. Cash generated from operations

	Group		Company	
	2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
Profit/(loss) before taxation	(104 888)	(232 124)	(6 374)	2 613
Adjustments for:				
Depreciation and amortisation	53 902	63 883	5 215	6 601
Dividend income	(16)	(59)	(16)	(1)
Interest income	–	–	(3 353)	(8 625)
Finance costs: IFRS 16 adjustment	150 149	225 457	454	568
Movement on biological assets	(51 676)	(178 180)	–	–
Movements on retirement benefit assets	–	201	–	13
Movement on other financial assets	880	361	880	361
Movement on right-of-use assets lease	–	–	3 771	(7 229)
Adjustments on retained earnings	–	–	–	2 211
Movements in provisions	(28 393)	30 156	–	–
Adjustment passed on retained earnings	6 201	–	–	–
Movement in bad debt provisions	–	–	–	111
Movement on leave pay	–	–	–	721
Movement in deferred tax	–	–	–	1 581
Other expenses non-cash transactions	2 447	–	–	1 096
Non-cash flow shareholder loan movements	–	–	(9 813)	(13 236)
Changes in working capital:				
Movement in inventories	60 098	(30 786)	240	(256)
Movement in trade and other receivables	28 562	278 484	218	195
Movement in trade and other payables	44 753	(1 212)	19 249	28 839
	162 019	156 181	10 471	15 563

* See note 39.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS **continued**

34. Taxation

	Group		Company	
	2021	Restated*	2021	Restated*
	R'000	2020	R'000	2020
		R'000		R'000
Major components of the taxation				
Current tax				
Current period	213	211	–	–
	213	211	–	–
Deferred tax				
Current period	(60 278)	(166 000)	1 621	1 581
	(60 065)	(165 789)	1 621	1 581
Reconciliation of the tax expense				
Reconciliation between accounting profit and tax expense				
Accounting profit/loss	(104 888)	(232 124)	(6 374)	2 613
Tax at the applicable tax rate of 28% (2020: 28%)	(29 369)	(64 995)	(1 785)	732
Tax effect of adjustments on taxable income				
Net effect of (income)/expenses that are not (taxable)/deductible in determining taxable profit	(36 069)	27 704	136	259
Effect of different tax rate of subsidiaries operating in different jurisdictions	15 119	(10 001)	–	–
Adjustments recognised in the current year in relation to prior periods	(9 746)	(118 497)	28	590
	(60 065)	(165 789)	(1 621)	1 581
Tax paid				
Balance at the beginning of the year	(24 609)	24 736	–	–
Current tax for the period recognised in profit or loss	213	211	–	–
Balance at the end of the year	7	(24 609)	–	–
	(24 389)	338	–	–

* See note 39.

35. Commitments

Authorised capital expenditure

	Group		Company	
	2021	Restated*	2021	Restated*
	R'000	2020	R'000	2020
		R'000		R'000
Already contracted for but not provided for				
Operational and capital commitments	428 111	695 014	3 424	1 613

* See note 39.

This committed expenditure relates to operational and capital expenditures and will be financed by available bank facilities, retained profits, existing cash resources, funds internally generated, etc. It is not possible to estimate reliably how the commitments will be expended as the expenditure depends on business activities and cash management processes. Some activities might be prioritised over others based on their cash-generating capacity. Straight-lining the remaining value of the contract will therefore not approximate the intended future expenditure.

Operating lease commitments relate to building and printers. There are no operating lease commitments in 2021 as these have been disclosed as lease liabilities on adoption of IFRS 16, effective 1 April 2019.

36. Contingencies

1. Department of Environment, Forestry and Fisheries long-term land lease agreement

Negotiations with DEFF on the payment plan for land lease in arrears (taking liquidity and commercial sustainability into account) and the conclusion of a long-term land lease agreement is at an advanced stage. The payment plan has been accepted by DEFF and it is envisaged that the long-term land lease agreement will be concluded within the first quarter of the next financial year.

2. Land claims

SAFCOL's integrated risk management process facilitates collaboration across various departments and stakeholders to implement adequate, effective and efficient solutions to all land risks within the shortest possible period, thereby eliminating delays and duplication of cost and effort. The following key focus areas were addressed in the period under review:

- Continued engagement with relevant government stakeholders such as the Shareholder (DPE), DEFF, Department of Agriculture, Land Reform and Rural Development (DALRRD), national and regional Land Claim Commissions (LCCs), to effectively manage risks related to land and communities adjacent to SAFCOL's operations.
- Working with DPE and DEFF on an urgent basis to finalise the payment plan and long-term land lease agreement for the DEFF land lease.
- Continued engagement with land claimant communities to foster collaborative relationships and pursue mutually beneficial opportunities by constituting dedicated, representative task teams to implement strategic projects.

Approximately 60% of SAFCOL-operated land is affected by land claims, which includes 23 claims in Limpopo, 20 in Mpumalanga and one in KwaZulu-Natal (the claims are at different stages of the LCCs' national land restitution processes, refer to the table below). The management of land claims is a strategic matter as the successful resolution of claims contributes positively to SAFCOL's mandate to promote socio-economic transformation of the forestry sector. However, Covid-19 related challenges at DALRRD and DEFF have resulted in no significant progress in finalisation of the outstanding claims since the last report.

In terms of government's, land restitution arrangements in the forestry sector, all lease payments by SAFCOL to DEFF are invested through the Kabelo Land and Restitution Trust. After approval of a land claim and the subsequent transfer of land to the successful land claimants, SAFCOL's strategy is to enter into lease agreements with the new landowners. Negotiations for such lease agreements will be based on the latest independent land valuations conducted jointly by SAFCOL and DEFF. As such, all liabilities relating to land claims are classified as contingent lease liabilities.

Land claims status	Number of claimants	Affected area (ha)
Mpumalanga		
Investigation	16	50 112
Negotiation	4	17 395
	20	67 507
Limpopo		
Investigation	2	823
Negotiation	18	24 237
Settlement	4*	7 398
	24	32 458
KwaZulu-Natal		
Negotiation	1	6 013
	1	6 013
Grand total	45	105 978

* Four approved claims, of which one title deed has been transferred to the successful land claimant community.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS **continued**

36. Contingencies **continued**

3. Collaborative initiatives

3.1 Mmamahlola land claim

The Mmamahlola land claim was approved in 2001 by the Minister of Agriculture, Land Reform and Rural Development. The land was transferred in title to the Mmamahlola Communal Property Association (CPA) on 19 June 2019. The claim is affecting SAFCOL's operated land at the JDM Keet plantation measuring 1 538 hectares. SAFCOL, DALRRD and DEFF met with the CPA in November 2020 to discuss a post-settlement plan, aligned to SAFCOL's post-settlement business model. In February 2021, SAFCOL met with the CPA to conduct a workshop on the Proactive Community Engagement Model to establish mutually beneficial collaborative initiatives. SAFCOL has also commenced with negotiation of the long-term land lease agreement with the CPA, with a view to finalise it as soon as the outstanding payment is received from DEFF. The contingent lease liability in regards to this claim, representing lease payment from 19 June 2019 to date is in the process of being quantified.

3.2 Entabeni land claims

Nine claims were lodged against the Entabeni plantation and thus far, three were approved in 2005, i.e. for the Ravele, Ratombo and Tshakhuma communities. The claims are affecting SAFCOL's Entabeni plantation measuring 3336.5092 hectares. The contingent lease payments that may be incurred for the land in question will be determined from the date of transfer of title deeds to the communities in terms of a formal lease agreement (if such transfer occurs in the next financial year) until the end of the next financial year. In terms of SAFCOL's Proactive Community Engagement Model (which was presented to the communities on 20 October 2020), a working group has been constituted (with representatives from SAFCOL and each of the nine communities) to manage the individual projects in the strategic partnership programme. The following opportunities have been identified to build a strategic partnership with the Entabeni communities:

- Skills development
- Supply chain-contracting opportunities in SAFCOL's value chain
- Activities related to SAFCOL's value chain: conservation, tourism and agro-forestry

3.3 Makgoba land claim

The land claim on SAFCOL's Woodbush plantation was lodged by the Makgoba, Tsolobolo, Bathlabine, Modjadji and Mathunyeng communities. SAFCOL, DEFF, DALRRD and the Forestry Sector Charter Council are working closely with these communities to finalise a collaborative governance framework, which will guide the identification and implementation of community needs and other social and economic development projects in the forestry sector.

3.4 Makhubu family claim

Investigation by the Mpumalanga LCC indicated that the Makhubu family land claim is affecting Portion 1 of SAFCOL's Syde 258 IT farm, measuring 256.9596 hectares. In January 2010, the Mpumalanga Regional LCC has accepted the claim as valid. In December 2019, SAFCOL met with the Makhubu family to discuss working relationships and the participation of the land beneficiaries in the economic activities in the forestry sector. In November 2020, the parties met again to discuss a proactive engagement plan to ensure the active involvement of the community in SAFCOL's business value chain through a working committee composed of SAFCOL employees and family representatives. The committee has commenced with sourcing opportunities in SAFCOL's business value chain and in the forestry sector. Projects have been jointly identified and will be implemented in the 2021/22 financial year by the working committee on behalf of the land beneficiaries.

3.5 Kaapschehoop land claim

The Kaapschehoop land claim against 1199.41 hectares of the farm Kaapsehoop 483 JT, affects SAFCOL's Berlin plantation in Mpumalanga. The LCC has embarked on a pilot at the Berlin plantation to develop a post-settlement model for the forestry sector. SAFCOL is actively involved in the process, including gathering of information, identification of risk to SAFCOL, defining risk mitigation activities and driving implementation. The working relationship and strategic partnership with the community is being facilitated through the existing Joint Community Forum.

Action plan going forward

SAFCOL will continue to proactively engage communities, including land beneficiaries and other relevant stakeholders in the resolution of all the claims that affect the land it operates on, and will continue to participate in various forums to deal with land matters affecting the forestry business. SAFCOL will further continue to facilitate regular operational meetings with regional LCCs in Limpopo, Mpumalanga and KwaZulu-Natal to discuss SAFCOL-specific claims and to meet with relevant government departments to progress claims affecting SAFCOL.

4. Bank facilities

There are contingent liabilities in respect of:

- Bank guarantees in respect of Group company liabilities to the amount of R750 000 (2020: R750 000);
- Cross suretyships between the subsidiaries and the holding company for any indebtedness, which any of them may have to the specific financial institutions in respect of cash management and financial facilities;
- SAFCOL has provided a guarantee to the amount of R160 000 000 in respect of Komatiland Forests SOC Limited obligations, including asset-based finance;
- SAFCOL has a credit card facility to the value of R2 500 000;
- An automated clearing bureau credit facility of R5 440 000;
- Fleet card facility of R200 000; and
- Daylight limit of R52 000 000.

5. Legal cases

The Group is currently involved in a number of legal disputes. The amount provided represents the directors' best estimate of the Group's liability having taken legal advice. Uncertainties relate to whether claims will be settled out of court or if not whether the Group is successful in defending any action. Because of the nature of the disputes, the directors have not disclosed future information on the basis that they believe that this would be seriously prejudicial to the Group's position in defending the cases brought against it.

Estimates and assumptions

The Group reviews outstanding legal cases following developments in the legal proceedings and at each reporting date, in order to assess the need for provisions and disclosures in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Group's management as to how it will respond to the litigation, claim or assessment.

5.1 Competition Law Infringement Investigations

5.1.1 SAFCOL vs PNM Short haulers (Pty) Ltd, Tingovho Transport CC & MM Simelane Transport CC Case No. 2016NOV0645

On November 2016, SAFCOL lodged a complaint with the Competition Commission (Commission) against PNM Short haulers (Pty) Ltd (PNM), Tingovho Transport CC (Tingovho" and MM Simelane Transport CC (MM Simelane).

The complaint is on the allegation that there is a concerted practice that has been identified by SAFCOL between PNM, Tingovho and MM Simelane on collusive tendering in contravention of section 4(1)(b)(iii) of the Competition Act, No 89 of 1998 (the Act).

The complaint is still under investigation by the Commission, and the period of this investigation was extended on 21 September 2020 in terms of section 50(4) of the Act.

5.1.2 Masterbord SA (Pty) Ltd (Masterbord) V Komatiland Forests SOC Limited (KLF) and South African Forestry Company SOC Limited (SAFCOL) – 2018DEC0036.

On 26 February, SAFCOL/KLF received a letter ("the Letter") from the Competition Commission SA.

In the Letter, the Competition Commission informed SAFCOL/KLF that Masterbord had lodged a complaint of abuse of dominance through exclusionary acts (including excessive pricing). SAFCOL/KLF has denied these claims and submitted written representations to the Competition Commission.

This complaint is still under investigation.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS **continued**

36. Contingencies **continued**

5. Legal cases **continued**

5.1 Competition Law Infringement Investigations **continued**

Contingent assets

5.2.1 Ladz Trading CC vs SAFCOL and Nomkhitha Mona

Late in March 2016, SAFCOL received summons from Ladz Trading CC for R498 980 alleging breach of an 'oral agreement' and claiming damages as a result.

SAFCOL has launched a counterclaim against Ms Nomkhitha Mona for R807 560. The matter is still pending at the High Court.

5.2.2 KLF vs Andre Moller

This matter arises from the findings of the forensic investigation that was conducted by SAFCOL. The summons was issued against Moller in the Mbombela High Court. The defendant (Mr Moller) has entered appearance to defend. KLF has now amended its particulars following an exception ruling and the defendant has to file its plea.

The full extent of the financial implications in the case is R1 080 616.

5.2.3 KLF vs Shaka Pallets CC and two others

The summons was issued against the debtor for the repayment of R2 878 888.

KLF has obtained judgment in this matter against Shaka Pallets CC and others but the execution thereof is still underway, with an application being made to declare immovable property especially executable against the properties of the judgment debtors. Attorneys are employing the services of a private tracer to trace the judgment debtors.

5.2.4 KLF vs Greengold Timber CC

KLF obtained judgment against Greengold Timber CC (defendant). Warrant of execution was served on the defendant, but no execution of movable property was done. The defendant has made a down payment proposal, which was not accepted by KLF, and the attorneys have been instructed to proceed with execution. The defendant, however, continues to make monthly payments to KLF.

The extent of the financial value in the case is R251 329.

5.2.5 KLF vs Kloofsige Saagmeule

The default judgment was granted in favour of KLF against Kloofsige (the debtor) for R213 049. Currently, the attorneys are in the process of issuing a warrant of execution against the debtor and have it served on the debtor.

The extent of the financial value in the case is R263 049.

5.2.6 John Wright Veneers (Pty) Ltd vs KLF

Judgment was granted in KLF's favour on 16 February 2021 and the court dismissed the claim by JWV with costs. However, JWV applied for leave to appeal. The appeal will be heard on a date to be determined by the court.

The extent of the financial value in the case is R8 287 227.

5.2.7 KLF vs Marian Aaron Shiviri

A trace was conducted for the physical address of Mr Shiviri in order to serve summons. The trace was unsuccessful. The attorneys are in the process of serving summons immediately using the address on the lease agreement.

The extent of the financial value in the case is R26 015.

5.2.8 KLF vs Phakamoli (Pty) Ltd

This is a collection matter. The claim is one based on breach of contract for goods purchased and delivered. Summons has been issued and the matter is currently before court. The extent of the financial value in the case is R63 406.

5.2.9 KLF v Fanta Forestry

This is a breach of contract matter. KLF issued summons shortly after various consultations with plantation officials. The attorneys have reported that they are ready to proceed to the next stage of litigation towards the trial.

The extent of the financial value in the case is R223 588.

5.2.10 SAFCOL vs Bathobile Gabela

This is a review application in the Labour Court launched by SAFCOL against a former employee. The matter is proceeding in the Labour Court. The attorneys await a court date.

The extent of the financial value in the case is R917 664.

5.2.11 Tzaneng Treated Timber (Pty) Ltd vs KLF

KLF initiated 7 (seven) claims against Tzaneng to claim various outstanding amounts of monies that are overdue on timber products that were delivered and sold last year. This litigation is suspended pending the outcome of some related matter in the High Court instituted by Tzaneng.

The extent of the financial value anticipated in the case is R7 195 793.

5.2.12 KLF vs Tzaneng Treated Timbers (Pty) Ltd

KLF initiated a claim at arbitration for the payment of R1 525 120 against Tzaneng. This arbitration is before the Arbitrator, Adv Mohamed Cajee that was not affected by the court proceedings started on 26 to 29 January 2021 and again resumed on 23 to 31 March 2021 as well as 9 to 12 April 2021.

The extent of the financial value anticipated in the case is R1 525 120.

5.2.13 KLF vs Tzaneng Treated Timbers (Pty) Ltd

KLF initiated 3 (three) arbitration proceedings against Tzaneng to claim various outstanding amounts of monies that are overdue on timber products that were delivered and sold last year. This arbitration is before Adv. Coetsee SC. This litigation is suspended pending the High Court decision on the proceedings instituted by Tzaneng.

5.2.14 KLF vs Mason and Mason Trust

KLF initiated this legal action by issuing summons against Mason and Mason Trust for damages resulting from the fire that occurred on 8 June 2012. In preparation for a possible trial and securing a court date from court, KLF appointed a satellite imagery consultant to obtain satellite imagery of the fires to be discovered as expert evidence. This report is currently being considered for a decision to proceed with the matter to trial.

The extent of the financial value anticipated in the case is R17 494 323.

5.2.15 KLF vs Diggersest (Pty) Ltd

KLF initiated the legal action. KLF issued summons to recover R9 304 867 in monies outstanding as a result of a breach of a sale agreement. In the meanwhile, Diggerrest has paid an amount of R4 million. KLF has determined that the amount that will be acceptable to finalise the matter will be R2 545 223. The termination of the previous attorney's mandate in the matter is currently the subject of a court application in terms of the matter listed in number 11 above.

The extent of the financial value in the case is R2 545 223.

5.2.16 KLF vs 4J Timbers CC and two others

KLF initiated this legal action. KLF summons was issued against 4J Timbers CC and Others for the repayment of R1 035 852.51 for goods sold and delivered. Judgment was obtained against 4J Timber CC in favour of KLF. Part of the money has been recovered (R58 688.00) but a substantial amount is still outstanding. On 30 January 2020, Motalane Kgariya attorneys decided to withdraw from rendering services to KLF.

The extent of the financial value in the case is R1 035 852.51.

Contingent liability

5.3.1 Economists.co.za (Pty) Ltd vs KLF

In November 2016, KLF received summons from Economists.co.za claiming payment of the sum of R399 000. KLF defended the action matter due to issues related to the contraventions of the PFMA. The matter is pending in the High Court and awaiting the Plaintiff to set the matter down for trial.

5.3.2 Macbeth Attorneys/SAFCOL and others

The law firm that was mandated to assist both SAFCOL and KLF in some legal matters has applied to the High Court for a review of the management decision to terminate its mandate. The matter will be heard in court shortly as all preliminary processes are finalised.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS **continued**

36. Contingencies **continued**

5. Legal cases **continued**

5.1 Competition Law Infringement Investigations **continued**

Contingent liability **continued**

5.3.3 The IFIRM Trading & Project (Pty) Ltd vs SAFCOL and NP Mona

In March 2017, SAFCOL received summons from IFIRM claiming payment of the sum of R873 053 from SAFCOL and NP Mona jointly and severally. The matter is pending in the High Court. SAFCOL still awaits a plea by IFIRM on the counter-claim filed to set aside the unlawful contract entered into with IFIRM by Ms Mona.

There have been no further steps taken by the plaintiff.

5.3.4 John Wright Veneers (Pty) Ltd vs KLF (credit notes)

This is a dispute about a contract between JWV and KLF in terms of which JWV alleges it rendered custom-cut services for which it was not paid by 21 June 2019 (due date for payment). However, KLF disputes its liability to pay this particular invoice and is defending the action. This matter is still proceeding in court.

The extent of the financial value in the case is R4 120 000.

5.3.5 Ukhamba Management Consultants CC vs KLF

Ukhamba issued summons against KLF in the High Court of South Africa, Johannesburg for an alleged breach contract for services rendered but not paid for by KLF, which claim KLF is disputing and defending. The matter is now at pleading stage and will be enrolled for trial once all pre-trial procedures have been complied with.

The full extent of the financial exposure in the case is R10 702 883.

5.3.6 Ukhamba Management Consultants CC vs KLF

Ukhamba issued summons against KLF for an alleged breach of contract for services rendered but not paid for by KLF, which claim KLF is disputing and defending. The matter is at the pleading stage.

The full extent of the financial exposure in the case is R66 774.75.

5.3.7 Morajane du Plessis Attorneys vs SAFCOL

This is a collection matter instituted by Morajane du Plessis Attorneys against SAFCOL for payment of alleged outstanding invoices. The matter is currently before court for a trial date. The extent of the financial value in the case is R72 858.

5.3.8 John Wright Veneers (Pty) Ltd vs KLF (arbitrator appointment)

JWV has launched application proceedings in the High Court for an order directing the Chairman of the Gauteng Provincial Council of the Legal Practice Council to appoint an arbitrator from its members to adjudicate an alleged dispute between KLF and itself.

5.3.9 MB Mnisi N.O and others vs Chief Land Claims Commissioner, SAFCOL and others

An application has been launched by land claimants in the Land Claims Court against the Land Claims Commissioner on the disputed land claim that concerns various farms that include the Nelshoogte Plantation and Morgenzon which are managed by SAFCOL. Therefore, SAFCOL is listed as an interested party on the dispute due to its management of Nelshoogte Plantation.

The outcome of the application will have an impact in the business of SAFCOL at the Nelshoogte Plantation. Therefore, SAFCOL has taken a position not to oppose the application, but only to have a watching brief so that they have access to all the information that pertains to the land claim in order to make timeous intervention if necessary to protect its business interest.

The application is directly against the Land Claims Commissioner.

5.3.10 Collins Sebola Financial Services (CSF) v SAFCOL and others

This was an application launched by CSF against SAFCOL and others for the court to set aside the decision of SAFCOL to appoint two service providers jointly for the provision of security services. The court upheld the application against SAFCOL and ordered substitution of the decision of SAFCOL to award the security contract to more than one service provider by awarding the whole contract to CSF. However, SAFCOL is appealing this judgment and the appeal process is currently underway.

37. Related parties

Relationships

Ultimate shareholder

Government of the Republic of South Africa represented by the Minister of the Public Enterprises

Subsidiaries

Komatiland Forests SOC Limited

Abacus Forestries SOC Limited

Kamhlabane Timber SOC Limited

Indústrias Florestias de Manica

Other related parties

Other public entities within the Department of Public Enterprises

Members of key management

Listed in Directors' emoluments

	Group		Company	
	2021	Restated*	2021	Restated*
	R'000	R'000	R'000	R'000
Related party balances				
Loan accounts – owing (to)/by related parties				
Abacus Forestries SOC Limited	–	–	456	456
Komatiland Forests SOC Limited	–	–	310 052	379 840
Kamhlabane Forests SOC Limited, at cost R100	–	–	–	–
Payables to related parties				
Komatiland Forests SOC Limited	–	–	(106)	470
Other state-owned companies	(494)	(489)	–	–
Receivables from related parties				
Other state-owned companies	409	52	–	–
Interest income				
Komatiland Forests SOC Limited	–	–	3 353	8 625
Interest expense				
Komatiland Forests SOC Limited	–	–	(227)	–
Other state-owned companies	(2)	(24)	–	–
Sale of goods and services				
Komatiland Forests SOC Limited	–	–	140 997	166 232
Eskom	936	894	–	–
Purchase of goods and services				
Komatiland Forests SOC Limited	–	–	(540)	(540)
Eskom	(14 249)	(14 094)	–	(2)
Compensation to directors and other key management				
Short-term employee benefits	3 625	3 832	3 625	3 832

* See note 39.

Transactions between SAFCOL and its subsidiaries are mainly to settle third-party obligations on behalf of each other. The Group also has a centralised treasury function where cash resources are pulled together to ensure that the Group obtains maximum interest benefits.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

38. Directors' emoluments

Executive

	Emoluments R'000	Reimbursement R'000	Retirement fund R'000	Total R'000
2021				
OT Monaheng	2 892	4	350	3 246
J Maruma	631	–	–	631
	3 523	4	350	3 877
2020	Emoluments R'000	Reimbursement R'000	Retirement fund R'000	Total R'000
OT Monaheng	2 744	14	316	3 074
J Maruma	1 359	–	142	1 501
D Hlatshwayo	1 189	–	159	1 348
	5 292	14	617	5 923

Non-executive

	Directors' fees R'000	Reimbursement R'000	Total R'000
2021			
N Balton	318	–	318
Y Pillay	354	–	354
L Malema	354	–	354
Z Zatu	354	–	354
L Mokgatle	318	–	318
M Baleni	359	–	359
P Makwana	824	–	824
B Hanise	348	–	348
J Yawitch	396	–	396
	3 625	–	3 625
2020	Directors' fees R'000	Reimbursement R'000	Total R'000
N Balton	308	7	315
P Derby	281	17	298
Y Pillay	343	4	347
L Malema	343	1	344
Z Zatu	343	13	356
L Mokgatle	308	2	310
M Baleni	400	8	408
P Makwana	915	–	915
B Hanise	337	21	358
J Yawitch	383	5	388
	3 961	78	4 039

39. Prior period error

The following were adjusted in the current year:

	Group restated values R'000	Group previously reported R'000	Company restated values R'000	Company previously reported R'000
Statement of profit or loss				
Other operating expenses	(901 513)	(927 857)	–	–
Allowance for bad debts	(26 344)	–	–	–
Other operating income	6 167	6 226	–	–
Investment income	7 146	7 087	–	–
	(914 544)	(914 544)	–	–
Statement of financial position				
1. Property, plant and equipment	215 497	216 902	–	–
2. Trade and other payables	(231 094)	(238 699)	(143 949)	(151 554)
3. Retained earnings	(2 836 331)	(2 830 131)	(92 966)	(85 361)
4. Investment in subsidiaries	–	–	–	294 498
5. Loans to Group companies	–	–	380 296	85 798
6. Provision: Current liabilities	(36 466)	(44 067)	–	–
7. Provisions: Non-current liabilities	(7 601)	–	–	–
	(2 895 995)	(2 895 995)	(143 381)	(143 381)

Group and Company

Statement of profit or loss

Other operating expenses adjusted due to reclassification of allowance for bad debts, because of IFRS 19 application in the current year. This is a reclassification of costs.

Prior year's dividend received of R59 was incorrectly included in other operating income. The note is to correct reclassification out of other operating income into investment income.

Statement of financial position

The error on property, plant and equipment relate to costs capitalised on work in progress, The costs did not qualify to be capitalised per IAS 16.

Trade and other payables, adjusted due to correction of prior years' accrual reversal in SAFCOL entity, Group was also affected. Retained earnings was affected by the prior year adjustments.

Misclassification of loans to Group as Investment in subsidiary.

Provisions: prior year's provisions was not split between current and non-current liabilities. Reclassification of the IFLOMA provision out of current liabilities to non-current liabilities.

	Group restated values R'000	Group previously reported R'000	Company restated values R'000	Company previously reported R'000
Disclosures				
Other operating costs				
Contractors and material management	209 961	178 044	–	–
Office and administration	46 606	104 867	–	–

Total material management costs reclassified out of office and admin into contractors = R58 261. Allowance for bad debts of R26 344 forms part of material management, however, it is separately shown on the face of statement of profit and loss, making the adjustment passed on contractors equal to R31 917.

	Group restated values R'000	Group previously reported R'000	Company restated values R'000	Company previously reported R'000
Property, plant and equipment (note 3)				
Cost: motor vehicles	153 645	153 353	3 907	3 615
Accumulated depreciation: motor vehicles	(108 511)	(108 803)	(2 903)	(2 611)

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS **continued**

39. Prior period error **continued**

Error on SAFCOL entity. The error was caused on the asset register; the formula omitted the cost and accumulated depreciation on motor vehicles. The following vehicles were affected: 379KLFMP and 388KLFMP.

	Group restated values R'000	Group previously reported R'000	Company restated values R'000	Company previously reported R'000
Financial liabilities by category				
Trade and other payables	231 094	238 699	129 852	137 457
Trade and other payables restated due to correction of prior year accrual reversals on SAFCOL entity, Group is also affected.				
Financial assets by category	441 706	438 971	614 015	319 517
Group: correction on disclosure under risk management note. Other financial asset was incorrectly omitted in the calculation disclosed on prior year's annual financial statements.				
Entity: disclosure note changed. Loans to Group companies of R294 million, was previously misclassified as investment in subsidiaries.				
Note 24: Right-of-use recon	36 006	36 816	–	–
Correction of lease payment, incorrectly recorded and not agreeing to the face of the cash flow statement.				
Related parties				
Payables to related parties: other state-owned entities	–	(11 761)	–	–
Payables to related parties: DAFF	–	(197 800)	–	–
Interest paid: other state-owned entities	–	(32)	–	–
Sale of goods and services	–	8 735	–	3 086
Purchases of goods and services	–	(92 786)	(2)	9 241

Prior year related parties disclosure note corrected due to incorrect inclusion of other stated-owned transactions. State-owned transactions are to be limited to entities within the Department of Public Enterprises.

40. 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 going concern. The Group's overall strategy is to position itself as an attractive business partner by continuous management of the Group's statement of financial position, preserve cash and seek alternative funding alternatives.

The gearing ratio at 2021 and 2020 was as follows:

	Note(s)	Group		Company	
		2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
Total borrowings					
Finance lease obligation	21	(812 943)	(718 730)	–	(3 771)
Total debt		(812 943)	(718 730)	–	(3 771)
Total equity		(3 064 664)	(3 145 449)	(535 269)	(540 022)
Total capital		(3 877 607)	(3 864 179)	(535 269)	(543 793)
Gearing ratio (%)		26	23	0	0

* See note 39.

The capital structure of the Group consists of debt, which includes short and long-term borrowings 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. No dividends have been declared in the current financial year (2020: Rnil). A significant portion of the debt consist of finance lease relating to land lease from DEFF. Equity and other reserves have been disclosed in the statement of changes in equity note.

Risk management policies have 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 ad hoc reviews to assess compliance with risk management policies.

Classes of financial instruments

The financial instruments are held at amortised costs. At year end, all financial instruments held at amortised value approximated fair value.

Group	2021		2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents	336 542	336 542	252 358	252 358
Other financial assets	1 855	1 855	2 735	2 735
Trade and other receivables	158 169	158 169	186 613	186 613
	496 566	496 566	441 706	441 706
Financial liabilities	2021	2021	2020	2020
Finance lease obligations	812 943	812 943	718 730	718 730
Trade and other payables	253 356	253 356	200 732	200 732
	1 066 299	1 066 299	919 462	919 462

Company	2021		2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Other financial assets	112	112	992	992
Cash and cash equivalents	316 510	316 510	231 037	231 037
Trade and other receivables	1 472	1 472	1 690	1 690
Loans to Group companies	310 508	310 508	380 296	380 296
	628 602	628 602	614 015	614 015
Financial liabilities				
Finance lease obligations	–	–	3 771	3 771
Trade and other payables	157 283	157 283	128 836	128 836
	157 283	157 283	132 607	132 607

Major financial risks

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

- Forward exchange risk
- Financial risk management
- Liquidity risk
- Market risk
- Compliance risk
- Operational risk
- Price risk
- Credit risk
- Cash flow interest rate 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 predetermined exchange rates. 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 US Dollar and the Metical. No forward exchange cover was used during the year.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS **continued**

40. Risk management **continued**

Financial risk management

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. A central treasury department (Group Treasury) under policies approved by the Board carries out risk management. Group Treasury identifies, evaluates and manages financial risks in close cooperation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Liquidity risk

Liquidity risk is the risk that the Group has insufficient funds or marketable securities available to fulfil its cash flow obligations on time. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due and to close out market positions. At the end of the reporting period, the Group held deposits at call of R147 million (2020: R124 million) that are expected to readily generate cash inflows for managing liquidity risk. Due to the dynamic nature of the underlying businesses, Group Treasury maintains flexibility in funding by maintaining availability under committed credit lines.

Management monitors rolling forecasts of the Group's liquidity reserve and cash and cash equivalents based on expected cash flows. In addition, the Group's liquidity management policy involves projecting cash flows and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

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 risk 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 Group manages its liquidity risk through a review of its daily cash flow position. The Board monitors the liquidity position of the Group through a review of six months cash flow forecasts. The liquidity position of the Group has been assessed as part of going concern assessment. Management has assessed and concluded that the Group has access to sufficient cash resources to continue in the foreseeable future.

The tables below analyse the Group and Company's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Group	Carrying amount R'000	Contractual amount R'000	Less than one year R'000	More than one year R'000
At 31 March 2021				
Finance lease obligation	812 943	812 943	151 368	661 575
Trade and other payables	253 356	253 356	253 600	–
	1 066 299	1 066 299	404 968	661 575
At 31 March 2020				
Finance lease obligation	718 730	718 730	140 665	578 065
Trade and other payables	200 732	200 732	200 732	–
	919 462	919 462	341 397	578 065

Company	Carrying amount R'000	Contractual amount R'000	Less than one year R'000	More than one year R'000
At 31 March 2021				
Trade and other payables	157 283	157 283	157 283	–
	157 283	157 283	157 283	–
At 31 March 2020				
Finance lease obligation	3 771	3 771	3 771	–
Trade and other payables	129 852	129 852	129 852	–
	133 623	133 623	133 623	–

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising returns.

Compliance risk

Compliance risk is the risk of non-compliance with any statutory requirement of national 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 PFMA, the Occupational Health and Safety 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 prices have 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.

Credit risk

Trade receivables

The Group applies the IFRS 9 simplified approach to measure expected credit losses, which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates. The expected loss rates are based on the payment profiles of sales over a period of 36 months. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS **continued**

40. Risk management **continued**

Credit risk **continued**

The Group makes use of credit rating agencies to assess credit worthiness of customers. The current credit profiles of customers is used to assess the future credit behaviour of customers before they are provided with a credit limit. The impact of Covid-19 pandemic on the economy has been assessed against the future payment behaviour of our customers. The Group mainly provides saw logs to its customers. We are currently the main supplier of saw logs in Mpumalanga and Limpopo. Our customers are therefore less likely to default on their accounts with the Group as we are the only suppliers of raw materials. The historical losses are used as a basis of determining future losses based on the term of the debt. On that basis, the loss allowance as at 31 March 2021 was determined as follows for trade receivables:

2021	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	Total
Expected loss rate (%)	2	5	50	100	
Gross carrying amount – trade receivables (R'000)	30 140	13 434	2 821	63 199	109 594
Loss allowance (R'000)	602	672	1 410	63 199	65 883

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due. The Group actively follows up on all outstanding debtors to ensure that they are recovered. Group Legal is also involved in credit disputes that require their services. CGIC insurance is then engaged at the point where the Legal team fails to recover. Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

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 does not have significant liabilities financed through finance lease. The interest rate associated with each finance lease is negotiated and agreed before the finance lease is concluded. Financial institutions consider the company to be medium risk with its interest payments linked to prime.

The Group is exposed to interest rate risk as the Group funds working capital shortfalls and assets, and invests surplus funds from time to time. The Group utilises limited asset-based and finance leases to fund assets. These finance leases rates are fixed interest rates linked to prime. 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, South African Forestry Company SOC Limited, 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 intercompany account.

Basis for determining fair values

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

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.

Other loans and receivables

The fair value of other loans and receivables is 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 other loans and receivables.

Cash and cash equivalents

The fair value of cash and cash equivalents is 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.

Borrowings

The fair value of borrowings is based on cash flows discounted using the effective interest rate at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

Other financial liabilities

The fair value of other financial liabilities is 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 other financial liabilities.

Trade and other payables

The fair value of trade and other payables 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 payables.

Interest rates used for determining fair values

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

- 31 March 2021: 16.0%
- 31 March 2020: 16.8%

Interest rate risk sensitivity

	Group		Company	
	2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
Finance costs				
3.2% increase in interest rate	154 987	236 729	726	2 009
3.2% decrease in interest rate	145 376	214 184	681	1 832
Profit/loss after tax				
3.2% increase in interest rate	46 256	69 651	4 905	1 080
3.2% decrease in interest rate	43 388	63 018	4 601	985

3.2% rate used linked to the average CPI rate for the year.

The table below analyses assets and liabilities carried at fair value. The different levels are defined as follows:

Level 1: Quoted unadjusted prices in active markets for identical assets or liabilities that the Group can access at measurement date.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

Levels of fair value measurements

Level 3

	Group		Company	
	2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
Recurring fair value measurements				
Assets				
Biological assets				
Biological assets	852 453	903 440	–	–
Other financial assets				
Unlisted shares (NTE & Guardrisk)	1 855	2 735	110	992
Total	854 308	906 175	110	992

* Gains and losses recognised in profit or loss are included in other income on the statement of comprehensive income.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS **continued**

41. Going concern

The annual financial statements have been prepared based on 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.

For the year ended 31 March 2021, the Group reported a loss after tax of R44 822 (2020: loss R66 334). In the same period, the Group had operating cash inflows of R336 542 (2020: R252 358). A cash flow forecast for the next 12 months prepared by management has indicated that the consolidated Group will have sufficient cash assets to be able to meet its debts as and when they are due.

The ability of the Group to continue as a going concern is dependent on a number of factors. The most significant of these is that the directors continue to procure funding for the ongoing operations of the Group. The directors believe the Group has ability to raise funds to continue operating in the near future.

42. Events after the reporting period

Since December 2019, the spread of Covid-19 has severely affected the local and international economy. The pandemic resulted in the limitation and restriction of how the Group does and is able to do its normal business operations. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to the business. The Group embarked on scenario planning exercise to prepare itself for various scenarios. The Group continues to monitor developments. The impact of the pandemic is still unfolding and cannot be quantified.

The Group has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended 31 March 2021 have not been adjusted to reflect their impact. The duration and impact of the Covid-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Group for future periods. Other than above, there were no other material adjusting or non-adjusting events that were identified after year end.

43. Fruitless and wasteful expenditure

There were a number of incidents of fruitless and wasteful expenditure, which were individually, or collectively (where items are closely related) below the materiality threshold. Management continues to institute preventive and corrective measures, including disciplinary action, as considered appropriate. Funds are also recovered as relevant based on the outcome of the disciplinary hearings.

Fruitless and wasteful expenditure movement

	Group		Company	
	2021	Restated*	2021	Restated*
	R'000	R'000	R'000	R'000
Opening balance	2 641	495	390	370
Incurred for the year	12	2 146	1	20
Closing balance	2 653	2 641	391	390

44. Irregular expenditure

Section 55(2)(b)(i) of the PFMA requires that the particulars of any irregular expenditure, fruitless and wasteful expenditure as well as material losses due to criminal conduct be disclosed in the annual financial statements. The Group has to report any losses that individually or collectively (where items are closely related) exceed R25 million in terms of the significance and materiality framework agreed with the Shareholder.

Irregular expenditure is defined as expenditure, other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation. The scope is very broad as it includes all transgressions of any laws and regulations as well as internal policies and procedures regardless of whether the breaches were deliberate or accidental, or if they happened unknowingly or in good faith, or if value was received or not.

Condonation of the irregular expenditure is obtained from the relevant internal governance structure, government department or National Treasury.

Irregular expenditure

	Group		Company	
	2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
Opening balance	626 510	443 250	74 493	65 422
Irregular expenditure identified in current year	8 670	51 869	1 598	6 332
Irregular expenditure identified in prior year	105 805	131 391	3 484	2 739
Condoned in current year relating to prior year	–	–	–	–
Condoned in current year relating to current year	–	–	–	–
	740 985	626 510	79 575	74 493

Non-compliance with SCM policies

Irregular expenditure relating to non-compliance with SCM policies has been identified. Most of the expenditure relates to costs incurred through contracts and quotations that were awarded without following prescribed SCM policies and Treasury Regulations. To ensure that these findings will not be repeated various measures have been put in place to ensure that all SCM policies and Treasury Regulations are followed before awarding a contract and when quotations are sourced. Furthermore, investigations have been instituted to identify root causes of the irregular expenditure and assist with consequence management. The investigations also review and test whether the Company for services and goods provided received value for money.

The SCM environment is continuously being strengthened and supported by appropriate oversight to eliminate future non-compliance. Irregular expenditure incurred in the current year has been further sub-divided into the following categories.

	Group		Company	
	2021 R'000	Restated* 2020 R'000	2021 R'000	Restated* 2020 R'000
Due to other service providers being unfairly disqualified	17 122	57 177	1 085	822
Minimum quotes not obtained	3 621	86 587	1 050	2 161
Other non-compliance with supply chain policy	93 732	39 496	2 947	6 088
Irregular expenditure identified in the current year	114 475	183 260	5 082	9 071

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GLOSSARY OF ACRONYMS AND ABBREVIATIONS

AGSA	Auditor-General of South Africa
B-BBEE	Broad-Based Black Economic Empowerment
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CSI	Corporate Social Investment
CSIR	Council for Scientific and Industrial Research
DAFF	Department of Agriculture, Forestry and Fisheries
DALRRD	Department of Agriculture, Land Reform and Rural Development
DIFR	Disabling injury frequency rate
DFFE	Department of Forestry, Fisheries and the Environment
DPE	Department of Public Enterprises
DRDLR	Department of Rural Development and Land Reform
ERP	Enterprise resource planning
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
ECD	Early Childhood Development
EE	Employment Equity
ESD	Enterprise and supplier development
FP&M SETA	Fibre Processing and Manufacturing Sector Education and Training Authority
FSC®	Forest Stewardship Council®
Group	SAFCOL, together with its subsidiaries, namely Abacus Forestries SOC Limited, Kamhlabane SOC Limited and KLF SOC Limited with its subsidiary, IFLOMA.
ha	hectare(s)
ICT	Information and communication technology
IFLOMA	Indústrias Florestais de Manica SARL
IFRS	International Financial Reporting Standards
KLF	Komatiland Forests SOC Limited
KPA	Key performance area

KPI	Key performance indicator
MSFA	Management of State Forests Act, No 128 of 1992
MOU	Memorandum of Understanding
PFMA	Public Finance Management Act, No 1 of 1999
PWD	People with disabilities
R&D	Research and development
SAFCOL	South African Forestry Company SOC Limited, also referred to as the Company
SAFFCAWU	South African Forestry Farming, Catering and Allied Workers Union
SDG	Sustainable Development Goal
SETA	Sector Education and Training Authority
SHEQ	Safety, Health, Environmental and Quality
SOC	State-owned company
TMPS	Total Measured Procurement Spend
TU	Temporarily Unplanted Area
TUP	Temporarily Unplanted Percentage
VAT	Value Added Tax

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for the year ended 31 March 2021

CORPORATE AND CONTACT INFORMATION

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Title of publication:	SAFCOL Annual Report 2020/21 RP199/2021
ISBN:	978-0-621-49582-9

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