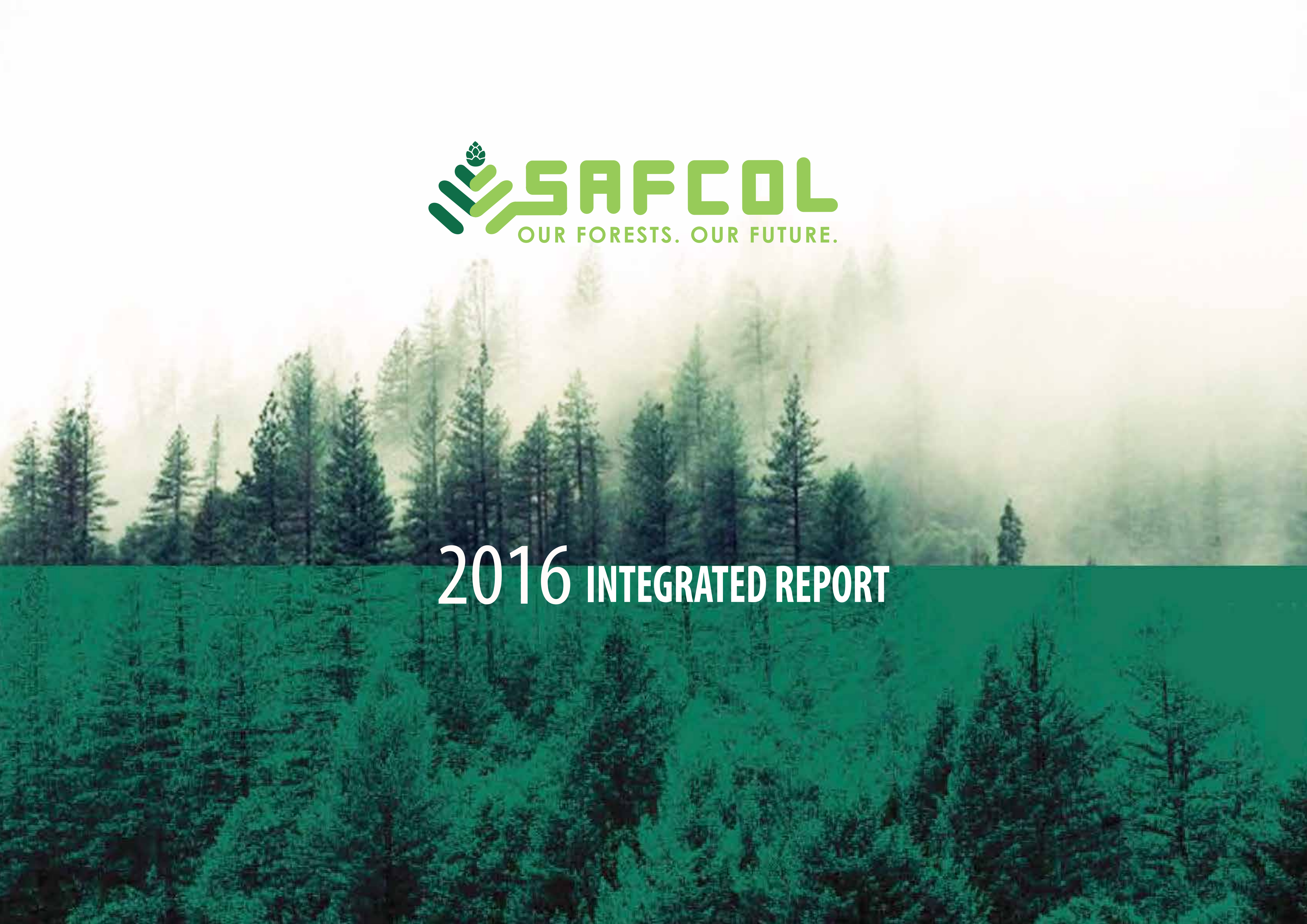


SAFCOL

OUR FORESTS. OUR FUTURE.

2016 INTEGRATED REPORT

Stella Moosa

Marketing and Advertising Officer: Eco-Tourism, Mpumalanga

"Eco-Tourism in the forestry business presents exciting job creation opportunities."

CONTENTS

SAFCOL OUR FORESTS. OUR FUTURE.

Granner Netshirungulu

Harvesting Supervisor: Entabeni Plantation, Limpopo

" I love my job, I would not trade it for any other job,
I enjoy waking up every day to come work with my team."

ABOUT OUR INTEGRATED REPORT

1. ABOUT OUR INTEGRATED REPORT

Our report covers performance for the 2015/16 financial year and issues that are material to SAFCOL's strategy and operations. Material issues have been determined through a process of stakeholder consultation and by considering the Company's strategic priorities, key risks and opportunities.

This is SAFCOL's fourth integrated report and encompasses the Company's economic, social, administrative and environmental sustainability performance for the reporting year. The Company strives to improve its performance reporting every year, drawing on the contributions of stakeholders and advisory professionals, as well as the Company's internal reporting appraisal process. Improvements made in this year's report include:

- More demonstrable use of leading-practice reporting frameworks to structure the report and to guide material inclusions. These frameworks include the IIRC and GRI G4 reporting frameworks and the King III guidelines on integrated reporting;
- Alignment of our performance reporting with government's 'outcomes approach' by attempting to clarify what we expect to achieve, how we expect to achieve it and how we will know whether we are achieving it;
- The use of iconography to improve information flow, connectivity, conciseness and comparability;
- Improved strategic visibility by including graphic representations of SAFCOL's strategic model and value-creation model, whilst linking performance information to strategy through the use of icons;
- Improved stakeholder inclusiveness by demonstrating SAFCOL's prioritisation of stakeholder issues and its responsiveness to stakeholder concerns; and
- Improved reliability and materiality of reporting by linking risks to strategic objectives, as well as risk owners and mitigation plans.

The SAFCOL Intergrated Report is available on our website as downloadable documents: www.safcol.co.za

1.1 Scope of the report

This integrated annual report covers the financial reporting period from 1 April 2015 to 31 March 2016. This follows a May 2013 decision by the Audit and Risk Committee that the SAFCOL Group needed to implement an integrated reporting framework that is aligned to the recommendations of Principle 9 of the King Report on Corporate Governance for South Africa, 2009 (King III). This report encompasses performance and data relating to the operations of the Group.

During the 2016 financial year, it was further observed that SAFCOL's integrated reporting should undertake to improve alignment with other leading-practice reporting frameworks, including the IIRC and GRI-G4 reporting guidelines. This report endeavours to evidence this improved alignment.

When reviewing our 2015/2016 performance in this report and to ensure comparability, the following should be noted:

- The restatement of our 2014/2015 financial results; and
- The reclassification of the minority shareholding that was previously recognised as an asset held for sale.

The content of this report is consistent with the indicators used for our internal management and Board reports.

1.2 Suite and alignment of reports

The 2015/16 Integrated Report consists of a consolidated integrated report, which includes operational performance as well as the Company's Annual Financial Statements.

Certain statements in this report may constitute forward-looking statements which by their nature involve risk and uncertainty because they relate to future events and circumstances that may be beyond the Group's control. All references to forward looking information and targets in the reports are extracted from the 2016/17 SAFCOL Corporate Plan, as approved by the SAFCOL Board of Directors.

Table 1: Integrated reporting alignment

Report	Consolidated Integrated Report
Referenced in short	SAFCOL IR 2016
Content of report	The SAFCOL IR 2016 is the Company's primary report to stakeholders
Purposes of report	• To provide a succinct view of our performance against targets defined by our shareholder mandate in the pursuit of long-term economic value creation; • To provide an integrated view of our response to risks and opportunities in our local, regional and global business context; • To respond to our stakeholders' interests and concerns; • To report on our financial performance for the financial year ended 31 March 2016 in accordance with applicable frameworks and guidelines outlined below; • To report on our financial position, as well as changes in equity and cash flow; and • To consolidate, interpret and report on the findings of SAFCOL's internal sustainability reporting framework.
Distribution	Printed and posted to the shareholder Also available at www.safcol.co.za
Assurance	Through our integrated assurance model, limited and complete assurance is provided by internal and external specialists, which include amongst others: • Forest Stewardship Council (FSC); • Auditor-General of South Africa (AGSA); • SAFCOL internal audit function; • Independent SHEQ verification agencies; and • Independent B-BBEE verification agencies.
Leading practice guidelines and governance frameworks guiding content	• International Integrated Reporting Council (IIRC) Integrated Reporting Framework v1.0 • The King Code of Governance for South Africa (2009) (King III) • International Financial Reporting Standards (IFRS) • The Companies Act, Act No 71 of 2008 (Companies Act) • The Public Finance Management Act, Act No 1 of 1999 (PFMA) • GRI-G4 Sustainability Reporting guidelines.

1.2.1 Feedback

We welcome feedback on our Integrated Report to ensure that we continue to disclose information that is representative of our performance and pertinent to all our stakeholders. For further queries or suggestions kindly contact: communication@safcol.co.za.

1.2.2 Navigating this report

The IIRC framework for integrated reporting has introduced the concept of reporting how a business creates value through the use of six capitals. Performance commentary in the SAFCOL IR pertains to material issues that specifically align with the Company's key strategic objectives and reflect SAFCOL's transformation of the 'six capitals' (i.e. financial capital, manufacturing capital, intellectual capital, human capital, social and relationship capital and natural capital) in the pursuit of value creation and the protection of 'value at risk'. For the purposes of the SAFCOL IR, the 'capitals' can be categorised and described as follows:

Financial Capital - Relates to the funding structure of the Group and how it utilises its financial resources. This is covered in the CFO's report and the audited annual financial statements.

Manufacturing Capital - This refers to the Groups plantations, sawmill and information technology infrastructure. This is dealt with more fully in the forestry operations section.

Intellectual Capital - The Group relies heavily on intellectual capital as this maximises the growth of the biological asset and the predictability of the supply in terms of volume and quality. This is dealt with more fully in the research and development section.

Human Capital - This refers to the Group's employment proposition which, combined with unique experience and skill enables the implementation of the Group strategy.

Relationship Capital - Refers to the relationships that the Group has with our customers, suppliers and business partners.

Natural Capital - Relates to the biological asset and other natural resources that are used throughout the Group's value chain.

1.3 Assurance

SAFCOL's Intergrated Assurance Plan encompasses the assurances provided by the Company's Board of Directors, management, internal specialists, internal and external audit functions and other business advisers.

OUR ORGANISATIONAL PROFILE

2. Our Organisational profile

2.1 Our Mandate

The mandate for SAFCOL is determined by the Management of State Forests Act, the Founding Documents, other prevailing legislation and the Shareholder's Compact, which indicates that SAFCOL's mandate is: **'To conduct forestry business, which includes timber harvesting, timber processing and related activities, both domestically and internationally**'.

The Department of Public Enterprises (DPE), as the Shareholder, ensures that SAFCOL operates in support of the Shareholder's goals through the achievement of the key performance indicators (KPIs) in the Shareholder's Compact. SAFCOL's mandate also defines areas of legislative governance and policy compliance that have to be taken into consideration when identifying the strategic direction of the organisation and the initiatives in which it will engage. Its strategic initiatives reflect the DPE's requirement for SAFCOL to act as an engine for rural economic development. The Shareholder's Compact requires that SAFCOL remains focused on the mandate that addresses financial and commercial relevance, whilst embracing its public service mandate.

In this context, SAFCOL must play a leading role in the implementation of the Forestry Charter and so draw stakeholders and communities into meaningful and strategic participation in the forestry business. SAFCOL strives to be the partner of choice of successful land claimants: hence its continued involvement in the process of developing relevant land settlement models. The organisation's management understands that it must pursue mutual and common outcomes that will ensure the future sustainability of the business and that are supported by a business model that enhances its ability to optimise the value extracted from its resources. In this respect, SAFCOL will continue to focus on programmes that will allow it to process a significant portion of its raw materials and convert these into high quality products.

SAFCOL seeks to become the leading, integrated, value-adding forestry Company on the African continent. While its strategies will remain focused on optimal value creation, the Company will also pursue a marketing strategy that will create greater demand for the products that it manufactures. To this end, SAFCOL will continue to work with various government departments and other players in the industry in South Africa to identify new areas in which products can be utilised

.

2.2 Our Vision

A world leader in the integrated forestry products business, powering sustainable growth and creating wealth through partnerships with communities.

2.3 Our Mission

Dedicated to growing our business in the forestry value chain and maximising stakeholder value.

Driven by an unwavering commitment to facilitate sustainable economic empowerment of communities and wealth creation.

2.4 Our Core Values

- We respect and value our stakeholders
- We are passionate about our business and communities
- We conduct ourselves with honesty and integrity
- We strive for excellence and innovation

2.5. Overview of our operations

2.5.1. Komatiland Forests (KLF)

KLF manages 18 prime softwood saw-log plantation assets in Mpumalanga, Limpopo and KwaZulu-Natal (KZN). KLF's commercial and non-commercial operations cover a land area of 187 320 hectares. The plantations are clustered into three districts, namely, Highveld, Central and the North.

A research centre and nursery form part of the Company's operations. The research centre manages trial plots in several plantations in the three provinces in which the Company operates. The nursery produces in excess of 10 million seedlings and cuttings per annum and supplies all plantations operated by KLF and generates income from the sale of seeds to other growers in the sector.

KLF owns and operates the Timbadola Sawmill, a softwood processing sawmill located in Limpopo. The Company has a custom-cut arrangement with Ringkink Sawmill and John Wright Veneer Sawmill in the Highveld area of Mpumalanga. The Timbadola Sawmill has an annual intake capacity of 130 000m3 per annum and is poised to increase the intake to 150 000m3 in the 2016/17 financial year. The sawmill and plantations in the north are aligned and operate inter-dependently. The Timbadola Sawmill operations are currently under review with the intention of expanding the mill and increasing intake and production volumes.

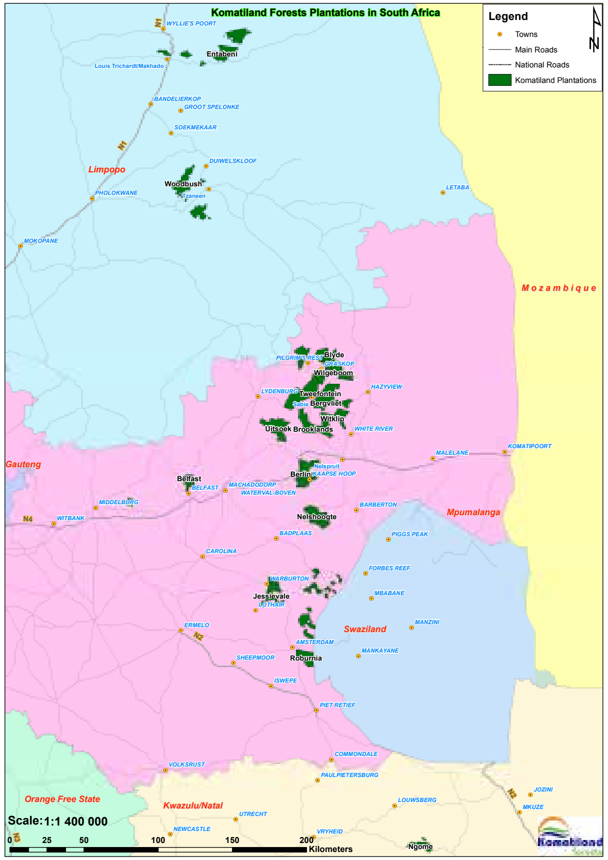


Figure 1: Komatiland Forests plantations in South Africa

2.5.2. Indústrias Florestais De Manica, SARL (IFLOMA)

IFLOMA is a Mozambique-based public limited liability Company, which was established in the 1980s as a government initiative. As part of the SOC privatisation programme in Mozambique, 80 percent of the share capital of IFLOMA was sold to KLF in 2004, with the remaining 20 percent of shares being held by IGEPE, Mozambique's State Shareholding Management Institute.

The total landholding is 31 754ha, of which 16 178ha is plantable for commercial plantation forestry. The operations are located in Manica Province, which is an ideal location from which to serve markets in Mozambique, as well as the warehouse in Maputo.

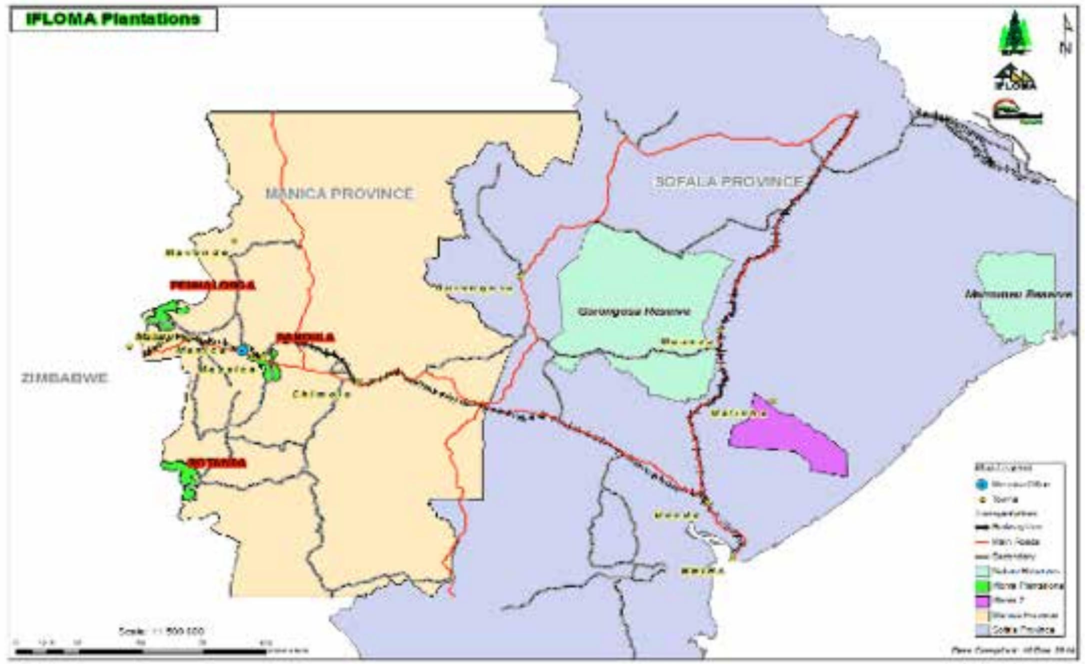
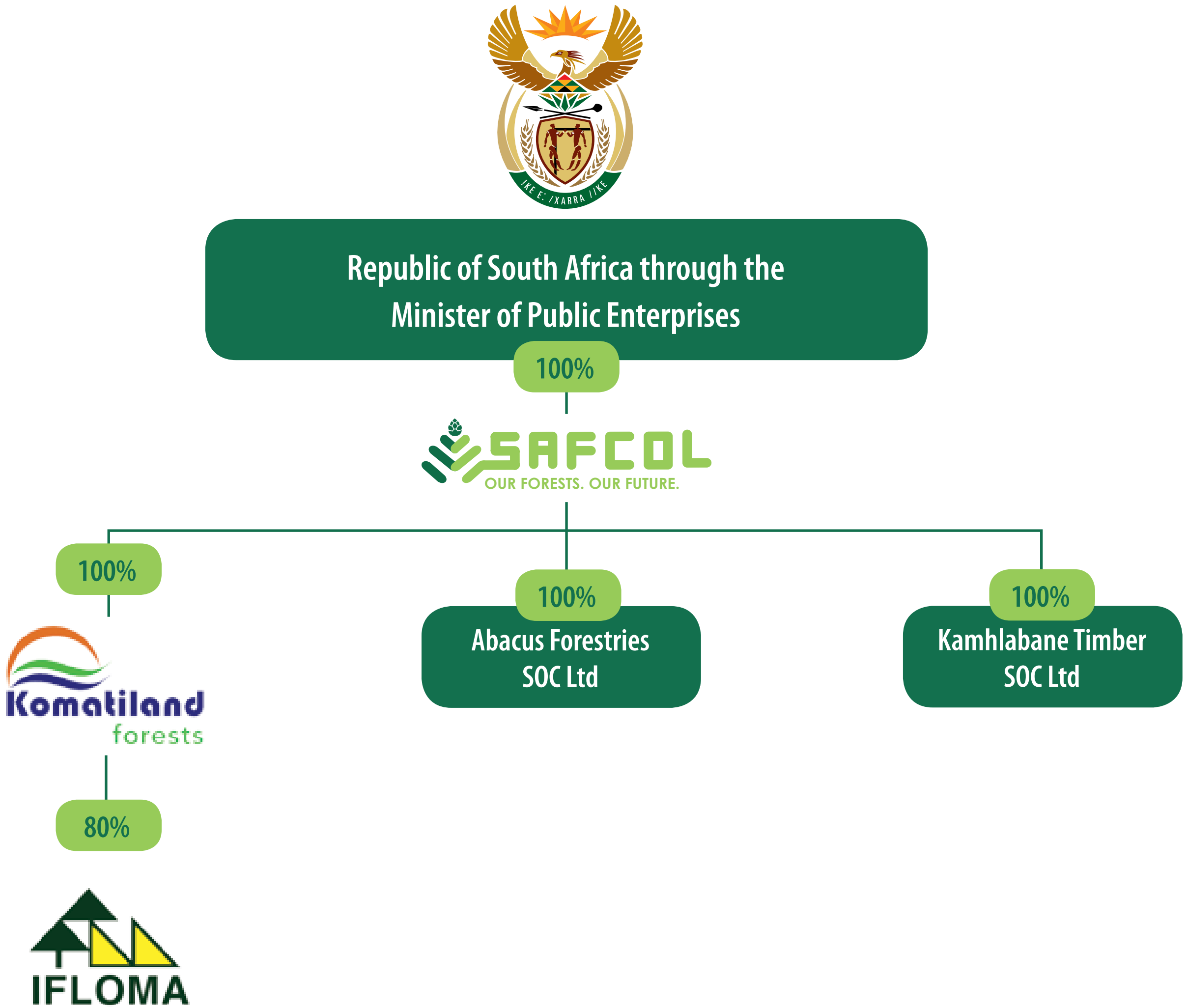


Figure 2: IFLOMA plantations in Mozambique

2.5.3. Group structure



2.5.4. Minority shareholding

SAFCOL holds shares on behalf of communities in the following companies:

- Siyaqhubeka Forests (Pty) Ltd - (25%)
- Amathole Forestry Company (Pty) Ltd – (16%)
- MTO Forestry (Pty) Ltd – (17,58%)
- Singisi Forest Products (Pty) Ltd – (10,9%)

These shares and the dividends thereon have been ringfenced.

2.6. SAFCOL operating principles

- The SAFCOL Board has ensured that all requirements of the Companies Act of 2008 and the PFMA of 1999 are met. SAFCOL is guided by the best practice guidelines in King III and the Protocol on Corporate Governance in the public sector.
- SAFCOL subscribes to the Forest Sector Charter and its vision is to become a leader in transformation of the industry. This is demonstrated by the Group's achievement and maintenance of a B-BBEE Level 2 contributor rating. SAFCOL is a proven leader in driving transformation and the empowerment of women, especially in management and executive roles: it was the first Company in South Africa to appoint a female plantation manager (in the 2011/12 financial year).

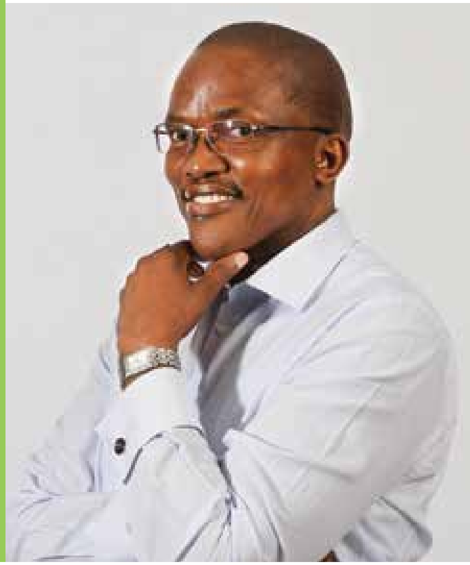
- SAFCOL is committed to making a difference in rural communities adjacent to plantations through the implementations of social compacts. Several socio-economic development (SED) projects have been implemented in areas where social compacts have been signed.
- In line with its desire to become a world-class Company, SAFCOL has ensured that all its South African plantations and sawmills are certified in terms of the Forest Stewardship Council (FSC) certification scheme.
- The FSC is an international non-profit organisation that supports environmentally-appropriate, socially beneficial and economically viable management of the world's forests. FSC certification also provides a new marketing opportunity for the Group. This provides assurance to customers that they meet the internationally-recognised FSC principles and criteria of forest stewardship, which is important to many customers and potential customers.
- SAFCOL's plantation forest certification is driven by an environmental management system and third-party audits provide a benchmark on conformance and improvement.
- SAFCOL is compliant with all occupational health and safety requirements and participates in the National Occupational Safety Association (NOSA) audits.
- SAFCOL is a proponent of lifelong learning and a leader in training and development: it has a dedicated training facility that focuses on core industry skills and other skills related to downstream activities. SAFCOL supports the Forestry Chair at the University of Pretoria in order to promote forestry in tertiary education.

2.7. Board of Directors

Gabriel Theron, Dr Mbiji Mahlangu, Caroline Ngwenya, Lungile Mabece, Nazia Carrim, Maroele Rachidi, and Dr Pulane Molokwane
**Inserts: Stanley Mandla Mnguni, Sakekile Baduza*

SAFCOL Board Members

Mr Rudolf Lungile Mabece(51)



Date appointed: 18 August 2015

Experience

Current

- Director of Nanobiz Leadership Development & Consulting.
- Director of Bulumko Corporate Advisers and Consultants (Pty) Ltd

Previous

- Director of RCC Ready Mix (Pty) Ltd;
- Former External member of Industrial Development Corporation Credit Committee
- Assisted the Independent Communications Authority of South Africa with data mobile licensing

Qualifications

BProc - University of the Western Cape

LLB - University of the Western Cape

Higher Certificate (Project Management) - Damelin Management School

Mr Gabriel Christiaan Theron(35)

Date appointed: 18 August 2015

Experience

Current

- Acting CEO: SAFCOL

Previous

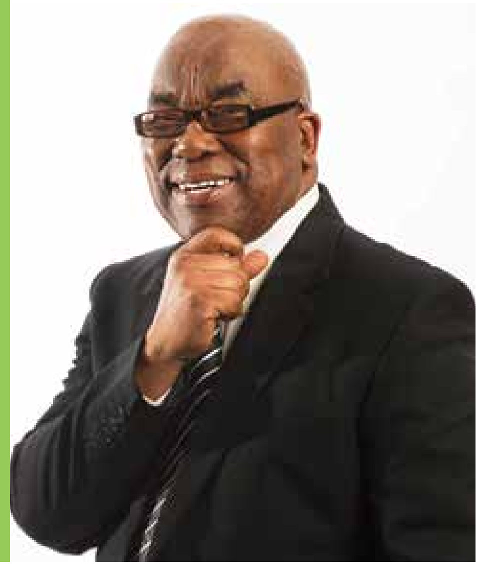
- Managing Director, Prosperosa Consulting (Pty) Ltd
- Director, Luuk (Pty) Ltd
- Senior Internal Auditor, South African Breweries Ltd

Qualifications

BCom (Informatics) - University of Pretoria

BCom.Hons (Internal Auditing) - University of Pretoria

Dr Petrus Mbiji Mahlangu(66)



Date appointed: 18 August 2015

Experience

Current

- Director and Head: International Affairs, University of Fort Hare

Previous

- Director and Head: Centre for Transdisciplinary Studies, University of Fort Hare
- Director: Faculty Quality Assurance, University of Fort Hare

Qualifications

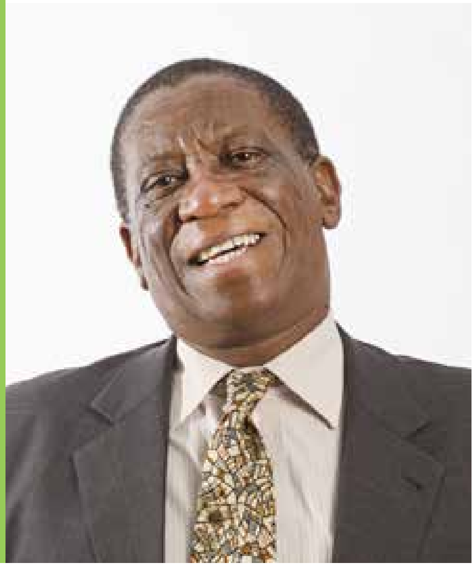
PhD (Educational Leadership, Management and Development, Curriculum and Instruction and Philosophy and History of Education) - New Mexico State University, USA

MEd (Education in Third World Countries and Political Economy) - University of the Witwatersrand

BEd (Education in Third World Countries and Political Economy) - University of the Witwatersrand

BA (History, and Zulu) - University of South Africa

Mr Maroele Jacob Tanto Rachidi(63)



Date appointed: 18 August 2015

Experience

Current

- Chief Executive Officer, Tetelo Computer Services (Pty) Ltd

Previous

- Chief Executive Officer, KTS Technology Solutions
- Managing Director and Chairman, Kganya Technology Solutions

Qualifications

Management Development Programme - Wits Business School

Computer Operations and Programming - Control Data Institute

Primary Teachers Certificate - Sekhukhune Training College

Ms Sakekile Baduza(36)

Date appointed: 18 August 2015

Experience

Current

- Acting CFO: SAFCOL
- Director: Rua Holdings

Previous

- Group Tax Manager, Sun International Ltd
- Direct Tax Specialist, ABSA
- Risk and Recoveries Manager, South African Breweries Ltd

Qualifications

B.Com Hons (Accounting Sciences) – University of Pretoria

CA (SA) – Chartered Accountant South Africa

M.Com (SA & International Tax) – North-West University

Management Development Programme – UCT Graduate School of Business

Ms Caroline Phumzile Mavasana Ngwenya(46)

Date appointed: 18 August 2015

Experience

Current

- Director: Khanyaphum Consulting

Previous

- Manager of Corporate Social Investment, Mondi Ltd
- Acting Manager of SMME & Community Economic.
- Programme Manager: eThekwini Municipality

Qualifications

Masters (Development Studies) University of KwaZulu-Natal

Certificate in Policies for the Promotion of Small and Medium Enterprises - Japan International Corporation Agency

BA (Social Work) - University of Durban Westville

Ms Nazia Carrim(36)

Date appointed: 18 August 2015

Experience

Current

- Part-time Commissioner at the CCMA, Polokwane.
- Non-executive Director on the Board of Eskom.
- Nazia Carrim Attorneys

Previous

- Manager: City of Johannesburg
- Director: Peer & Carrim Attorneys
- Legal Services Manager: Limpopo Department of Health

Qualifications

Masters (Law) - University of Limpopo

LLB - University of Johannesburg

Dr Pulane Elsie Molokwane(39)

Date appointed: 18 August 2015

Experience

Current

- Founder of OLOENVIRON;
- Nuclear Physicist and Environmental Specialist with expertise in ground water remediation, nuclear waste, process and solid waste strategies, solutions and technologies;
- Serves on boards of several SOEs

Previous

- Executive Technical Director: South African Intellectual Property Fund/Quintessential Investment Holdings.
- Principal Environmental Specialist: Sasol Technology Pty [Ltd].
- Senior Nuclear Fuel Design Physicist: Pebble Bed Modular Reactor

Qualifications

PhD (Chemical Technology, Environmental Engineering) - University of Pretoria

MSc (Applied Radiation Science & Technology) - University of North West

Post-Graduate Diploma (Applied Radiation Sciences & Technology) - University of North West

Mr Stanley Mandla Mnguni(46)

Date appointed: 18 August 2015

Experience

Current

- Deputy Municipal Manager, Steve Tshwete Local Municipality

Previous

- Acting Municipal Manager, Steve Tshwete Local Municipality.
- Senior Manager: Legal and Administration, Steve Tshwete Local Municipality

Qualifications

Leadership Development Programme – Gordon Institute of Business Science

BAdmin (Hons) - University of the North

2.8 SAFCOL Executive Members

Mr Gabriel Christiaan Theron

Acting Chief Executive Officer

Date appointed: 15 December 2015

Experience

Current

- Acting CEO: SAFCOL

Previous

- Managing Director, Prosperosa Consulting (Pty) Ltd
- Director, Luuk (Pty) Ltd
- Senior Internal Auditor, South African Breweries Ltd

Qualifications

BCom (Informatics) - University of Pretoria

BCom.Hons (Internal Auditing) - University of Pretoria

Ms Tamarin Jacobs

Acting Senior Executive: Human Capital Management & Transformation

Date appointed: 7 January 2016

Experience

Current

- Acting Senior Executive: Human Capital Management & Transformation: SAFCOL
- Human Capital Business Partner - SAFCOL

Previous

- Human Resources Consultant at the South Africa Broadcast Corporation

Qualifications

BA: Social Science

BCom: Human Resource Management

Mr David Mbulaheni

Acting Chief Operations Officer

Date appointed: 7 January 2016

Experience

Current

- Acting COO: SAFCOL
- Distric Manager: North

Previous

- Commercial Manager: SAFCOL
- Forestry Scientist - DAFF
- Regional Manager: Unitrans

Qualifications

Msc (Forest Economics)

Ms Sakekile Baduza

Acting Chief Financial Officer

Date appointed: 11 March 2016

Experience

Current

- Acting CFO: SAFCOL
- Director: Rua Holding

Previous

- Group Tax Manager, Sun International Ltd
- Direct Tax Specialist, ABSA
- Risk and Recoveries Manager, South African Breweries Ltd

Qualifications

B.Com Hons (Accounting Sciences) – University of Pretoria
CA (SA) – Chartered Accountant South Africa
M.Com (SA & International Tax) – North-West University
Management Development Programme – UCT Graduate School of Business

2015/16 GROUP PERFORMANCE

Chris De Beer
Eco-Tourism Manager
"I'm passionate about people and nature."

3. 2015/16 Group Performance

3.1. Our Chairperson's foreword

The period under review was faced by headwinds on the economic front: global economic growth projections were revised down and the pattern of slow growth persisted, with consequences for all developing economies, including South Africa.

In line with this, South Africa's economy grew by 1,3 percent in 2015, down from 1,5 percent in 2014 and 2,2 percent in 2013, according to Statistics South Africa. This was in contrast with National Treasury projections of GDP growth of two percent in 2015, rising to three percent by 2017.

On the other hand, the National Development Plan (NDP), SA's development blueprint, seeks to create 11 million jobs by 2030 and one million of these must come from the agricultural sector, in which SAFCOL operates.

According to the NDP, this envisaged job creation at a massive scale will be supported by a GDP growth target of 5,4 percent on an annual basis. Our strategic positioning as a catalyst in forestry industrialisation and rural economic development puts SAFCOL at the centre of the state's developmental agenda, particularly in the rural areas where our operations are mainly located.

Appointment of the new Board

On 17 August 2015, Public Enterprises Minister, Ms Lynne Brown, appointed a completely new Board of Directors on the basis that the Company needed to be turned around. This was as a result of what appeared to be capped growth and the inability of the Company to diversify its product offering and venture into new markets.

The new Board has every confidence in positive growth at SAFCOL and its value as a strategic asset for government, with unique socio-economic value to bring to rural South Africa as an employer and enterprise development facilitator. This relates especially to the provinces where the Company has operations, currently KwaZulu-Natal, Limpopo and Mpumalanga. Furthermore, that the Company has a critical role to play as a black industrialisation catalyst in the forestry industry.

Timber-frame buildings

The Company is looking at partnerships with industry to invest in new initiatives. SAFCOL has an unencumbered balance sheet and is consequently in a position to raise finance without appealing to government for support. New products are showing great promise, especially timber-frame buildings. Considerable progress has been made with several provincial governments showing keen interest in timber-frame structures, especially for social infrastructure.

As a state-owned Company, SAFCOL has the ability to contribute to government's need to provide swift solutions to pressing social demands without the pressure of high profit returns. The timber-frame project is also an opportunity for new construction skills that will create job opportunities for young people with new skill sets.

Africa opportunities

The African continent presents significant opportunities for SAFCOL, whose current South African forests total about 187 000 hectares, making it Africa's third largest forester. There is continual demand for timber products on the continent, but supply is restricted to comparatively small plantations, opening the way for SAFCOL to address forestry management for other countries through helping them to develop and implement plantation strategies. The Company's Research & Development division has the capacity to assess soil and climate conditions for areas identified for afforestation and then either recommend suitable tree species or develop new species, specially bred to withstand climate change.

Attendance at an African forestry conference in Ghana in March 2016 provided an insight into the continent's forestry status and needs. Forestry commissions in Ghana and Tanzania are responsible for regulations and their enforcement, especially with regard to illegal logging. South Africa is in need of a similar structure to reduce the extensive theft of timber products. SAFCOL is ideally positioned to provide input to government to create the necessary regulations for the benefit of the entire industry.

Vision 2021 – business unusual

The Department of Public Enterprises-approved SAFCOL Corporate Strategy for 2016 to 2021 ('Vision 2021'), authorises a 'business unusual' approach to transforming the business. Product diversification, community enterprise development and a management thrust into Africa will all play pivotal roles in our future growth and success.

The new strategy also addresses vertical and horizontal integration of SAFCOL within the South African economy. Talks are at an advanced stage with relevant state departments with the intention of acquiring additional planted land.

Vertical integration will address increasing processing capacity through partnerships, mostly with black-owned enterprises. The possibilities for down-stream processing are extensive: government departments, CSIR, SOCs, the Department of Trade and Industry, the Industrial Development Corporation and a host of industry-related role players are all potential partners.

Enterprise development opportunities

At the moment, SAFCOL uses only about 60 percent of a felled tree and this presents opportunities for the Company to empower rural communities: a responsibility that is fully acknowledged. To date, 20 youths have been trained in furniture manufacturing, with the products having been donated to schools. These youngsters will be encouraged to set up their own businesses and SAFCOL will guide their entrepreneurial development and provide the support to give them the best possible chance of 'making it on their own'. Rural women have also been trained in silviculture and are already working with SAFCOL as service providers.

Forestry employment and business opportunities are almost endless. High-value aromatherapy oils can be produced as a eucalyptus by-product. Rural communities in SAFCOL's forests in Mozambique have been trained to make wooden boxes for beekeeping, producing the twin benefits of accessible honey and stopping the traditional method of burning the trees to get the honey.

Another opportunity for industrialisation, from small- to large-scale, lies in processing currently unused plant material from felled trees to manufacture energy pellets that have the potential to replace wood collection in the rural communities and also contribute broadly towards green energy generation. Forestry is an ideal candidate to support the Department of Trade and Industry's programme to develop black industrialists.

World Forestry Congress

The Food and Agriculture Organisation of the United Nations (FAO) held its 14th World Forestry Congress in Durban in September 2015: the first time in Africa.

It was a forum to showcase new technologies and products, highlighting the ever-widening value of timber, whether replacing products made from crude oil, adhesives or engineered wood techniques that can be used for building skyscrapers. The congress focused on Africa and was a wonderful advertisement for South Africa.

Board investigations

Investigations instigated by the previous Board and carried over by the new Board of Directors into the Auditor-General's governance concerns revealed serious weaknesses in the procurement processes, and areas where policies either did not exist or were not applied. In addition, assets were identified, including land, vehicles and processing plants – that were not included in the asset register. Ongoing investigations will result in disciplinary action and probable criminal proceedings.

In December 2015, the Chief Executive Officer and Chief Financial Officer resigned. An Acting Chief Executive Officer, Gabriel Christiaan Theron, started with SAFCOL at the beginning of January 2016. I am more than happy to be able to report that, in the first three months of the year, in addition to Company operational demands, he has addressed and actioned the Auditor-General's concerns. A new Delegation of Authority has been approved and is clear, precise and relevant. A number of policies, including a Supply Chain Management policy, have been approved and we now operate a centralised, planned, budget-linked procurement process. Newly introduced controls and enforcement of policies are already producing cost savings.

Transformation

While operational effectiveness and efficiencies are essential for SAFCOL to provide an effective platform for more idealistic programmes, it must never be ignored that transformation is a focus area for the Company. Our target is to have women as at least 30 percent of our workforce: the actual status is currently being audited. We will most certainly encourage the appointment of more, and suitably qualified youth and women into management and executive positions. The level of employment of people with disabilities is unsatisfactory and is receiving attention.

There has been a visible change in employees' attitudes to SAFCOL's sense of meaning to them, together with a sense of excitement about the changes in the Company and where it is going. Change is not confined internally: the industry is well aware of the changes taking place and stakeholder interaction is generating a heightened level of cooperation.

Land claims continue to provide a major challenge to SAFCOL's business stability and sustainability. The Company is currently working with the Department of Rural Development and Land Reform, the Land Claims Commission and affected communities to develop a settlement model. This entails recipients of approved land claims entering into a long-term lease with SAFCOL to confirm their title to the land and agree on a mutually beneficial partnership, allowing SAFCOL the right to manage the land as a commercial forestry operation.

Thanks and acknowledgments

It is appropriate to thank the previous SAFCOL leadership for their contribution in preserving this national resource that we found debt free.

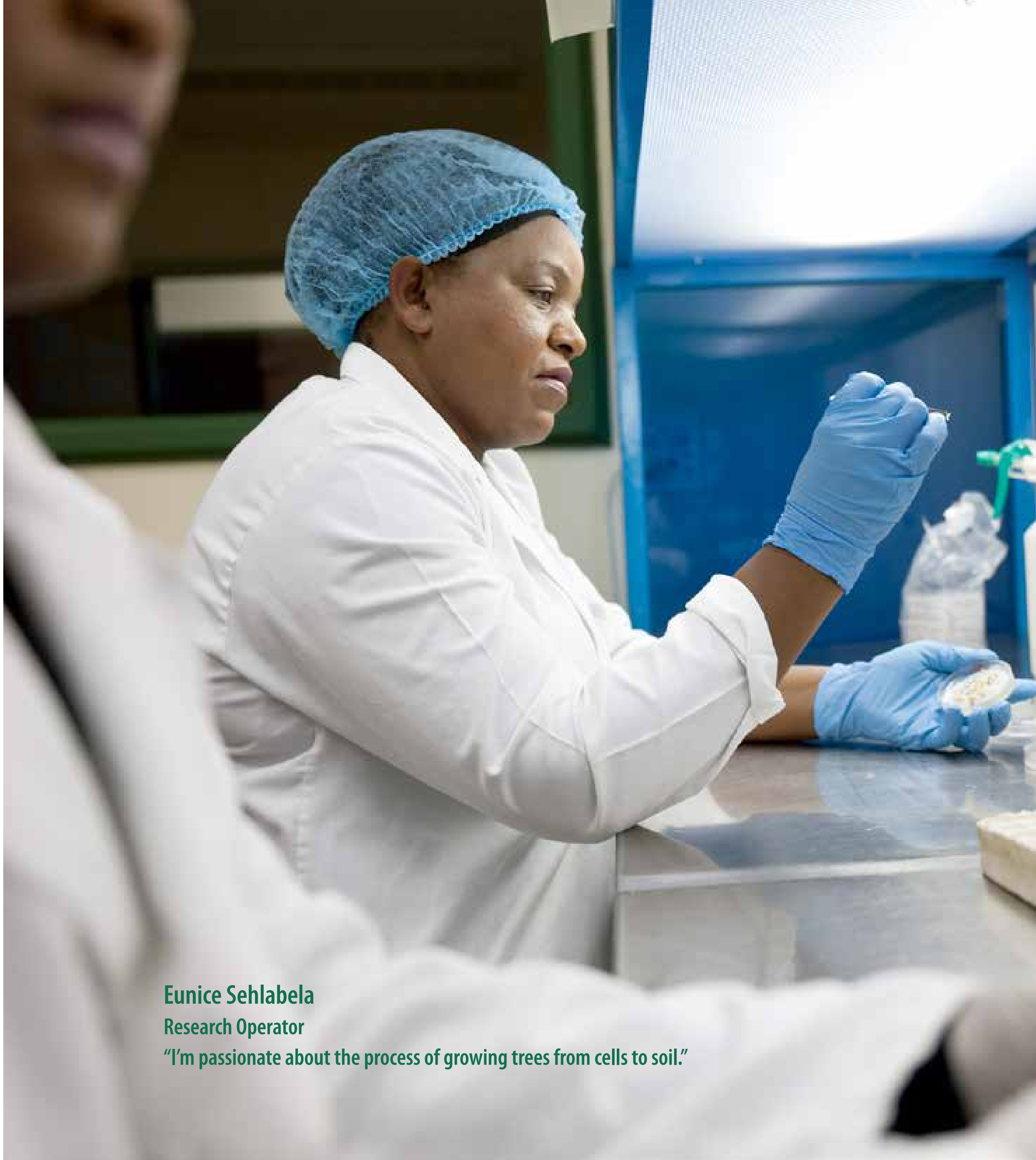
I am almost at a loss to know how to express my gratitude for the involvement and commitment of the members of the new Board of Directors. With special dispensation, we have been meeting monthly since August 2015 (as opposed to the normal quarterly meetings) to address the numerous requirements to turn SAFCOL around, and that is without counting members' additional involvement on Board committees.

Special thanks goes to our Minister, Lynne Brown, for her decisive action in selecting and appointing an entirely new Board whose members have brought such diverse skills, energy and involvement to SAFCOL. Deputy Minister, Bulelani Magwanishe, has been particularly helpful and I would like to thank him and staff members of the Department of Public Enterprises for recognising and supporting the new energy and direction at SAFCOL.

It is with confidence that I predict that the one billion turnover target will be broached within 18 months. I have no doubt that a refocused, well-managed and energised SAFCOL will be seen as playing a major strategic role in forestry management, both in South Africa and on the continent, as well as forestry industrialisation, enterprise development and social responsibility in coming years. We are well on the way to a forestry revolution!

Lungile Mabece

Chairperson



Eunice Sehlabela
Research Operator
"I'm passionate about the process of growing trees from cells to soil."

3.2 Acting Chief Executive Officer's review

Despite challenging socio-economic conditions under which SAFCOL traded, management continued to implement, with vigour and tenacity, the dual mandate of running a commercially viable business whilst also delivering on the socio-economic development of communities surrounding our operations, as spelt out in the Shareholder's Compact for the 2015/16 financial year.

The 2015/16 financial year was also characterised by significant changes at the Executive Committee level. This includes, subsequent to joining the Board in August 2015, being invited to lead the Company as Acting Chief Executive Officer in mid-December 2015.

Group Overview

In the year ending March 2016, the Group incurred an operating loss of R125,5 million in comparison to the operating loss of R14,7 million in the previous year. The major drivers for the poor performance were lower lumber sales due to the delayed commencement of operations at one of our custom-cut operations in the Processing division and weak controls over expenditure due to decentralised procurement and higher operational and employee costs.

Operating costs grew by 28,8 percent, year-on-year (from R245,8 million in the prior year) to R316,6 million in the period under review: 4,4 percent higher than budget. Major contributors were employee costs, which at R333 million were 12 percent above budget.

Expense issues are being addressed through the development and implementation of new policies and procedures, which are already producing savings through better control over expenditure. Centralisation of procurement has also assisted a great deal in improving the internal control environment.

Saw logs sales

Log sales of R583,33 million were achieved: 11,3 percent above budget and 9,8 percent above the log sales recorded in the prior year. Although log volumes were 10 percent below budget, the positive variance of 23,8 percent on the average log selling price has resulted in log sales revenue being above budget. An average selling price of R561 per cubic metre was achieved due to a richer log mix, consisting of larger diameter logs. Sales to our own operations were below budget, mainly due to machine breakdowns, as well as lower intake volumes at Timbadola and lost volumes at one of the custom-cut operations.

Lumber sales

Lumber sales of R277,07 million were achieved in the year under review. This is 25,9 percent below budget due to lower intake volumes, resulting in lower production output. Volumes were below budget by 24,4 percent, mainly due to the custom-cut operation contract not being in place for the first five months of the financial year.

Timbadola Sawmill

Timbadola Sawmill once again achieved record intake volumes for the year at 131 179m^3, although not reaching the 150 000m^3 target. It also exceeded its budgeted average lumber selling price by R28 per cubic metre. This was achieved despite the sawmill using outdated technology, and inefficient processes and material flow.

At the moment, approximately 75 percent of saw logs are sold and the remainder processed. This is simply not sustainable and the drive for vertical integration in the new strategy will, over time, lead to up to 80 percent of saw logs being processed by SAFCOL or through partnerships and enterprise development initiatives. Not only will this create downstream value through beneficiation, it will also greatly enhance SAFCOL's role as a forestry industrialisation catalyst. It is imperative that we take advantage of SAFCOL's saw logs, especially as they are rated as of the highest quality in the world.

In October 2015 the Board approved the Timbadola upgrade project, with an estimated capital cost of R322 million, to address the challenges at Timbadola and to increase internal processing of saw logs.

Currently, 53 percent of cut trees is processed and of the remaining 47 percent, some is consumed in generating hot water for drying kilns, some is chipped and the remainder is left on the ground in the plantations. This provides ideal material for 'co-generation': a process whereby suitable material is used to generate electricity.

The by-product of heat generation can be harnessed at plant level, rather than being released into the environment. The generated electricity (5MW at Timbadola) would be utilised to power the sawmill, with any excess being fed into the national grid.

Apart from direct commercial and environmental benefits, co-generation creates ideal opportunities for enterprise development through partnerships with B-BBEE start-ups.

Research and development

SAFCOL has a state-of-the-art research centre on the Tweefontein Plantation outside Sabie. This centre conducts research on silvicultural practices, pest and disease tolerance, genetic improvements, wood quality testing, and growth and yield modelling. This includes research into new hybrid species to achieve better quality timber, improved wood properties and future volume growth. Based on preliminary results from trials, there are clear indications that new hybrid species are yielding more volume at an earlier age, and are more resistant to diseases and pests than current species. There is also a nursery on the Tweefontein plantation that provides plants for SAFCOL's plantations and sells plants to the private sector.

IFLOMA

The approximately 35 000 hectares of land held by SAFCOL's subsidiary, IFLOMA, in Mozambique is a drain on the Company's resources as it is currently under care and maintenance. A turnaround strategy is being prepared to either start harvesting and planting the plantations, as well as restarting the sawmill, or to sell the entity. The implementation of a decision in this regard will be undertaken in the 2016/17 financial year. Any decision will also include the future of a further area of about 30 000 hectares owned by the Company near Beira.

Timber-frame structures

It is a Company responsibility to invest a percentage of turnover in social programmes. So far, this has resulted in the donation of about 18 clinics and schools, all timber-frame structures, over the past five years. These have found high levels of acceptance from the recipient communities and have consequently created great interest from various provincial departments. Some of the advantages of these structures are that they are environmentally friendly, being constructed from renewable resources, and the speed of delivery (from six to eight weeks). In addition, their excellent insulation qualities ensure long-term cost savings through lower operating costs. An intangible benefit is their high aesthetic appeal.

The structures are treated with fire retardants and insect repellant, ensuring that the buildings have an extended lifespan. As communities become more familiar with the qualities of timber-frame structures, the possibility of their use for RDP and low-cost-to-purchase housing should not be overlooked. There is concern that there has been insufficient transformation in the forestry industry and timber-frame structures have great potential for downstream beneficiation through partnerships with start-up businesses and 'smaller players'.

Timber-frame structures were identified as a key project as part of SAFCOL's vertical integration strategy. Consequently, a feasibility study and a commercialisation plan for timber-frame structures was completed by external consultants. A project steering committee has been formed and a business case for the establishment of a timber-frame manufacturing plant will be submitted for the Board's consideration in the forthcoming financial year.

Forestry management services

Forestry management services has the potential to extend SAFCOL's market into Africa and, closer to home, the Department of Agriculture, Forestry and Fisheries' (DAFF's) extensive land holdings, which are mostly poorly managed and under-utilised. Engagements between the various stakeholders took place early in 2016 and included SAFCOL, DAFF, the Department of Public Enterprises and the Department of Trade and Industries. The process will continue in the 2016/17 period.

At the moment, SAFCOL, through its employees, supports about 20 000 households. Further privatisation of state forestry land would run the risk of diluting the effects of SAFCOL's mandate of profitability, social responsibility and a key driver of forestry industrialisation. Extension of forestry land under SAFCOL management would strengthen the benefits that could be brought to rural communities.

Company structure

The SAFCOL organisational structure was reviewed in 2015 and the new structure was approved by the Board in March 2016. The realignment was informed by structural changes as necessitated by the Company's new Corporate Strategy (2016 – 2021).

Under consideration is the expansion of processing capability by creating four regions: North, Central, Highveld and KwaZulu-Natal. Four business units would provide the opportunity for benchmarking and healthy competition, resulting in greater efficiencies and improved profitability.

Sabie project

The largest concentration of KLF plantations is in the Sabie area and a large plant is under consideration. The plant would potentially include a sawmill, plywood plant, an engineered lumber product, such as oriented strand board (OSB) or medium-density fibreboard (MDF), a timber-frame structure manufacturing facility, further downstream manufacturing and co-generation. A detailed feasibility study must still be completed for this project.

Land claims

One of SAFCOL's greatest business risks is the issue of land claims. The process has been protracted and unsatisfactory. As a result, SAFCOL has developed a settlement model considered suitable for settling land claims that affect the state forest land on which it operates. The model is being workshopped with all affected parties, including claimants to solicit 'buy-in' to preferred settlement options.

Information Communication Technology

As part of our turnaround strategy, the Information

Communication Techonology (ICT) model of the Group is being revised with a view of strengthening its governance framework.

Safety, Health, Environment and Quality (SHEQ)

We place significant emphasis on SHEQ. The current Disabling Injury Frequency Rate (DIFR) is 2,4 against an annual target of 1,8. Three of our employees were fatally injured during the current year.

Environment

The Company is fully committed to the continual improvement of environmental performance across all its business activities and recognises that the key environmental impacts of the business are on soil, water, air and biodiversity.

To this end, SAFCOL voluntarily subscribes to, and is certified compliant with, the principles and criteria of the Forest Stewardship Council, ensuring that our forest management systems are environmentally appropriate, socially beneficial and economically sustainable.

Specific initiatives currently under review include the identification, measurement and planned reduction of waste and energy/resource consumption. In addition, SAFCOL representatives have attended DPE-sponsored sustainability workshops to align the Company's sustainability perspectives with that of other SOCs within the DPE fold.

A new brand

A rebranding initiative is well under way and will be implemented in the forthcoming financial year. SAFCOL is not a generally well-recognised entity and most people either don't know of the Company or don't understand its objectives. Unifying the brand and effectively communicating a 'to market' strategy will position the Company for much broader recognition. SAFCOL offers an extraordinarily wide range of employment opportunities in the forestry industry for people with diverse qualifications, skills and experience, and better brand recognition will lead to it becoming a preferred employer.

Company culture

The need for SAFCOL to evolve its culture is evident. The new building will encourage new-generation thinking and energy: a Google-type environment, if you will. Together with our rebranding, it will strengthen the understanding of the Company's direction and inculcate an ethic of ownership and pride in staff members. Creating a sense of competitiveness and innovation will form essential pillars of the already-changing culture. Recognition of excellence through awards will play a role in motivation and creating an ethic of responsibility and accountability.

Technology

Theft of saw logs is an industry-wide problem and SAFCOL will lead the way in pressing for regulation of transport through a system of permits. A large number of trucks carrying logs either have false number plates or none: theft being the predominant reason. Technology, through either satellites or drones, is also being investigated for fire detection and the early detection of lightning, the cause of two employee fatalities in February 2016.

Acknowledgements

This report is an ideal vehicle for me to publicly thank Minister Lynne Brown and the Department of Public Enterprises for their understanding and support of the new business, Board of Directors and management that is SAFCOL today. Also, their assistance with marketing the timber-frame structures to national and provincial government departments has been invaluable.

The support I have received from the Company's executives and senior managers has helped me enormously through a steep and fascinating learning curve: without them we would not have progressed as rapidly as we have. The complete revamping of the management structure necessitated a number of acting positions. These will be addressed and permanent appointments made in 2016.

It has been a privilege to have worked with Lungile Mabece as my chairperson; he is committed, driven and involved, and has led the transformation of the Company with great skill. This has been strongly complemented by an equally committed and involved Board of Directors.

Gabriel Theron

Acting Chief Executive Officer

Norman Khoza

Harvesting Forester

“I’m passionate about the forestry business, and its contribution to rural communities.”

STAKEHOLDER ENGAGEMENT

4. Stakeholder Engagement

SAFCOL manages the state's forestry assets in terms of the Management of State Forests Act of 1992. It operates within a multiple stakeholder environment and its success is dependent on the extent to which it is aligned to the reasonable expectations of its stakeholders.

4.1 Stakeholders

Table 2: Stakeholder Management

Stakeholder group	Major objectives of the stakeholder group	Relevance to SAFCOL in terms of strategy and operations
Shareholder: Department of Public Enterprises	• Aims to drive investment, productivity and transformation in its portfolio of SOCs, their customers and suppliers, to unlock growth, drive industrialisation, create jobs and develop skills	• Obligations in terms of the SIS and the Shareholder Compact • Achievement of KPIs, as per the Shareholder Compact • Operating on a financially sustainable basis and with a positive impact on society
Department of Agriculture Forestry and Fisheries (DAFF)	• Ensures legislative compliance in respect of SAFCOL's obligations in terms of the National Forests Act (1998) and the Management of State Forests Act (1992) • Effective administration of lease rentals	• Sustainable plantation forestry management: FSC certification • Management of category B and C forestry (see strategic initiative on increasing access to DAFF plantable areas/ technical assistance to DAFF in terms of forestry management)
Department of Rural Development and Land Reform	• Effective land restitution to claimants and protection of the State's rights	• DRD&LR framework for land restitution, linked to SAFCOL settlement model • Support provided to the Land Restitution Commission through resources and assistance
Department of International Relations and Cooperative Governance (DIRCO)	• Strategic relations with foreign countries	• Planned SAFCOL exports will strengthen relations • Focus on markets in India and China • International expansion into the rest of Africa remains important
Department of Trade and Industry (DTI)	• High value-added manufacturing and export growth, as required by IPAP and the NDP	• Exports and investment in new plant and equipment will contribute to this objective
Other state agencies, such as the CSIR and the Agricultural Research Council (ARC)	• Contribute to the country's national R&D agenda • Relationship with SAFCOL on research and tree breeding for the benefit of the country	• SAFCOL spends about R12 million per annum on R&D • SAFCOL's industrialisation efforts require collaboration with the country's research entities

Stakeholder group	Major objectives of the stakeholder group	Relevance to SAFCOL in terms of strategy and operations
Regulators	• Ensure fair competition in the forestry sector	• Continuous engagement with the Competition Commission regarding what is a fair log price
Land claimants and communities	• Restitution of land rights on state land where SAFCOL manages plantations • Community development and access to economic opportunities	• 61% of SAFCOL land is under claim and the Company aims to become a preferred partner for claimants post settlement stage • SAFCOL plays a pivotal role in developing communities surrounding its plantations as part of its dual mandate
Provincial governments	• Capacity with regard to the rollout of social infrastructure	• Series of presentations made regarding the rollout of timber-frame structures in the construction of social infrastructure such as clinics, schools, etc.
Unions	• Ensuring fair labour practices and a sustainable Company	• Collective agreements • Internal communication programme, succession planning, wellness programmes, transformation forum and fair labour practices
Employees	• Ensuring fair labour practice and a sustainable Company	• Internal communication programme, succession planning, wellness programmes, transformation forum and fair labour practices
Customers	• Quality of product • Fair pricing • Customer service	• Credit management is now more client orientated • Extended payment terms offered to customers in the economic downturn, coupled with effective credit management
Media	• State-owned Companies (SOCs) are owned by SA taxpayers and the media, the watchdog on behalf of the public, plays a crucial role in ensuring they are managed efficiently and in the best interest of the country	• Reputation management • Change the narrative of SOCs from negative to positive • Work with media as partners in telling a proudly SA story. • Promote SOCs as engines of economic growth in SA
Parliament of the Republic of South Africa	• Strict adherence to PFMA & PPPFA in the management of SAFCOL's finance and procurement processes	• Approval of PFMA applications
Mozambique Government	• IFLOMA operations	• Sustainability of IFLOMA

Elias Kubayi

Driver Operator at Entabeni Plantation, Limpopo

“I love working with people and using cutting edge forestry machinery in our business.”

ACTING CHIEF FINANCIAL OFFICER’S REVIEW

5. Acting Chief Financial Officer's review

FINANCIAL HIGHLIGHTS

Group equity value	R3,2 billion
Biological asset value up 0,6% to	R3,8 billion
Revenue up 0,6% to	R903 million
Average log selling price up 8% to	R561m^3
Average lumber selling price up 5,6% to	R2 643m^3
Sawmill record intake volumes of	131 179m^3
Group asset value of	R4,6 billion

The year under review has been a challenging one for the Group, which includes, subsequent to joining the Board in August 2015, being requested to act as the Chief Financial Officer from mid-March 2016. Other challenges included the conclusion of a number of initiatives and exercises which had a significant impact on our reported results. The significant initiatives and exercises that necessitated the prior period restatement included:

- The verification of plant and equipment at year-end and the rectification of the fixed asset register; and
- The rectification of the prior period error relating to the accounting treatment of the minority shareholding.

Minority shareholding

The minority shareholding is inextricably linked to the restructuring processes that led to the creation of SAFCOL in 1992. This saw SAFCOL holding interests in a number of privately-held companies operating in the forestry industry. The role of SAFCOL in respect of the minority shareholding was envisaged as that of a trustee and not that of a beneficial owner. The accounting treatment in previous reporting periods did not follow this understanding and, as such, the minority shares were treated as a non-current asset held-for-sale.

The effect of this prior period error is a reduction of R 42 million in the investment income and, consequently, the profit before tax for the year ended 31 March 2015. This reduction is the dividend income that was received in respect of the minority shareholding. The cumulative effect of the prior period restatement is a reduction to retained earnings of R 431 million for the year ended 31 March 2015, this being the fair value adjustments on the minority shareholding over a number of reporting periods.

The Group will ensure that the actual transfer of the minority shareholding complies with the relevant regulatory frameworks and will source the requisite regulatory approvals and ensure the appropriate discharge of obligations imposed by the Public Finance Management Act No. 1 of 1999.

Fixed asset verification

The Group embarked on a verification exercise of all its plant and equipment at year-end. The purpose of the exercise was to rectify the fixed asset register and to ensure the accuracy, completeness and validity of reported information. The fixed asset verification exercise saw an increase in operating expenditure of R 18 million and the same reduction in profit before tax in the Statement of Profit and Loss for the year ended 31 March 2015.

Performance for the year

The Group's revenue remained relatively flat with a marginal increase of 0,6 percent to R 903 million. This marginal increase was achieved despite a 12 percent reduction in lumber sales volumes. The increase can be primarily attributed to the eight percent increase in the average selling price of timber (logs) from R 519 m^3 to R 561 m^3 and the 5,8 percent increase in the sawn timber (lumber) average selling price from R 2 499 m^3 to R 2 643m^3.

The Group posted a loss before tax and fair value adjustment of R 119 million, this being a significant decline from the restated R 4 million loss before tax and fair value adjustment recorded in the previous financial year.

The loss can be attributed to a combination of factors, some of which are discussed in detail below and include the Group practice of sweating assets, through the continued use of aged assets. This practice increased our asset management related expenditure by 17 percent to R 186 million. This amount represents costs that were necessarily incurred to repair aged assets due to frequent breakdowns.

The Group administration and selling expenditure increased year-on-year by 40 percent to R 138 million. Selling and administration expenditure was incurred in support of the long-term Group strategic objectives that include, ensuring the Group's readiness for the expansion down the forestry value chain and product diversification. Significant costs were also incurred in support of the JD Edwards Enterprise Resource Planning System (JDE).

Employee costs increased by 15 percent year-on-year to R 333 million, this can be attributed to the implementation of the re-grading exercise and increases in fire-fighting standby allowances.

Depreciation and amortisation of assets for the year decreased by 10 percent to R 55 million, this being the effect of the revision of the useful lives of assets during the asset verification exercise. Depreciation and amortisation is expected to increase in line with the capital replacement programme and in terms of the vertical integration as envisaged in the Group strategic objectives.

The biological asset increased marginally by R 21,7 million. This marginal increase can be attributed to an increase in the selling price assumption that underpins the valuation of the biological asset. The biological asset in the IFLOMA operations reduced by seven percent during the period under review to R 41 million; this decrease can be attributed to higher operational costs associated with the IFLOMA operations, located in Mozambique.

The tax credit of R 47,7 million comprises a current tax credit of R 25,7 million and a deferred tax credit of R 22 million. The current taxation credit can be attributed to an overprovision of current taxation of R 25 million in the previous reporting period. The deferred tax can be primarily attributed to an under provision of R 16 million in the previous reporting period.

The aggregate effect of the above was a decline in EBIDTA and a net loss for the year of R 49,7 million.

Working capital management

Cash and cash equivalents decreased by 29 percent from R 293 million to R 208 million at 31 March 2016, this is primarily due to the fact that the net cash generated from operating activities was not sufficient to cover the cost of these activities.

The effect of the operational losses, the reclassification to trade and other payables of the investment income in respect of the minority shareholding and the Group's continued support of the IFLOMA operations have put tremendous pressure on the cash flows of the Group. This pressure is clearly evidenced by the marginal deterioration in the working capital targets of the Group.

Capital Expenditure

The Group invested R 49 million in property, plant and equipment, which was primarily utilised for the acquisition of forestry and processing assets. This represents a 44 percent increase from the prior year's capital investment in property, plant and equipment of R 34 million. The capital was invested to maintain the capacity of the forestry and processing operations.

Performance against Shareholder's Compact

Each year, in consultation with the Shareholder, the Group agrees on performance objectives and key performance indicators. Performance against performance objectives is set out in page 38-41. In measuring its performance against these objectives and for the above detailed reasons, the Group achieved 20 percent of the Financial and Commercial Sustainability performance objectives during the year under review. The Financial and Commercial Sustainability performance indicators are the cornerstone of any business and as such the Group is focused on addressing our non-performance against these objectives.

Prospects and financial targets

Given the significant investments that will be necessary to execute the Group strategic objectives, attention will be focused in the year ahead, on improving liquidity and profitability levels by reducing the operational cost base, overheads, improving operational efficiencies and achieving cost-reflectivity in the average selling price of lumber and timber.

The Group continues to maintain low gearing levels with a 30 percent increase in interest-bearing debt to R 71 million in the year under review. The low level of gearing and the improved liquidity and profitability levels will ensure the Group's capacity to fund the Group strategic objectives through debt.

Financial risk management

Financial risks related to funding, interest rates and foreign exchange are managed by the Group Treasury function. Short- and long-term funding requirements are assessed to optimise the funding structures and liquidity risks associated with borrowings. These are managed by staggering the timing of maturities of borrowings and maintaining appropriate short-term committed and uncommitted banking and debt facilities.

We are mindful of the significant financial commitments that will be made in terms of the Group strategic objectives, including the commensurate funding and we will carefully consider the impact on the Group and the ability to fund all such objectives.

Sakekile Baduza CA (SA)

Acting Chief Financial Officer

PERFORMANCE AGAINST SHAREHOLDER'S COMPACT

Elmon Ratshalingwa
Supervisor: Plumbing and Carpentry
"I am passionate about furniture manufacturing."

6. Performance against Shareholder's Compact

2015/16 SHAREHOLDER'S COMPACT MATRIX

Table 3: Shareholder's Compact

Status Legend Key indicating full year target achievement	
Target not achieved	Target achieved

Strategic Intent	KPA	Proposed KPI	2015/2016 Full Year		Reasons for Non-Performance
			Target	Actual	
Financial and Commercial sustainability	Financial Returns	EBITDA/ Revenue [%]	3	-7.8	Losses mainly due to the underperformance of lumber sales and higher than anticipated operating expenditure. Refer to CFO report for additional detail regarding non-performance.
		Return on equity excluding fair value movements and translation gains (losses) [%]	1.5	-1.5	Losses mainly due to the underperformance of lumber sales and higher than anticipated operating expenditure. Refer to CFO report for additional detail regarding non-performance.
	Credit-worthiness	Cash Interest Cover [No.]	1	-19.5	Losses mainly due to the underperformance of lumber sales and higher than anticipated operating expenditure. Refer to CFO report for additional detail regarding non-performance.
	Working Capital Management	Current Ratio [No.]	≤3.5	1.7	
		Cash Ratio [No.]	1.5	0.8	Underperformance of lumber sales, higher than anticipated operating expenditure and the transfer of the minority shareholding to trade and other payables.

Strategic Intent	KPA	Proposed KPI	2015/2016 Full Year Target	2015/2016 Full Year Actual	Reasons for Non-Performance
Sustainable Forest Management and Expansion	Area of forest under mngt.	Total gross stocked area			
		Maintenance of planted area in SA [Ha]	121 000	121 637	
		Mozambique: Current area IFLOMA 1 [Ha]	16 178	16 273	
		Expansion of planted area			
		IFLOMA 1 [Ha]	1 000	129.03	Budget was not set aside pending the conclusion of the feasibility studies and droughts limited the planting process.
		IFLOMA 2 [Ha]	1 000	52.53	Budget was not set aside pending the conclusion of the feasibility studies and droughts limited the planting process
		Temporarily unplanted area – % can vary due to planting season			
		South Africa [%]	3	2.1	
		Mozambique (IFLOMA 1) [%]	13	8.0	
	Area of forest under management which is fully certified to FSC or PEFC standard	% of total forest area in South Africa [%]	100%	100%	
		% of total forest area in Mozambique [%]	Begin pre-cert. audits	Care and maint.	Budget for certification was not set aside pending the conclusion of feasibility studies.
	Timber Processing	South African operations			
		Volume Timbadola [m^3]	150 000	131 179	Aged equipment and frequent breakdowns impacted our ability to meet the target.
		Volume Custom CUT [m^3]	150 000	82 933	The Ringkink custom-cut contract was only approved for an 8 month period effectively reducing the intake.
	Vertical Integration	Creation of furniture manufacturing business [No.]	Create at least 1 business with a partner	Limpuma Furniture Cooperative established	
		Industrial production process of Timber Framed Structures	Sell the plan and sign MoU with at least 1 partner.	Professional Engagement with COENG Consulting and Construction Engineers	

Strategic Intent	KPA	Proposed KPI	2015/2016 Full Year		Reasons for Non-Performance
			Target	Actual	
Socio economic transformation	Agroforestry	Assessment and development of Implementation plan towards Agroforestry business	Implement at least 1 identified project in terms of the agro-forestry plan.	One project identified and implemented in Limpopo	
	Focus on Safety	Fatalities index [No.]	0	3	1 chainsaw employee killed in Oct 2015 at Wilgeboom, 2 employees killed in lightning strike at Blyde March 2016
		DIFR Index [No.]	1.8	2.4	NB: Includes fatalities. Poor injury performance in Q4. Many 1/2 day "sympathy bookings" to be better managed going forward
	Skills development	Total number of student internship and Graduate trainees [No.]	20	29	
		Total number of Artisans trainees [No.]	10	10	
		Engineering trainees [No.]	5	5	
		Total number of Sector specific trainees: Forestry and Processing learnerships [No.]	85	85	
		Training spend [ZAR / %]	3% of total employee costs	16 709 862 5.0%	

Strategic Intent	KPA	Proposed KPI	2015/2016 Full Year		Reasons for Non-Performance
			Target	Actual	
Socio economic transformation	Employment Creation	Foresters and Wood Technologists [No.]	8	13	
		Indirect jobs (created through suppliers, special projects, including procurement: e.g. jobs required for infrastructure projects) [No.]	1 800	-	Ongoing engagement with Shareholder regarding the definition of indirect jobs.
		Employment Equity Contribution: Number of black management [No.]	50	52	
		Number of black females at management level [No.]	23	18	SAFCOL would have achieved the target, but regretfully during Q3 and Q4 there were resignations of 6 Black Female Senior Managers. The CEO, CFO, SE: HCM, Senior Manager: Learning and Development, CRO, Senior Manager: Strategy, Planning and Performance. Furthermore, there was a moratorium on recruitment during Q4.
		Number of black people with disabilities	14	15	
	Procurement	B-BBEE Contributor Level [No.]	2	2	
		Local Content	50%	81%	
		Procurement spend on marginalised Groups [%]	25%	96%	
	Corporate Social Investment (including Social compact)	Enterprises Development Spend [ZAR]	2 million	1 910 259	The budget was only approved in the latter part of the year this delayed the delivery.
		Socio Economic Development Spend (Including education, health and sports) [ZAR]	8 million	7 530 572	The internal SAFCOL budget allocated was R7.1 million

6.1. SAFCOL's value creation model

Inputs

Financial Capital
- Revenue from the sale of forest products, sawn timber (lumber) and other value added products: R903 million
- Revenue growth 0,6%
- Share capital: R318 million
- Cash and cash equivalents: R208 million
- CAPEX: R49 million

Manufacturing Capital
- Property, plant and equipment: R49 million
- ICT infrastructure
- Export related infrastructure

Intellectual Capital
- Research and development: seed, tree improvement, growth and yield, wood quality and plant propagation
- Cutting edge nuresery facilities
- Membership: Institute of Commercial Forestry Research (ICFR); Forest and Agricultural Biotechnology Institute (FABI); and International Union of Forest Research Organisations (IUFRO)
- Custodian of all state commercial plantation interest
- FSC Certification

Human Capital
- 2,310 employees
- R333 million workforce expenditure
- Total R144,000 average personnel cost per employee

Social and Relationship Capital
- Shareholder: Department of Public Enterprises
- Government entities, e.g. Department of Rural Development and Land Reform
- Subsidiary companies
- Stakeholders in the SAFCOL forestry value-chain
- Communities
- Employees
- Investor relations
- Media, NGOs and academic stakeholders
- Provincial Government and neighbouring municipalities

Natural Capital
- Natural forests and plantations
- Natural resourced consumed:
  - Water
  - Energy (electricity and fuel)

Context

Operational Context
- 12 National Outcomes and the National Development Plan (NDP)
- Shareholder compact, clarigying SAFCOLS's mandate
- Statement of Strategic Intent by the Shareholder Representative (Minister of the DPE)
- Companies ACT, PFMA and King III
- Management of State Forests Act
- DPE Transformation Imperatives
- Policy environment e.g. NDP CRDP, APAP, NGP, IPAP and IPAP 2

10 Key risks
1. Reduced market demand
2. Inability to penetrate the market
3. Non-compliance to legislations might result in losing the license
4. Severe impact on the sustainability due to baboon damage
5. Failure to recover the expected return on short term objectives might impact SAFCOL's sustainability
6. Failure to retain Plantable areas
7. Inability to utilise all the available resources optimally
8. Resistance to organisational change
9. Lack of skills and resources to implement strategic objectives
10. Disruption in business continuity due to inefficiency use of the system

Opportunities
- New product development
- R&D into other forestry-related business areas / products
- Improving the lumber market
- Faster growing hybrids
- Flexible harvesting policies
- Be a catalyst of rural economic development
- New market expansion

Strategic Imperatives

Financial sustainability
- Revenue growth 5%
- Cost control
- Profitability

World-class operations and processes
- Modernisation
- Optimisation
- Efficiency
- Broadened R&D capability
- Quality and standards
- Risk management

Human capital and transformation
- High performance culture
- Appropriately skilled and diversified work force
- Skills pipeline
- Succession
- Employer of choice

Satisfied customers and stakeholders
- Engaged stakeholders
- Supplier of choice
- Brand re-positioning

Focus Areas

Economic sustainability
- Financial sustainability
- Job creation
- Private and public sector collaboration
- Industrialisation
- Cost reduction
- Asset management

Social sustainability
- Facilitate land claims
- Proactive community engagement
- Skills development
- Rural development and poverty eradication
- Social transformation and B-BBEE

Environmental sustainability
- Maintain FSC certification
- Forestry charter implementation
- Green economy
- Protected and enhanced environmental assets and natural resources

Business Model

R&D → Forestry → Logs (25%) → Internal Processing (Timbadola, Custom cut)
- Structural Lumber + chips
- Broomsticks
- Desks
- Structural Lumber
- Chips
- Clear + Semi-clear

Forestry accounts for 60% of SAFCOL Revenue

Logs (75%) → External Market
- Saw logs
- Pruned logs
- Pulp
- Biomass

Outputs

Financial Capital	Manufactured Capital	Intellectual Capital	Human Capital	Social and Relationship Capital	Natural Capital

Outcomes

Economic sustainability	Administrative sustainability	Social sustainability	Environmental sustainability

Figure 4: SAFCOL's Value Creation Model

6.2. SAFCOL's Strategic Model

SAFCOL has graphically modelled its strategy to demonstrate the logical flow of inputs into strategic objectives, that will produce the desired outputs of the Company. The strategic drivers link the Company's strategy to its value creation model, as illustrated below.

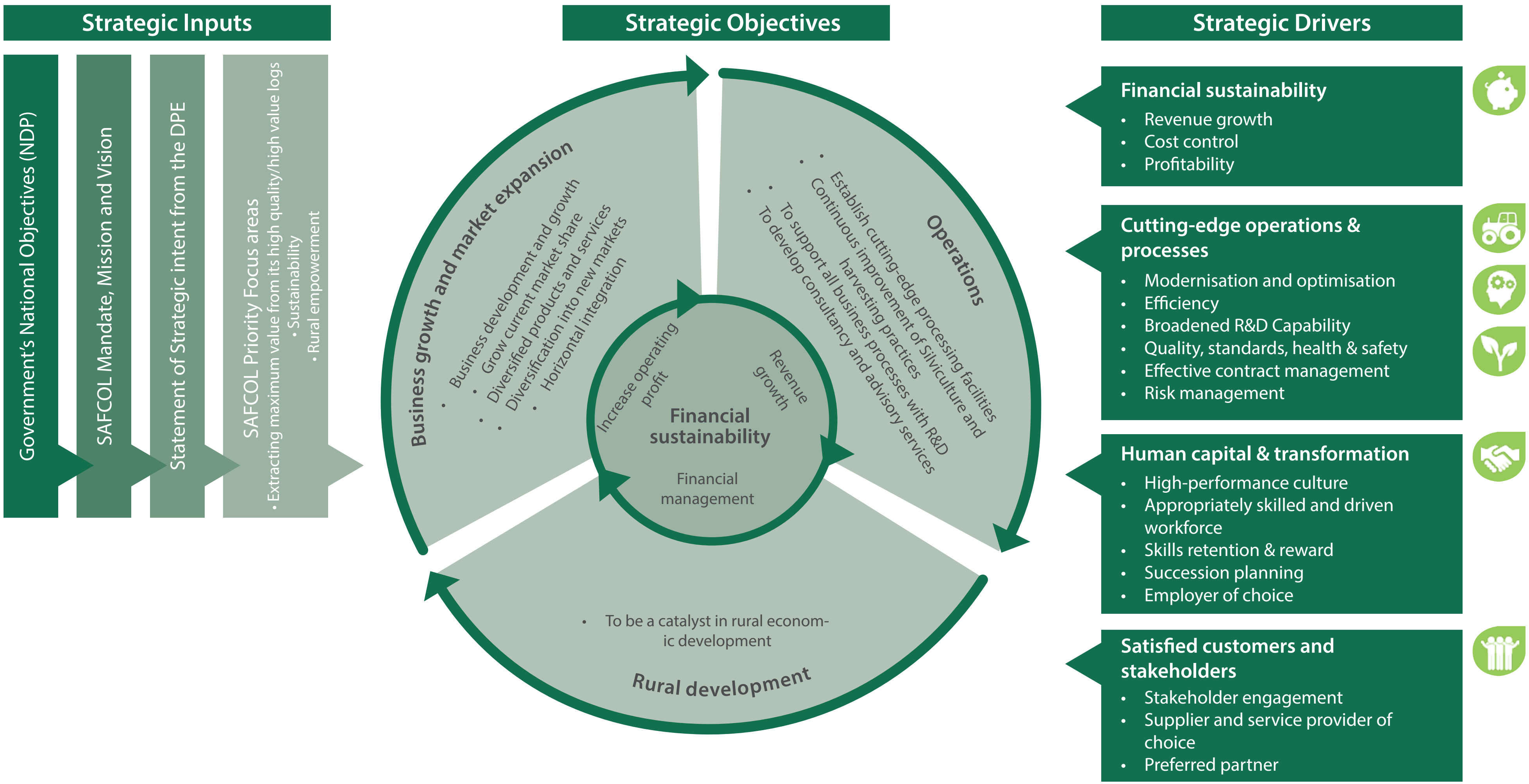


Figure 5: Strategic model

SAFCOL's strategy is aimed at repositioning the Company in terms of its operational and strategic alignment within the forestry sector and growing the Company in terms of its market share and reach. SAFCOL will achieve the envisioned operational and strategic realignment by carefully orchestrating the horizontal and vertical integration of the group.

Our strategy will be facilitated through the following strategic objectives

Financial sustainability:

- Revenue growth;
- Financial management; and
- Increase operating profit by at least five percent per annum.

Growth and new markets:

- Business development and growth;
- Grow current market share;
- Diversified products and services;
- Diversification into new markets;
- Horizontal integration; and
- Vertical integration.

Operations:

- Establish cutting-edge processing facilities;
- Continuous improvement of silviculture and harvesting practices;
- To support all business processes with R&D; and
- To develop consultancy and advisory services.

Rural development:

- To be a catalyst in rural economic development.

OPERATIONAL PERFORMANCE - KOMATILAND FORESTS

Lulamani Tshiambaro
Chainsaw Operator at Entabeni Plantation, Limpopo
"I love my job and maintaining high safety standards."

7. Operational Performance – Komatiland Forests

7.1. Forestry Operations

The Forestry division focused mainly on management and protection of the growing stock to sustainably provide logs to the industry and internal processing mills. A sustainable log volume is sold annually, generating revenue for the business. KLF harvested a total of 1 254 832m3 against a budgeted 1 331 831m3 or five percent below the full year's budget.

Temporary unplanted area (TU): The hot and dry weather negatively affected establishment activities. Despite the drought challenges, a good temporary unplanted area (TU) of 2,1 percent was achieved against a Shareholder's Compact target of three percent.

Sustainable forest management: The Company maintained the target of 100 percent Forest Stewardship Council (FSC) certification for the period under review. The FSC certificate was maintained despite an initial suspension related to weeding.

Objectives for the 2015/16 financial year aligned to the KPI's in the Shareholder's Compact:

- Maintain planted area and a TU of less than three percent;
- Achieve timber income;
- Achieve forest profits;
- Lower production costs;
- Development and management of the annual plan of operation (i.e. harvesting, thinning, pruning, planting, weeding and forest protection);
- Reduce the area lost to fires to less than one percent;
- Focus on safety: lower DIFR during the financial year; and
- Maintain FSC certification.

Performance against the 2015/16 financial year objectives:

- Achieved and exceeded the timber income target for the year by two percent;
- Overall Forestry division cost saving of 10 percent achieved;
- Achieved and exceeded the Forestry division profit target for the year by 39 percent;
- Achieved a TU of 2,1 percent, which is within the Shareholder's compact of three percent;
- Planned thinning hectares are behind schedule;
- Pruning activities are in line with planned schedules;
- Sales volume was six percent less than planned;
- A DIFR index of 2,4 and three fatalities; and
- FSC certification was maintained.

Highlights from the division for the current reporting year:

- Oversight visits to SAFCOL operations by: newly appointed SAFCOL Board of Directors, Communications and Public Enterprises Committee of the National Council of Provinces and the Department of Public Enterprises;
- The Executive Development Programme (EDP) and staff development programme were concluded successfully through the Gordon Institute of Business Science (GIBS);
- Fires: There was no major fire damage during the year, despite the dry weather conditions;
- Long service awards: The Company celebrated the commitment and loyalty of its employees by presenting long-service certificates; and
- Community Foresters: The appointment of three Community Foresters for the division will strengthen the relationship between SAFCOL and its surrounding communities.

Future outlook:

- Employment creation from the communities living adjacent to our plantations;
- Reduce operating costs;

- Achieve set financial targets (timber revenue and forest profit);
- Maintain 100 percent of the area under certification in South Africa;
- Focus on agroforestry (develop implementation plans);
- Maintenance of planted area (121 000ha in South Africa); and
- Training and development of employees.

7.2. Land Claims

SAFCOL operations in Limpopo, Mpumalanga and KwaZulu-Natal are affected by land claims. Most of the land on which SAFCOL operates is leased from the state, and SAFCOL does not have the delegated mandate on the resolution of land claims. Our records reflect that approximately 61 percent of our operational land is affected by land claims. SAFCOL has therefore reinforced its responsibility to contribute successfully in resolving all the land claims affecting its operations.

Following the instruction to facilitate the resolution of land claim in 2009, SAFCOL established the Land Claims division. The aim of the division is to facilitate the successful and timeous settlement of land claims, according to a mutually beneficial settlement model as per the processes prescribed in the Restitution of Land Rights Act, as amended. The division is also accountable for claims settlement within the SAFCOL group, all matters relating to land claim processes and overseeing the settlement process. This includes the development of a policy, guidelines and processes to ensure the successful resolution of land claims.

Objectives for the 2015/16 financial year:

- Maintain a good working relationships with relevant external and internal stakeholders;
- Facilitate regular stakeholder meetings to review progress on land claims;
- Continue to participate in various forums in an endeavour to facilitate the timeous resolution of land claims;
- Attend and make inputs at high-level meetings held between SAFCOL, the Land Claims Commission, DPE and land claimants to review progress and develop action plans aimed at speeding up the process;
- Offer assistance to the Land Claims Commission to speed up the resolution of claims, i.e. mapping of boundaries; and
- Approve and implement the proposed land claim settlement model.

Highlights from the division:

- SAFCOL has proposed a settlement model (lease-back), which is deemed suitable for settling land claims that affect the state forest land on which it operates;
- SAFCOL, together with DRD&LR, is currently holding workshops with all relevant stakeholders, including claimants, on the proposed settlement model through which title to the land will be transferred to its rightful owners; and
- It is SAFCOL stated intent to be the preferred partner for successful land claimants.

Future outlook:

- To fast track and finalise the restitution process affecting SAFCOL land, the following support is required:
  - Inter-ministerial engagement with counterparts in the Department of Agriculture, Forestry and Fisheries (DAFF) and the Department of Rural Development and Land Reform to solicit consensus on the prioritisation of land claims affecting SAFCOL operations; and
  - Engaging responsible departments (i.e. DAFF and DPE) on the possibility of SAFCOL being mandated to negotiate land claims settlement on state forest land and to be directly involved in the restitution process and negotiating the finalisation of the claim, including the settlement model.

7.3. Processing Operations

The Processing division contains the business units of Timbadola Sawmill in Limpopo and Custom-Cut in Mpumalanga (including two outsourced operations at Ringkink Sawmill and John Wright Veneers), as well as the Lumber Sales and Marketing unit.

The majority of both pine-pruned and sawlog classes are processed into structural lumber products with some appearance grades recovered; these are sold through the centralised lumber sales office in Pretoria. Optimal lumber sales prices are pursued in a very competitive market and efforts are focused on supplying the construction and building industries, which are reliant on consistent product availability, high-quality products and customer service. The business units continuously measure product grade yield with well-managed efforts to improve output quality and quantity, thereby maximising the average lumber selling prices.

The Processing division is responsible for approximately 35 percent of the Company's total revenue through the sale of lumber products and chips. The division is also responsible for processing up to 25 percent of the Company's raw material log resource at a combined volume of almost 300 000m^3 per annum. The processing business units employ in excess of 800 people in mostly rural areas.

The division has initiated a major mill upgrade project at Timbadola that will see the acquisition of cutting-edge sawmilling technology and highly efficient processes, enabling increased production efficiencies that will lead to reduced production unit costs and higher profitability. Investigations into further increasing SAFCOL's timber processing capabilities in other areas are at an advanced stage and could include co-generation initiatives (to produce 'green energy') and additional value-added timber products.

Performance against the 2015/16 financial year objectives:

- Procurement process under way to appoint Timbadola Upgrade implementation partner(s);
- Timbadola new record intake objective achieved for the year at 131 179m3
- A custom-cut proposal is under review;
- Best-ever Company lumber selling price (ASP) achieved and Timbadola beating budgeted ASP by R28/m3; and
- Lumber stock levels at operations at lowest levels due to high product demand.

2015/16 highlights for the division:

- Appointment of two senior managers (SM: Timbadola Sawmill and SM: Custom-Cut), as well as a Timbadola Production Manager in the Processing division from internal candidates;
- Timbadola achieving the highest-ever year-to-date intake volume in 2015/16;
- Timbadola: one of the largest industry employers in the region;
- Custom-cut business unit at JWV remaining profitable for the Company despite paying the highest log prices in the industry (although as an 'internal transaction');
- Lumber stock levels at combined operations at lowest levels ever (less than 5 000m3 at all three sites combined); and
- Overall full year recovery rate for Custom-Cut is 1, 4 percent higher than budget.

Future outlook:

- Commence with actual Timbadola upgrade construction/installation;
- Employ contract workers as fixed-term/permanent contingent at Timbadola;
- Maximise production throughput at Processing operations; and
- Maximise higher-grade output to improve ASP.

7.4. Research and Development

SAFCOL is operating in an environment of increasing global market demand for high quality timber products grown according to sustainable practices. This challenge inspires the Company's forestry scientists to implement modern technologies ensuring that:

- The best genetic material available is planted;
- The material is correctly matched to site; and

- The growing stock is managed following the most appropriate silvicultural practices.

The division's objective is to maximise volume growth, producing wood that is predictable in terms of volume and quality. The team at Sabie Research Centre comprises a diverse group of dedicated scientists and research technicians, concentrating on tree improvement to:

- Increase volume growth;
- Improve stem form and branching characteristics;
- Increase tolerance to disease; and
- Improve wood properties.

Further research aspects include:

- Seed production;
- Storage and testing of seed;
- Distribution of improved seeds for internal use;
- External marketing of improved seed;
- Research into somatic embryogenesis;
- New nursery practices; and
- Growth and yield modelling.

Performance against the 2015/16 financial year objectives:

The following are key achievements of the Research and Development section for the year under review:

- A total of 263,5kg of seed was harvested and cleaned during the period and put into cold storage, while a total of 1 022kg was sold, based on market-related prices. Eighty percent consisted of local sales, six percent was exported and 14 percent was in-house sales; and
- Eight research trials were planted: three trials were from Central America and Mexico Coniferous Resources Cooperative (CAMCORE) and four were in-house. These progeny trials are important for future site species matching and improving the breeding material that generates improved seed for commercial reforestation. The CAMCORE trials will help KLF to introduce new species into the breeding programme.

Highlights for the division:

- The Research Centre's hybrid programme has become a crucial focus as the future growth material for forestry;
- A dedicated, controlled pollination team ensures that hybrid seeds are produced for the various hybrids being evaluated;
- The P. patula x P. tecunumanii high- and low-elevation hybrids are being deployed in the field at a commercial level from the Tweefontein Nursery;
- The advantages of this hybrid over P. patula are tolerance to Fusarium circinatum, increased growth (volume) and improved wood qualities;
- Aspects that are being evaluated in new hybrid species through the CAMCORE and in-house hybrid development are:
  - Tolerance to extreme weather conditions such as cold and drought;
  - Disease tolerance; and
  - Improved volume growth and wood quality.
- The Research and Development Centre manages the 127-hectare Palm Ridge Research farm in KwaZulu-Natal, which accommodates pine-seed orchards, clone banks for gene conservation and controlled pollination (CP) orchards; and
- The Research Centre manages the remaining 90-hectare research trials on Kwambonambi and Dukuduku plantations.

Pests and Diseases

Pests such as *fusarium, sirex, leptocybe* and baboons are current threats for the forestry industry. Research is being done to determine how to manage or overcome these threats.

In the year under review, damage to pine trees by the wood wasp *Sirex noctilio* was found on most of our plantations. Biological control agents include nematodes and *Ibalia* wasps. A total of 420 trees were inoculated in 2015/16 with a biological control nematode. Monitoring of dying trees and the deployment of biological control agents such as nematodes and Ibalia wasps was undertaken at Ngome, Jessievale, Uitsoek, Entabeni, Nelshoogte and

Belfast plantations. Since the release of the nematodes at Ngome, Belfast and Jessievale, an average background parasitism of 26 percent was achieved.

The Sirex Control Programme is managed by a steering committee consisting of members appointed by the forestry companies, DAFF, and representatives from the Forestry and Agricultural Biotechnology Institute (FABI) and the Institute for Commercial Forestry Research (ICFR). This committee is focused on coordinating four main components aimed at ensuring that appropriate measures are developed and implemented to minimise the threat of sirex. These are:

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

Leptocybe invasa (a gall-inducing wasp) is a very serious threat to eucalyptus trees in South Africa, spreading rapidly throughout the country, and it recently became active in our IFLOMA plantations.

It mainly occurs only on very young eucalyptus trees in the field, with tip damage to the trees restricting the annual growth. The best available option to deal with the growing invasion is biological control. A team from the Tree Protection Cooperative Programme (TPCP) collected a very promising parasitoid (Selitrichodes) from Australia.

Selitrichodes neseri was released on Wilgeboom during 2012 and results on control are evident.

Since this release, the biocontrol agent was released in neighbouring plantations belonging to Hans Merensky in Tzaneen; our plantations also benefitted from this release.

Fusaruim circinatum is a fungus-causing pitch canker that results in high mortalities in P. patula compartments. Mortalities were minimised in the previous year by the deployment of the resistant hybrid *P. patula x tecunumanii* and *P. patula x oocarpa*. This was made possible through our membership and participation with CAMCORE, FABI and the ICFR.

Damage caused to pine trees on the Mpumalanga escarpment by baboons runs into tens of millions of Rands, with consequences for all wood producers right down the value chain to the final product.

While this type of damage has been reported for quite some time, it appears to be increasing in frequency and severity, to the extent that some research trials have been severely damaged and written off.

Wild-life routers have been erected in an attempt to scare off the animals from the trials, but were not successful. The Baboon Damage Working Group (BDWG) was established to serve as an interCompany forum in which management of the problem can be discussed and action plans devised. Members of the BDWG include industry representatives, as well as representatives from various NGOs and from the government (national and provincial).

SAFCOL took the initiative by launching a research project in 2007 to develop a better understanding of the reasons for the damage and to find solutions to the problem. This is done within the guidelines of current legal requirements and in cooperation with provincial conservation authorities.

Motion detecting cameras were set up covering parts of Tweefontein, Spitskop, Witklip, Brooklands and parts of York Timbers to understand the population of baboons on our plantations. Preliminary results indicated that the population of baboons is high and plantations are not just green deserts, as there were a number of animal species photographically captured on multiple sites.

This study was conducted by the University of Cape Town and a report is being compiled. After recent discussions between the ICFR and UCT, a research programme was launched and will be funded through Forestry South Africa (FSA). The aim of the research initiative between the industry, the ICFR and UCT, will be to finalise a set of guidelines for the management of damage-causing baboons that can be used by FSC-certified companies. There are possibly wider implications for baboon damage relating to other agricultural crops.

Future outlook:

- Ensure that the breeding of our pure pine and eucalyptus species is aligned with the Company strategic objectives;
- Manage the seven research programmes in the division to ensure long-term sustainability for SAFCOL; and
- Conduct relevant research.

7.5. Human Capital Management and Transformation

SAFCOL is committed to creating a work environment where employees are encouraged to reach their full potential, the empowerment of communities within which it operates and the promotion of the growth of the small business sector within its sphere of business influence, in line with the Broad-based Black Economic Empowerment (B-BBEE) policies of the country.

7.5.1. Socio-economic development (SED)

In keeping with the Group's developmental mandate, the socio-economic development of communities surrounding our operations is very important. To this end, thirteen social compacts have been signed with communities surrounding SAFCOL's plantations in all the provinces in which it operates. These compacts are implemented through Joint Community Forums (JCFs) wherein community members and SAFCOL employees participate.

SAFCOL has built its first timber-framed structure school, comprising six classrooms with an administration and ablution block, for Prince Somcuba Primary School in KwaZulu-Natal. Four other state-of-the-art timber-framed structures have been constructed in various communities. The Company has invested more than R3,5 million for all five projects.

The Company has drilled two boreholes for the Songozwi and Emhlabaneni villages to address water shortages. This brings the total number of boreholes drilled over the past five years to twelve.

Table 4: SED projects

Project	Description
Muzomuhle Centre for Senior Citizens	The SAFCOL group has constructed a conventional brick and mortar building, costing more than R1,1 million. The centre is an income-generating project that provides opportunities for local senior citizens of Dun Donald Community to produce artefacts that are sold.
Makgoba Training Centre renovations	A dilapidated training centre, situated in the Tzaneen Municipality, has been renovated for the Makgoba community. It has created 15 jobs for the local community.
Khayelihle Early Childhood Development (ECD) Centre pantry	Khayelihle ECD Centre, situated in Amsterdam, Mpumalanga, was in dire need of a pantry to store food in bulk. The building was constructed and completed for the centre. This project has created 18 jobs for the local community.
Forest awareness	As part of the Forestry Career Awareness Campaign, 90 maths and science learners and nine educators attended a Forest Awareness programme at Ngome Plantation in KwaZulu-Natal. Nine high schools, which are adjacent to Ngome Plantation, were exposed to the forestry industry and motivated to consider pursuing forestry or other forestry-related careers after matriculation.
Agroforestry	An agroforestry project at Entabeni Plantation in Limpopo has been piloted successfully. It consists of four community members who are planting crops such as maize, potatoes, spinach and pumpkins on non-planted forestry land. Another project, at JDM Keet Plantation in Limpopo, has also been identified for SAFCOL support. This project is seasonal and consists of planting nuts and beans in compartments that have been felled.
EPWP programme	SAFCOL continues to contribute towards job creation through supporting the Expanded Public Works Programme, albeit it on a lesser scale. Activities for this cycle are on a much smaller scale due to the limited funds available. This programme has created jobs for 89 people selected from communities neighbouring KLF plantations. Currently, SAFCOL is receiving no incentive grant from the Extended Public Works Programme (EPWP).

Total expenditure for SED for 2015/16

Since the implementation of social compacts, the Group's relationship with communities has improved. The partnerships between communities and the Group ensure that real and critical needs are addressed to reduce poverty, improve living conditions and develop skills in rural communities adjacent to, or within, the Group's areas of operation.

Total expenditure for SED for 2015/16

Project/description	Actual expenditure as at 31 March 2016
Education	R137 685
Environmental education	R142 280
Health care	R97 684
Small business and job creation	R833 344
Infrastructure and land	R5 030 970
Water supply/ boreholes	R175 700
Arts and culture	-
Other (social compact, hand overs, etc.)	R589 411
Skills development	R523 499
Total	R7 530 573

7.5.2. Enterprise Development (ED)

Enterprise Development is a strategic intervention in the endeavour of the Group to transform its forestry value chain and ensure increased participation of previously disadvantaged individuals, and also contribute to the industrialisation and rural economic development of the country.

In line with the above, SAFCOL has achieved the following in the year under review:

Activity/project	Investment	Beneficiaries	Impact
SMME awareness days	R 91 525,87	340 SMMEs	Potential new entrepreneurs to SAFCOL and platform for information sharing was developed
Furniture manufacturing	R 118 399,50	20 Youths from Vhembe District, Limpopo	Formalisation as a co-opertaive will facilitate faster growth and provide access to funding from several financial institutions
Mantjolo Essential Oils Cooperative (Grows geranium on 13 hectares of land)	R 417 472,21	Eight members, employing eight seasonal workers.	SAFCOL has already invested more than R 1 200 000 in the project since its inception in 2012. The project is now able to meet its operational obligations.

7.5.3. Learning and Development (L & D)

The Learning and Development (L & D) unit is mandated to support the strategic objectives of the Company by offering relevant learning and development opportunities to its employees, forestry contractors and communities surrounding its operations.

Objectives for the 2015/16 financial year:

- Reach the skills development targets of the Shareholder's Compact;
- Introduce a Timber-frame Structure Skills Programme for communities;
- Offer a furniture-making learnership to communities;
- Implement management development programmes for executives and middle management;
- Encourage the youth to consider forestry as a career of choice;
- Initiate a 'World-of-Work' Short Skills Programme for all production workers;
- Support government's EPWP; and
- Focus on training for communities with which social compacts have been signed.

Performance against the 2015/16 financial year objectives:

- Skills development targets of the Shareholder's Compact were reached and some targets were exceeded (i.e. internships);
- 25 community learners in the Sabie area completed a Timber-frame Structure Skills Programme, which included the building of a boardroom at the Company's Platorand Training Centre;
- 11 community learners in the Belfast area completed a furniture-making learnership, specialising in upholstery, while 10 community learners in the Ngome area completed the same learnership, specialising in carpentry;
- 36 middle managers completed an accelerated Management Development Programme, while eight executives and senior managers completed an Executive Development Programme, both with the esteemed Gordon Institute of Business Science (GIBS);
- L & D 'adopted' 12 Grade 9 female learners from different schools in three provinces, over a four-year period, as part of the Techno-Girl Project of the Department of Education, exposing them to the forestry industry and offering them learning and development opportunities during school holidays;
- Almost 300 production workers have already been trained as part of the World-of-Work Programme, focusing on life skills, management of personal finances, HIV/AIDS in the workplace, team work, interpersonal skills, diversity management, etc.;
- 35 community EPWP learners were trained in basic firefighting, basic safety and chemical application; and
- 735 community learners have been trained in a variety of areas such as life skills, entrepreneurship, horticulture, plant production, end-user computing, chainsaw operator and brushcutter operator.

Highlights from the division:

- Platorand Training Centre was accredited by the Media, Information and Communication Technologies Sector Education and Training Authority (MICT SETA), which enables L & D to deliver accredited ICT Short Skills Programmes;
- Through L & D, Timbadola Sawmill is accredited with the Manufacturing, Engineering and Related Services Sector Education and Training Authority (merSETA) as a provider of practical workplace experience for artisans;
- Platorand Training Centre is an accredited exam centre of the Independent Examination Board (IEB);
- Through L & D, SAFCOL is a member of the Forest Industries Training Providers' Association (FITPA); and

- As part of its infrastructure upgrading programme, Platorand Training Centre recently acquired Wi-Fi capability.

Future outlook:

- Increase internal capacity to offer training to external clients and generate income;
- Implement an electronic Learner Management System (LMS);
- Offer ICT learnerships; and
- Provide skills to support Company strategic objectives (i.e. vertical integration, timber-frame structures, co-gen, etc.).

7.5.4. Shared Services

Human Capital (HC) services is responsible for leading, managing and overseeing delivery of human resources for the Group.

Objectives for the 2015/16 financial year:

- Reduce SAFCOL recruitment and selection costs by 50 percent for the current financial year, compared to 2014/15;
- Introduce and implement the SAFCOL DPE Remuneration and Reward policy, in line with the new Remuneration Guidelines published on 1 March 2015 and as directed by Department of Public Enterprises;
- Undertake the SAFCOL Organisational Structure Review project, with consultations and implementation of the new structure, as approved by the Board and the Shareholder;
- Implement the SAFCOL Group Job Grading results and related appeals;
- Revise and recommend changes to the SAFCOL Reward and Remuneration policies; and
- Recommend a new 2016/17 SAFCOL salary structure and related pay scales.

Performance against the 2015/16 financial year objectives:

- Successfully completed the job grading and results implementation projects in November 2015;
- Successfully reduced recruitment and selection costs by 50 percent for the current financial year, compared to 2014/15;
- Completed the SAFCOL DPE Remuneration and Reward strategy, in line with the new Remuneration Guidelines;
- Undertook SAFCOL Organisational Structure Review project;
- Completed the revision and introduction of new recommended SAFCOL Reward and Remuneration policies; and
- Completed salary surveys and the Reward Trends Overview project.

Highlights from the division:

- Achieved clean audit on leave management;
- The successful completion of the vital SAFCOL/DPE Reward and Remuneration project;
- The introduction of a single SAFCOL on-line recruitment portal (Careers24);
- Completed the SAFCOL Organisational Structure Review project;
- Completed and implemented the 2015/16 IFLOMA Wage and Conditions of Service agreement;
- Ensured the acquisition of work permits for IFLOMA expatriates and seconded employees;
- Introduced the District-based model to streamline business functionality and service delivery; and
- Completed the SAFCOL, Company-wide, Employee Records Update project.

Future outlook:

- Recruitment of suitably skilled, qualified and experienced individuals for executive positions (COO, CEO, CFO and Executive: Human Capital), other critical positions and those that relate to the new organisational structure;
- Introduce streamlined performance and talent management processes in line with the new HCM operating model and SAFCOL strategy and plans;
- Solidify and streamline HCM CoEs, in line with the new operating model and strategic plans;

- Implement executive pay scales and grading results upon receipt of Board and Shareholder approval;
- Implement a single assessment psychometric service provider; and
- Introduction of the Employee Self-Service portal (leave and electronic payslips etc.) and automation of HCM Shared Services processes.

7.5.5. Employee Relations and Wellness department

The department is responsible for developing, maintaining, promoting and fostering healthy relations between employees and management by safeguarding the interests of both parties.

Objectives for the 2015/16 financial year:

- Management of industrial relations and employee relations;
- Improve the management of the collective bargaining processes;
- Revitalise the employment equity drive in the Company; and
- Provide a comprehensive employee wellness programme.

Performance against the 2015/16 financial year objectives:

- Trained managers in the management of poor work performance and incapacity;
- Trained managers in chairing disciplinary hearings;
- Built a constructive relationship with the leadership of the trade unions, at all levels;
- Wage agreements for SAFCOL and IFLOMA were settled within the respective mandates;
- Established Employment Equity committees;
- Developed an Employment Equity five-year plan;
- Readily and timeously provided an Employee Assistance Programme to employees;
- Provided integrated health assistance related to HIV/AIDS, chronic illness and other health-related matters; and
- Provided occupational health assessments as mandated by the OSH Act.

Highlights from the division

- Successful transition from FAWU to SAFFCAWU;
- Signed wage agreements within mandated percentages, both in South Africa and Mozambique;
- Every case referred to the CCMA was resolved/settled in favour of the Company; and
- An Employee Assistance Programme (EAP) was made accessible to all employees.

Future outlook:

- Develop better working relations with the new union, the South African Forestry, Farming, Catering and Allied Workers Union (SAFFCAWU);
- Improve the management of incapacity due to ill-health.

MANAGING GOVERNANCE, REGULATIONS AND RISK

Funani Mutepe

Operator: Desk Manufacturing Project

"I appreciate this job opportunity from SAFCOL. We can now grow into a big furniture manufacturing Co-operative."

8. Managing Governance, Regulations and Risk

8.1. Our Supply Chain

8.1.1. Procurement practices

Procurement transactions are executed in a manner that ensures that SAFCOL maintains its reputation for fair and unbiased dealings with suppliers. It is Group policy to make procurement opportunities readily available to all suppliers and to award business on the basis of merit.

As a SOC, the Group strives to ensure that, when procuring goods and services, it receives value for money at all times, that suppliers are treated in a fair, equitable and transparent manner, and that it maximises economic empowerment and participation by SMMEs in the procurement process.

In terms of economic empowerment, the Group ensures the promotion, development and support of businesses from historically-disadvantaged South Africans, in particular women, people with disabilities and the youth. Additionally, it has established and supports local and regional suppliers that can make a meaningful contribution to the Group's B-BBEE initiatives.

A Procurement Committee meets regularly to consider procurement matters. The main purpose of the committee is to ensure that the following objectives of procurement are achieved:

- B-BBEE;
- Value for money;
- Open and effective competition;
- Ethical and fair dealings; and
- Accountability and reporting.

8.1.2. B-BBEE and Preferential Procurement

The Public Finance Management Act PFMA, the Preferential Procurement Policy Framework Act, and the Broad-Based Black Economic Empowerment Act provide for preference to be given to individuals from historically-disadvantaged categories of society when procuring goods and services.

The Group is committed to the social and economic transformation of South Africa and actively promotes and significantly increases procurement from B-BEEE enterprises and SMMEs. This is achieved through several strategic interventions, which include the development of forestry service providers and SMMEs by the Group's ED unit and other related interventions.

We are pleased to report that, during this financial year, SAFCOL scored 19,92 out of a possible 20 points for preferential procurement, according to the DTI's scorecard for B-BBEE.

8.2. Contextualising our operations

8.2.1. Regulatory context

As a Schedule 2 public entity that is wholly-owned by government, overall governance of SAFCOL is broadly determined by the following governance frameworks:

- Management of State Forests Act (Act No 128 of 1992);
- Public Finance Management Act (Act No 1 of 1999) (PFMA), as amended, and the Treasury Regulations;
- Companies Act (Act No 71 of 2008);
- Income Tax Act (Act No 58 of 1962), as amended;
- Value Added Tax Act 1991 (Act No 89 of 1991), as amended;
- Shareholder's Compact, Materiality Framework and various codes of corporate governance that are applicable to companies;
- King III ;
- Protocol on Corporate Governance for the Public Sector 2002;
- The National Forest Act (Act No 84 of 1998);
- The National Veld and Forest Fires Act (Act No 101 of 1998);
- Preferential Procurement Policy Framework Act (Act No 5 of 2000); and
- Biodiversity Act (Act No 10, 2004).

8.2.2. Developmental context

SAFCOL's mandate from its Shareholder, the Department of Public Enterprises (DPE), requires that the Company balances commercial and developmental objectives. As a State-Owned Company, SAFCOL's business strategy supports the South African Government's National Development Plan (NDP), which provides guidelines for the country to eliminate poverty and to reduce inequality by 2030.

Further, the Statement of Strategic Intent from the Minister of Public Enterprises, which provides reference for SAFCOL's Shareholder Compact in the medium term, outlines the following NDP-related developmental objectives for the Company:

1. Leverage state capabilities to improve sustainability and economic viability;
2. Secure the economic future of the community and stakeholders it serves;
3. Enhance coordination between state-owned companies to unlock real value in support of the NDP goals; and
4. Optimise the social and economic impact of all interventions undertaken by the SOC in the achievement of these objectives.

The Company's key performance areas (KPAs) and associated targets, as mandated by the Shareholder Compact, direct our deliverables and performance.

Three over-arching, sustainability-driven KPAs and their associated key performance indicators (KPIs) direct our efforts and enable the Company to monitor and measure its financial, social and environmental performance. They are:

- Financial and commercial sustainability;
- Sustainable forest management and expansion; and
- Socio-economic transformation.

The KPI framework, therefore, reflects a sound balance between commercial and developmental imperatives.

Since 2002, the Group has implemented certain socio-economic and ED programmes to support social compacts: these include job creation and community infrastructure development. It is understood that the drivers of socio-economic development include decent social infrastructure, job creation and poverty alleviation. It is further acknowledged that this can only be achieved through the establishment of profitable sustainable enterprises, managed by communities for communities.

8.2.3. Commercial context

SAFCOL generates its revenue from the sale of forest products, sawn timber (lumber) and other value-added products. The Company operates mainly in rural areas and provides opportunities for economic development and participation for communities living within and adjacent to its areas of operation. The Company's main operational subsidiary is KLF, which owns 80 percent of the share capital of IFLOMA (Mozambique).

The period under review was faced by headwinds on the economic front: global economic growth projections were revised down and the pattern of slow growth persisted, with consequences for all developing economies, including South Africa.

In line with this, South Africa's economy continued to experience slow growth, in part, due to structural constraints and socio-economic challenges.

The above had a knock-on effect on the South African sawlog market, which still remains saturated with depressed prices compared to international prices. In addition, the construction sector, which is one of the biggest drivers for the SA lumber market, saw a slight decline owing to tough economic conditions and a gloomy outlook in terms of the government infrastructure spend.

Similarly, the market in the rest of Africa is experiencing continued growth in the demand for lumber. Furthermore, there is continuing growth in demand for high value-added forestry products in certain export markets. SAFCOL therefore intends to target export markets in niche areas. Exports form an important component of SAFCOL's revenue diversification strategy, the bulk of which will be product processed in South Africa.

8.3. Risk and Assurance

8.3.1. Control framework

8.3.1.1. Internal Audit

Assurance provided by Internal Audit and related control assessments

King III requires Internal Audit to provide assurance and opinion to the Board on the adequacy and effectiveness of enterprise risk management processes, internal financial controls and the system of internal controls. Based on these requirements, Internal Audit conducted these audits during the year in order to provide an opinion to the Board. Results of these audits are presented below.

Effectiveness of enterprise risk management

We have evaluated the maturity of SAFCOL's ERM process as 'advanced', based on the rating scales established for 'maturity of design and operation'. This presents SAFCOL with a significant improvement opportunity to move to 'leading state', based on its appetite to make the change. In addition to the maturity rating, we have evaluated the ERM processes as 'requires improvement' based on COSO and King III requirements.

Maturity assessment

The table below depicts the rating for each component and the total for each maturity level. Out of the total 10 components assessed, <30>% Established, <60%> Advanced and <10>% Leading.

Table 5: Maturity levels

	Maturity Level				
Risk management component	**Level 1 Basic**	**Level 2 Developing**	**Level 3 Established**	**Level 4 Advanced**	**Level 5 Leading**
Risk governance structures			X		
Managing the risk management process				X	
Risk identification			X		
Risk prioritisation				X	
Risk treatment				X	
Risk reporting			X		
Risk monitoring				X	
Risk culture - embedding				X	
Communication				X	
Working with counterparties					X

Effectiveness and adequacy of internal financial controls

Internal Audit conducted an audit to test for effectiveness and adequacy of internal financial controls. The scope of the work covered the following key areas:

- Key accounts reconciliations;
- Payments;
- Cost and accounting management;
- Accounts receivable;
- Change in bank accounts;
- Month-end reporting and group consolidations;
- VAT and income tax;
- Segregation of duties;
- Payroll management;
- Revenue management;
- Provisions;
- Sundry Income; and
- Accounts payable management.

In our opinion, the internal financial control system is acceptable but requires some improvements.

Overall opinion of our system of internal controls based on audits conducted during the year

Internal Audit achieved 70 percent of the coverage plan for the year; 17 percent has been delayed upon management request and 13 percent has been cancelled with approval by the Audit and Risk Management Committee. The scope of audits was to test for effectiveness and adequacy of the system of internal controls to manage and/or mitigate risk exposures. Corrective action plans were designed by management in order to improve control weaknesses identified by Internal Audit.

In assessing the effectiveness and adequacy of the system of internal control, Internal Audit applied the following control ratings.

Table 6: Control ratings for the assessment of effectiveness and adequacy

Evaluation criteria	Control description
Highly effective and adequate (HEA)	Controls are functioning as intended and no additional actions are necessary at this time
Effective & adequate (EA)	Many of the controls are functioning as intended, however, some minor changes are necessary to make the control environment more effective and efficient
Moderately effective & adequate (MEA)	Some controls are in place and functioning, however, several control issues were noted
Ineffective & inadequate (II)	Material, persistent and pervasive control problems were noted that could jeopardise the accomplishment of business objectives
Highly Ineffective & inadequate (III)	Controls are not functioning and/or fraudulent activities have been detected that will, or have, a material impact on both the financial statements and operations of the Company

The table below indicates our opinion based on the test conducted.

Table 7: Opinion based on the test conducted

*Control ratings	III	II	MEA	EA	HEA
Human capital management		X			
Incapacity leave management		X			
Audit of predetermined objectives 1st quarter		X			
Forestry operations follow-up		X			
Enterprise risk management review			X		

*Control ratings	III	II	MEA	EA	HEA
Inventory management review		X			
AOPO 2nd quarter		X			
IFLOMA follow-up review		X			
Procurement data analytics		X			
AOPO 3rd quarter		X			
Processing follow-up review		X			
Internal financial controls		X			
Total	**0**	**12**	**1**	**0**	**0**
Percentage	**0%**	**92%**	**8%**	**0%**	**0%**

8.3.1.2. Fraud prevention, detection and investigation

SAFCOL's approach to the prevention of fraud is aligned to the National Treasury's Public Sector Risk Management Framework and the Public Finance Management Act. SAFCOL's risk-management methodology is a supporting function that applies the key fraud-management framework methodology of prevention, detection, investigation and resolution. As part of this function, the risk of fraud is managed with the aim of preventing and/or detecting fraud, corruption and any other irregularities that may pose a threat to SAFCOL.

With regard to PFMA Section 85 and Treasury Regulations 33, the Board is mandated to report to the Executive Authority, the Auditor-General and the Treasury on all incidents of financial misconduct for each financial year. The report must comprehensively address the following areas:

- Name and rank of employees involved;
- Allegations of financial misconduct;
- Investigation conducted;
- Disciplinary steps taken;
- Sanctions and any further actions taken against the employee; and
- Corrective measures to prevent the incident from recurring.

Investigations conducted during the year

During the 2015/16 financial year, 20 fraud investigations were recorded in the fraud register. There has been a decrease in the number of reported cases in the current year compared to the previous year (down from 24 to 20). A fraud investigation procedure and whistle-blowing policy have been communicated to all employees.

The graphs below indicate the status of reported cases. The reason that there are 40 cases in the graph below is because some of the cases were not completed during 2014/15 and were carried forward to 2015/16.

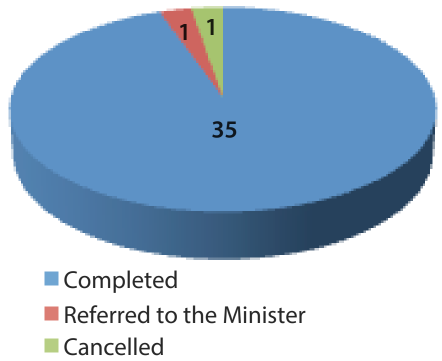


Figure 5: Status of reported cases

Note:

1. The case that was referred to the Minister for further actioning.
2. The cancelled case was already being handled by the SAPS and our processes were seen as interfering with their processes.
3. The table below explains the outcomes of the 35 cases completed

Table 8: Outcome of investigations

No of cases	Outcome
14	Internal disciplinary hearings conducted and internal control weakenesses addressed
15	Awaiting criminal proceedings
2	Employees resigned before disciplinary hearings
4	Investigation revealed no transgressions

8.4. Enterprise Risk Management

8.4.1. Enterprise Risk Management

Risk management is key in the Board's endeavour to address extensive risks associated with SAFCOL's operations and to ensure that the interests of stakeholders are safeguarded.

To this end, a centralised risk management co-ordination function is performed by the Risk and Compliance Department, whose role is to:

- Facilitate risk management ownership by management;
- Provide a standardised strategic and operational risk management methodology and process;
- Validate risk management processes to ensure their adequacy and effectiveness and ensure that they comply with internationally accepted risk management standards; and
- Ensure standardised and integrated reporting on all risk management activities and exposures to the Audit & Risk Management Committee.

The Department is also responsible for the co-ordination and facilitation of specialised operational risk management processes, including business continuity management and compliance risk management.

8.4.2. Risk Management Framework

SAFCOL used the following policies to manage its risks:

- Risk Management Framework and Policy;
- Risk Management Plan;
- Combined Assurance Framework and Plan;
- Compliance Universe;
- Business Continuity Policy; and
- Business Continuity Plan.

8.4.3 Risk Management Plan

SAFCOL's Risk Management Plan for the 2015-2016 financial year:

The objectives for 2015/16 are:

- To embed ERM practices in the Company;
- Standardise compliance terminology, frameworks, methodologies and approachies across all Company operations;
- Introduce the Risk Management Information System (CURA);
- Harmonise the application of risk management principles on all Company operations;
- Prioritise emerging risks and opportunities in terms of strategic initiatives across the business; and
- Strengthen the implementation of insurance policies and procedures.

8.4.4 Implementation progress

In terms of implementation, although ERM focus areas were identified and planned activities implemented, improvements are, however, still needed in the risk management information system and further training on the business continuity management.

The table below indicates progress made with regard to implementing the risk management plan during 2015/16, measured against the ERM plan adopted by SAFCOL.

...continues to page 64

...continues from page 63

Table 9: RMP Implementation

Focus Area	Planned deliverables	Comments
Embed ERM	Review strategic risk register	Completed
	Review operational risk registers	Completed
	Re-appointment of Risk champions	Completed
	Establish Risk Management Forum	Completed
	Report on risk profiles	Completed
	Conduct combined assurance	Completed
	Close all outstanding audit findings	In progress
	Review ERM policy	Completed
	Review Terms of reference for the Risk Management Forum	Completed
Fraud risk	Conduct fraud training and awareness	Completed
Compliance	Develop compliance framework	Completed
	Report on compliance universe	Completed
	Update and communicate the regulatory universe	Completed
Business Continuity Management (BCM)	Develop BCM Framework & Policy	Completed
	Conduct training and awareness on BCM processes	In progress
	Develop BCM Plans	Completed
Risk Management Information Systems	Effective utilisation of Risk Management Information Systems (CURA);	Completed
	Risk Register captured on the system	Completed
	Incidents captured on the system (DMS)	Completed
Risk Insurance	Provide cost of risk information that is analysed	Completed
	Improve insurance awareness for all stakeholders in terms of all insurance policies	Completed
	Review Insurance procedures	Completed
	Timeous and effective claims management	Completed

8.4.5 Key strategic risks

Table 10: Key strategic risks

Risk Name	Treatment Plans
Decreased profitability and failure to sustain business	1. Continuous revision of current strategy to align with the environment. 2. Develop capacity and skills aligned to the new demand. 3. Finalise and implement funding model. 4. Increase processing capacity and apply for relevant approval from DPE and National Treasury. 5. Invest in marketing of products.
Failure to recover the expected return	1. Continous stakeholder engagement and communication. 2. Continuous monitoring of market trends. 3. Additional feasibility studies. 4. Monitor and devise strategies around the international log price. 5. Ongoing communication and engagement with potential partners. 6. Prioritise scarce and critical skills in the implementation of corporate strategies.
Loss of production area	1. Continuous engagement with DAFF regarding plantations. 2. Demarcation of production land. 3. Identify conversion areas within SAFCOL. 4. In a process of preparing documents detailing the acquisition of B+C plantations. 5. Investigate available forestry land for sale.
Baboon Damage to biological assets	1. Conduct a detailed damage analysis. 2. Test if the appointed baboons specialist's methods are working.
Inability to penetrate the market	1. Collate information relating to the cost of funding and prepare funding models. 2. Develop capacity and skills aligned to the new demands. 3. Further market analysis based on specific implementation plan. 4. Invest in marketing of products.

Risk Name	Treatment Plans
Resistance to organisational change	1. Communication and engagement with labour unions and employees. 2. Create platform for employees and management engagement. 3. Monitoring the implementation of the recommendations from the survey. 4. Training and awareness about organisational changes
Cost management	1. Accounting and information system. 2. Budgeting. 3. Periodic review. 4. Planning.
Project failure	1. ADSL line replacement in Pretoria office. 2. Develop projects risk register. 3. New servers roll out. 4. Old ICT equipment disposal. 5. SharePoint and intranet development.

8.4.6 Risk Maturity Assessment

In 2014/15, SAFCOL risk management processes were operating at the **Established** level. The risk maturity assessment was used to assess the adequacy and effectiveness of risk management processes during this period. The assessment allows an overview of the maturity level of each component of the ERM.

The attributes of the ERM were assessed and placed at one of the maturity levels from basic, developing, established, advanced to leading. Based on the results of the current assessment, the overall assessment was that the risk management processes at SAFCOL are operating at an **Advanced** maturity level. This shows that there has been an improvement in comparison to the previous financial year.

Table 11: Risk maturity assessment

Risk management component	Maturity Level					Gaps noted
	Level 1	Level 2	Level 3	Level 4	Level 5	
	Basic	Developing	Established	Advanced	Leading	
Risk governance structures			X			• There are no performance indicators developed to assess the risk management function. • There is no Chief Risk Officer (CRO), currently the Risk and Compliance Manager acts as CRO; further, the risk section is not adequately capacitated.
Managing the risk management process				X		
Risk identification			X			• Project risks are currently not identified and reported on.
Risk prioritisation				X		
Risk treatment				X		
Risk reporting			X			• No reporting performed on SAFCOL Risk Appetite limits to the Board.
Risk monitoring				X		
Risk culture - embedding				X		
Communication				X		
Working with counterparties					X	

Albert Dlamini

Manager: Nursery, Mpumalanga

“I ensure that we supply our plantations with the correct quantities of the correct species of trees at the correct time of the year.”

ABRIDGED GOVERNANCE, ASSURANCE AND DIRECTOR’S REPORT

9. ABRIDGED GOVERNANCE, zASSURANCE AND DIRECTOR'S REPORT

The Board of Directors is appointed by the Minister and comprises executive and non-executive directors. The majority of the Board are non-executive directors to ensure independence and objectivity in decision making.

9.1 Board committees

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

- Human Resources and Remuneration Committee;
- Social and Ethics Committee;
- Finance and Investment Committee; and
- Audit and Risk Management Committee.

9.1.1 Human Resources and Remuneration Committee (HRMC)

This committee is mandated to, amongst other things, provide oversight and ensure that the Group remunerates directors and executives fairly and responsibly. Disclosure of the remuneration of directors and executives is accurate, complete and transparent, and that human capital and related matters are properly attended to, in accordance with legislation, standards and policies of the Group.

Table 12: HRMC activities

MEMBERS	ATTENDANCE	2015/16 ACTIVITIES
Pre-18 August 2015		Considered and recommended the following matters to the Board: • New Company sizing; • Executive evaluation and grading; • Executive pay scales; • Reward and remuneration policy; • Executives' Guaranteed Reward and Remuneration policy; • Non-Executive Directors' Reward and Remuneration policy; • Company Performance Incentives Bonus policy; • Revised Acting policy; • Revised Recruitment and Selection policy; • Revised Bursary policy for employees and non-employees; • The payment of an incentive bonus to management and administrative employees for the 2014/15 financial year; and • Chief Executive Officer's Performance Contract for 2015/16.
K Njobe	3/3	
FC Blakeway	2/3	
MS Gilbert	2/3	
Post-18 August 2015		
SM Mnguni	1/4	
N Carrim	4/4	
PE Molokwane	4/4	

9.1.2 Social and Ethics Committee (SEC)

The role of the Committee is to monitor the Company's activities with regard to any relevant legislation, other legal requirements or prevailing codes of best practice with regard to: social and economic development, good corporate citizenship, the environment, health and public safety, consumer relationships, labour and employment.

Table 13: SEC activities

MEMBERS	ATTENDANCE	2015/16 NOTABLE ACTIVITIES INCLUDED
Pre–18 August 2015		Considered and recommended the following matters to the Board: • Approval of the SAFCOL Board of Conduct. • Approval of the SAFCOL Employees Code of Conduct. • Handing over of the Tsolobulo ECD Centre, Muzomuhle, Oncweleni Multipurpose and the desk manufacturing projects. • Approval of the Social & Ethics Committee Terms of Reference.
K Njobe	1/1	
MS Gilbert	1/1	
SR Moephuli	1/1	
Post–18 August 2015		
CPM Ngwenya	3/3	
SM Mnguni	0/3	
MJ Rachidi*	1/3	
PM Mahlangu	1/3	

*Appointed as SAFCOL Acting CFO on 15 December 2015 (he ceased to be a member of the committee)

9.1.3 Finance and Investment Committee (FINCO)

The role of the committee is to assist the Board to ensure that the Group financial strategy is in place, to monitor compliance, the financial performance of the Group and to consider matters relating to transformation with particular emphasis on procurement and enterprise development.

Table 14: FINCO activities

MEMBERS	ATTENDANCE	2015/16 NOTABLE ACTIVITIES INCLUDED
Pre-18 August 2015		Considered and recommended the following matters to the Board:
M Kharva	1/1	• Timbadola upgrade (PFMA Section 54 pre- notification process).
FC Blakeway	1/1	• SAFCOL 2016/17 Shareholder's Compact.
SR Moephuli	0/1	• Procurement policy; Delegation of Authority framework, Mobile & Data Device Usage policy, Journal Entry policy, Travel and Subsistence policy.
N Medupe	1/1	• Minority shares held on behalf of communities in privately-owned forestry companies.
		• Appointment of 2RM to perform company-wide due diligence.
Post–18 August 2016		• Timber-frame structure business case.
MJ Rachidi *	4/8	• Commissioning of the timber company due diligence.
S Baduza	8/8	
GC Theron	4/8	
PE Molokwane#	4/8	

*Appointed SAFCOL Acting CFO on 15 December 2015 (he ceased to be a member of the committee)

Appointed to be a member of the committee on 21 January 2016

9.1.4 Audit and Risk Management Committee (ARMC)

This committee has the responsibility to oversee the Group's monitoring and control systems. It must ensure, amongst other things, that the disclosure of risks is comprehensive, timely and relevant, the internal control systems are operating effectively and that there is an effective internal audit function.

Table 15: ARMC activities

MEMBERS	ATTENDANCE	2015/16 ACTIVITIES
Pre-18 August 2015		Considered and recommended the following matters to the Board: • Reports on investigations • Irregular, fruitless and wasteful expenditure policy • Delegation of authority • Group quarterly report • Internal Audit quarterly reports • ERM quarterly reports • The external audit strategy and budget for the year ended 31 March 2016 • Group strategic risk register • BCP plan • Risk Management plan for 2015-2017 • ICT governance and management framework • ICT Change Control policy • Acceptable Usage policy
N Medupe	3/3	
M Kharva	3/3	
K Njobe	3/3	
MS Gilbert	3/3	
Post-18 August 2015		
S Baduza	5/5	
CPM Ngwenya	5/5	
GC Theron[1]	3/5	

[1]Appointed as Acting CEO on 15 December 2015.

9.2 Company Secretary

The Company Secretary is responsible to the Board for, inter alia, ensuring compliance with procedures and applicable statutes and regulations. To enable the Board to function effectively, all directors have full and timely access to information that may be relevant to them properly discharging their duties. This includes information such as corporate announcements, investor communications, agenda items for Board meetings, and other developments that may affect the Board and the Group's operations. Access to management is provided, where required.

9.3 Directors

The following directors were in office as at 31 March 2016:

RL Mabece (Chairperson)	18 August 2015
S Baduza (Acting Chief Financial Officer)[1]	18 August 2015
N Carrim	18 August 2015
PM Mahlangu	18 August 2015
SM Mnguni	18 August 2015
PE Molokwane	18 August 2015
CPM Ngwenya	18 August 2015
MJ Rachidi[2]	18 August 2015
GC Theron (Acting Chief Executive Officer)[3]	18 August 2015

[1] Appointed as Acting Chief Financial Officer on 11 March 2016

[2] Appointed as Acting Chief Financial Officer on 15 December 2015. Resigned on 11 March 2016

[3] Appointed as Acting Chief Executive Officer on 15 December 2015

*With the exception of the Acting Chief Executive Officer and the Chief Financial Officer, all Board members are non-executive directors.

Changes to the Board during the year under review:

The following directors retired on 17 August 2015:

SMP Fikeni (Chairperson)
FC Blakeway
MS Gilbert
M Kharva
N Medupe
K Njobe
SR Moephuli.

NP Mona and ZM Mashinini resigned on 15 December 2015.

9.4 Corporate governance

9.4.1 Corporate governance and PFMA

The South African Forestry Company SOC Limited (SAFCOL) was established in 1992, as per the Management of State Forests Act 1992. It is a registered state-owned Company in terms of the Companies Act, 71 of 2008 (as amended), and a Schedule 2 listed entity in terms of the Public Finance Management Act (PFMA) of 1999. The report presented is in accordance with the provisions of the prescribed legislation and related regulations and addresses both the performance and statutory information requirements. The Board is the accounting authority, as prescribed by the PFMA.

9.4.2 Shareholding

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

9.4.3 Nature of business

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

The Group mainly conducts its business through its subsidiaries, which are:

- Komatiland Forests (SOC) Ltd (KLF); and
- Indústrias Florestais de Manica, SARL (IFLOMA).

The Group employs **1 783** people in South Africa and **527** people in Mozambique.

9.4.4 King Report on Governance for South Africa 2009

The directors embrace the principles, as set out in the

King Report on Governance for South Africa 2009 (King III), and have applied them as far as possible taking into account the nature of the company. By supporting King III, the directors confirm the need to conduct the business with integrity and in accordance with generally-accepted corporate practice. This ethos is further supported by the Group's code of ethics, which sets out the obligations of directors and employees in terms of ethical standards applicable within the Group.

9.5 Board performance

The following Board committees and sub-committees meetings took place and were attended by directors for the period under review.

Table 16: Board activities

MEMBERS	ATTENDANCE	2015/16 ACTIVITIES
Pre-18 August 2015		• Recommendation: Section 45 financial assistance between SAFCOL and Komatiland Forests. • Approval: Payment of arrear land rentals to the Department of Agriculture, Forestry and Fisheries. • Establishment of the ICT Governance Committee. • Approval: ICT Governance Committee Terms of Reference. • A decision was made on the 2014/15 salary increases for executive directors and prescribed officers. • Approval: Revised feasibility study for the Timbadola Sawmill upgrade. • Approval: Revised Acting Policy. • Approval: Revised Recruitment and Selection Policy. • Approval: Revised Bursary Policy for employees and non-employees. • Approval: Payment of an incentive bonus to management and administrative employees for the 2014/15 financial year. • Approval: Chief Executive Officer's Performance Contract for 2015/16. • Appointment of a service provider to conduct due diligence.
SMP Fikeni	4/4	
SR Moephuli	4/4	
N Medupe	4/4	
M Kharva	4/4	
K Njobe	4/4	
MS Gilbert	3/4	
FC Blakeway	4/4	
NP Mona[1]	4/4	
ZM Mashinini[1]	4/4	
Post-18 August 2015		

Sinenhlanhla Hlongwa

Laboratory Intern

"I am fascinated by the wonderful discovery of science which enables thousands of trees to grow from just one seed."

<table>
<tr><th>MEMBERS</th><th>ATTENDANCE</th><th>2015/16 ACTIVITIES</th></tr>
<tr><td>RL Mabece</td><td>11/11</td><td rowspan="10">• Appointment of an Acting Chief Executive Officer and an Acting Chief Financial Officer.
• Approval: Recruitment process for the Chief Executive Officer, Chief Financial Officer and Chief Operations Officer positions.
• A decision was made on the transfer of the SAFCOL minority shares.
• Approval of the Corporate Strategy for 2016/17 to 2020/21.
• Approval of the Corporate Plan for 2016/17 to 2018/19.
• Approval of the SAFCOL organisational structure.</td></tr>
<tr><td>S Baduza</td><td>11/11</td></tr>
<tr><td>N Carrim</td><td>7/11</td></tr>
<tr><td>PM Mahlangu</td><td>9/11</td></tr>
<tr><td>SM Mnguni</td><td>6/11</td></tr>
<tr><td>PE Molokwane</td><td>10/11</td></tr>
<tr><td>MJ Rachidi</td><td>10/11</td></tr>
<tr><td>GC Theron</td><td>11/11</td></tr>
<tr><td>NP Mona[1]</td><td>4/4</td></tr>
<tr><td>ZM Mashinini[1]</td><td>3/4</td></tr>
</table>

[1]Resigned on 15 December 2015

10. Going concern

The directors have reviewed the Group's financial position and believe that the Group will be a going concern in the year ahead, as it has adequate resources to continue in operation and existence for the foreseeable future. For this reason, the Group's annual financial statements have been prepared and adopted on a going concern basis.

REMUNERATION

Silas Phala

Kiln Foreman, Timbadola

"I love the processing part of our business."

11. Remuneration

11.1 Remuneration philosophy

The strategic aim of the SAFCOL Reward and Remuneration Policy is to provide guidelines for implementing processes and practices required to attract and retain competent, well-motivated and committed employees who will support the achievement of the Company's objectives. The Reward and Remuneration Policy is aligned with the Company's strategic direction and focuses on building a culture of excellence.

The Reward and Remuneration Policy is further aimed at attracting and retaining employees with critical and core skills, since the loss of these employees is costly to the Company in terms of recruitment, training and development of new employees, and the loss of intellectual knowledge, experience and organisational memory suffered when employees leave the Company.

11.2 Philosophy

The Remuneration philosophy reflects the Company's commitment to ensure that an appropriate balance is achieved between the interests of stakeholders, operational and strategic requirements, and to be compliant with best practice in the areas of remuneration, retention, recognition and reward in an effort to attract and retain superior-performing employees.

11.3 Components of remuneration

SAFCOL's remuneration principles are based on:

- Pay levels that are competitive and comparative to the labour market;
- Pay for consistent performance, where superior performance is valued and recognized;
- Fairness, consistency, transparency and internal equity;
- Rewards for individuals for the achievement of Company objectives and high levels of performance;
- Prudent attraction and retention tools that do not compromise the sustainability of the Company; and
- Remuneration that is aligned with the Forestry Industry, SOCs and associated industries to ensure external equity.

Dumisile Chibi

Research Forester

“Research is absolutely critical in our business, without which, we would not be able to innovate.”

12. Executive Committee members' and directors' remuneration

Table 17: Remuneration

Executive Committee (current)				
			2016	2015
	Salary R	KM/Foreing Travel Claim R	Total R	Total R
MJ Rachidi[5]	476 624	15 667	492 291	0
S Baduza[4]	80 428	0	80 428	0
T Jacobs[6]		0	0	0
DJ Mbulahen[7]		0	0	0
GC Theron[2]	577 449	1 774	579 223	0
Executive Committee (former)				
			2016	2015
	Salary R	KM/Foreing Travel Claim R	Total R	Total R
N Mona [1], *Chief Executive Officer*	2 511 384	45 961	2 557 345	2 046 239
Z Mashinini [1], *Chief Financial Officer*	1 958 921	13 862	1 972 782	1 799 168
F de Villiers [3], *COO*	1 764 967	93 788	1 858 755	1 853 967
J Mphafudi[8], *SE: HCM & Transformation*	1 962 024	11 906	1 973 930	1 494 306

[1]Resigned on 15 December 2015 (remuneration included notice pay and leave encashment)

[2]Appointed on 15 December 2015, acted as CEO from 15 December 2015 to 31 March 2016

[3]Resigned on 18 February 2016 (remuneration included leave encashment)

[4]Appointed on 11 March 2016, acted as CFO as from 11 March 2016 until 31 March 2016

[5]Acted as CFO as from December 2015 until 11 March 2016

[6]Acted as SE: HCM and Transformation as from 7 January 2016 until 31 March 2016

[7]Acted as COO as from 13 January 2016 until 31 March 2016

[8]Resigned on 14 March 2016 (Remuneration included notice pay, leave encashment and settlement)

...continues to page 81

...continued from page 80

Non-executive directors (current)				
			2016	2015
	Salary R	KM/Foreing Travel Claim R	Total R	Total R
RL Mabece	472 697	15 667	488 364	0
S Baduza	200 650	7 273	207 923	0
MJ Rachidi	104 833	394	105 227	0
GC Theron	103 046	2 805	105 850	0
N Carrim	127 349	14 946	142 295	0
PM Mahlangu	127 349	0	127 349	0
PE Molokwane	147 943	4 109	152 052	0
CPM Ngwenya	197 050	0	197 050	0
SM Mnguni*	0	0	0	0
Non-executive directors (former)				
			2016	2015
	Salary R	KM/Foreing Travel Claim R	Total R	Total R
FC Blakeway	93 948	6 792	100 740	252 710
MS Gilbert	106 456	0	106 456	286 950
M Kharva	120 867	0	120 867	325 715
N Medupe	123 111	0	123 111	331 750
SR Moephuli	93 948	0	93 948	253 305
K Njobe	120 867	0	120 867	325 715
SMP Fikeni	285 512,03	10 479	295 991	649 084

* No Board fees were paid in the year under review

Willem Hollestein

District Manager: Highveld

“Always keep your people happy, they perform at the optimum when they are happy.”

DIRECTORS’ APPROVAL

13. Directors' approval

The directors are required to maintain adequate accounting records in terms of the Companies Act, 71 of 2008, as amended, and the Public Finance Management Act (PFMA) of 1999, as amended. They are also responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure, in conformity with International Financial Reporting Standards (IFRS), that the financial statements fairly present the state of affairs of the Group as at the end of the financial year, and the results of its operations and cash flows for the period then ended. The external auditors are engaged in order to express an independent opinion of the financial statements.

The financial statements are prepared in accordance with IFRS and are based on appropriate accounting policies that are consistently applied and that are supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Group and place considerable importance on maintaining a strong control environment. To enable the directors to meet their responsibilities, the Board sets standards for internal control that are 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 that 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 eliminated fully, 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, and based on reports by the internal auditors on the results of their audits, that the system of internal control provides reasonable assurance that the financial records may be relied upon for preparation of the financial statements. However, any system of internal financial control can only provide reasonable, and not absolute, assurance against material mis-statement or loss.

The directors believe that assets are adequately protected in a cost-effective way, and that they are used as intended with appropriate authorisation. They also consider that the Group has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements for the year ended 31 March 2016, set out on pages 95 to 173, and the reports by the Chairperson and the Acting Chief Executive Officer set out on pages 20 to 28, were approved by the Board of Directors on 12 August 2016, and are signed on its behalf by:

Gabriel Theron

Acting Chief Executive Officer

Lungile Mabece

Chairperson

14. Company Secretary's Certificate – 31 March 2016

I certify that the Company has lodged with the Companies and Intellectual Property Commission all returns required of a state-owned Company in terms of the Companies Act 71 of 2008, as amended, in respect of the financial year ended 31 March 2016, and that all such returns are true, correct and up-to-date.

Vincent Mashale

Company Secretary

comprise up to 50%
managed intensively for:
·Conservation of species and
·Recreation.
·Research.
·Conservation of water resources:
Scientific management of natural areas in the plantation is a primary activity of the Forestry industry.
PLANTATIONS

Chantalle Sieling

Senior Administrator: Eco-Tourism, Mpumalanga

“I love working in such a magnificent and beautiful area and to see natural areas that people don’t even know exist.”

REPORT OF THE INDEPENDENT AUDITORS AND ANNUAL FINANCIAL STATEMENTS

General Information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Development in the long term of the South African forestry industry and theoptimising of its assets and land value
Directors	RL Mabece PE Molokwane S Baduza SM Mnguni N Carrim GC Theron PM Mahlangu MJ Rachidi CM Ngwenya
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 theDepartment of Public Enterprises
Auditors	Auditor-General of South Africa
Secretary	V Mashale

Directors' Responsibilities and Approval

The board of directors are pleased to present their report and the audited consolidated annual financial statements for the year ended 31 March 2016.

The directors are responsible for the integrity and fair presentation of the consolidated financial statements of South African Forestry Company SOC Limited and its subsidiaries. The consolidated annual financial statements presented on pages 5 to 81 have been prepared in accordance with International Financial Reporting Standards, the South African Companies Act No. 71 of 2008 and the Public Finance Management Act No. 1 of 1999. These annual financial statements have been prepared in accordance with appropriate accounting policies and include amounts based on judgements and estimates made by management. The directors have supervised the preparation of information included in the annual report and are responsible for both its accuracy and consistency.

The directors are required in terms of the Companies Act 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 year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the consolidated annual financial statements.

The consolidated annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the group and all employees are required to maintain the highest ethical standards in ensuring the group's business is conducted in a manner that in all reasonable circumstances is above reproach.

The focus of risk management in the group is on identifying, assessing, managing and monitoring all known forms of risk across the group. While operating risk cannot be fully eliminated, the group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the consolidated annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors are satisfied that at the time of approving the financial statements it is appropriate to use the going concern basis in preparing these financial statements. In arriving at this conclusion, the directors considered the cash position at 31 March 2016, the cash requirements for at least twelve months from that date and the borrowings facilities available.

The external auditors are responsible for independently auditing and reporting on the annual financial statements. The report of the independent auditors appears on pages 5 to 9. During the year under review, the directors retained full and effective control over the group and monitored management in implementing the approved plans and strategies.

The consolidated annual financial statements set out on pages 95 to 173, have been prepared under the supervision of Ms S Baduza CA (SA) (Acting Group Chief Financial Officer), were approved by the board on 29 July 2016 in terms of the Companies Act and the Public Finance Management Act, and were signed on their behalf by:

Gabriel Theron

Acting Chief Executive Officer

Lungile Mabece
Chairperson

Certificate By Company Secretary

The Company secretary certifies 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.

Vincent Mashale

Company Secretary

15. Independent Auditors' Report

Report of the Auditor-General to Parliament on South Afican Foresty Company SOC Limited

Introduction

1. I have audited the consolidated and separate financial statements of the South African Forestry Company SOC Limited and its subsidiaries set out on pages 95 to 173, which comprise the consolidated and separate statement of financial position as at 31 March 2016, the consolidated and separate statement of financial 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 the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting authority's responsibility for the consolidated and separate financial statements

2. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No.1 of 1999) (PFMA), Companies Act 2008 of South Africa, 2008 (Act No. 71 of 2008) 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.

Auditor-general's responsibility

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

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the South African Forestry Company SOC Limited and its subsidiaries as at 31 March 2016 and its financial performance and cash flows for the year then ended, in accordance with IFRS and the requirements of the PFMA and Companies Act 2008 of South Africa.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

8. As disclosed in note 40 to the financial statements, the corresponding figures for 31 March 2015 have been restated as a result of an error discovered during 2016 in the financial statements of the South African Forestry Company Limited at, and for the year ended, 31 March 2015. It relates to Property, plant and equipment, non-current assets held for sale, trade and other payables, retained earnings and profit before tax.

Material losses

9. As disclosed in note 39 to the financial statements, material losses to the amount of R 41 800 000 were incurred as a result of alleged fraud and corruption relating to current and prior years. The cases have been reported to the Police Services and/or National Prosecuting Authority.

Additional matter

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

Other reports required by the Companies Act

11. As part of my audit of the financial statements for the year ended 31 March 2016, I have read the Directors' Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports I have not identified material inconsistencies between the reports and the audited financial statements. I have not audited the reports and accordingly do not express an opinion on them.

Report on other legal and regulatory requirements

12. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the public entity for the year ended 31 March 2016

- Sustainable Forest Management and Expansion: Area of forest under management on page 39;
- Sustainable Forest Management and Expansion: Area of forest under management which is fully certified to FSC or PEFC standard on page 39;
- Sustainable Forest Management and Expansion: Timber processing on page 39;
- Sustainable Forest Management and Expansion: Vertical integration on page 40;
- Sustainable Forest Management and Expansion: Agroforestry on page 40; and
- Socio Economic Transformation: Corporate Social Investment (including Social compact) on page 41.

14. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators

and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).

15. I 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 the following objectives:

- Sustainable Forest Management and Expansion: Area of forest under management on page 39
- Sustainable Forest Management and Expansion: Area of forest under management which is fully certified to FSC or PEFC standard on page 39;
- Sustainable Forest Management and Expansion: Vertical integration on page 40;
- Sustainable Forest Management and Expansion: Agroforestry on page 40; and
- Socio Economic Transformation: Corporate Social Investment (including Social compact) on page 41.

Additional matter

17. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected objectives, I draw attention to the following matter:

Achievement of planned targets

18. Refer to the annual performance report on page(s) 38 to 41 for information on the achievement of the planned targets for the year.

Compliance with legislation

19. I performed procedures to obtain evidence that the public entity had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Financial statements, performance and annual reports

20. 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 Public Finance Management Act and section 29(1)(a) of the Companies Act. Material misstatements of the income; expenses; property, plant and equipment; liabilities and taxation identified by the auditors in the submitted financial statement were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

Expenditure Management

21. Effective steps were not taken to prevent irregular amounting to R44 100 000 irregular expenditure as disclosed in note 39 of the AFS, as required by section 51(1)(b)(ii) of the Public Finance Management Act.

22. SAFCOL entity did not take effective steps to prevent fruitless and wasteful expenditure amounting to R103 000 as disclosed in note 39 of the AFS, as required by section 51(1)(b)(ii) of the Public Finance Management Act.

Internal control

23. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in findings on non-compliance with legislation included in this report.

Leadership

24. Executive management did not exercise oversight responsibility regarding financial reporting and compliance with legislation as well as related internal controls relating to the prevention of irregular expenditure.

Financial and performance management

25. Senior management did not always ensure that the financial statements prepared are accurate and complete agreeing to support schedules as misstatements were identified on the financial statements that resulted in material adjustments to the financial statements submitted for audit.

Other reports

26. I draw attention to the following engagements that could potentially impact on the public entity's financial, performance and compliance related matters. My opinion is not modified in respect of these engagements that are either in progress or have been completed.

Investigations

27. As disclosed in note 39 to the financial statements, investigations were initiated based on allegations of the possible misappropriation of the entity's assets relating to prior years. This case has been reported to the South African Police Service and the National Prosecuting Authority.

Auditor General

Pretoria

05 August 2016

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

16. Statement of Financial Position as at 31 March 2016

		Group		Company	
		2016	Restated 2015	2016	Restated 2015
	Note(s)	R '000	R '000	R '000	R '000
Assets					
Non-Current Assets					
Biological assets	3	3,508,701	3,559,766	-	-
Property, plant and equipment	4&40	216,123	225,707	2,607	4,884
Intangible assets	5	39,426	51,267	39,426	51,267
Other financial assets	6	2,053	2,138	1,410	1,495
Deferred tax	7	95,550	22,221	69,151	21,579
Retirement benefit asset	8	177	159	3	33
		3,862,030	**3,861,258**	**112,597**	**79,258**
Current Assets					
Inventories	9	68,299	74,393	198	216
Loans to group companies	10	-	-	293,857	292,886
Current tax receivable		46,485	73	-	-
Trade and other receivables	11	122,175	196,598	5,115	8,106
Biological Assets	3	336,359	263,563	-	-
Cash and cash equivalents	12	208,016	293,294	177,497	266,605
		781,334	**827,921**	**476,667**	**567,813**
Non-current assets held for sale	13&40	9,108	25	-	-
Total Assets		**4,652,472**	**4,689,204**	**589,264**	**647,071**

		Group		Company	
		2016	Restated 2015	2016	Restated 2015
	Note(s)	R '000	R '000	R '000	R '000
Equity and Liabilities					
Equity					
Share capital	15	318,013	318,013	318,013	318,013
Reserves		53,449	61,629	128,374	128,374
Retained income	40	2,862,432	2,912,171	58,836	127,988
		3,233,894	**3,291,813**	**505,223**	**574,375**
Liabilities					
Non-Current Liabilities					
Finance lease obligation	20	50,785	40,018	-	-
Deferred tax	7	1,105,253	1,036,144	-	-
		1,156,038	**1,076,162**	**-**	**-**
Current Liabilities					
Current tax payable		-	23,108	-	-
Finance lease obligation	20	20,687	14,818	-	-
Trade and other payables	21&40	231,701	262,144	84,041	72,696
Provisions	22	10,152	21,159	-	-
		262,540	**321,229**	**84,041**	**72,696**
Total Liabilities		**1,418,578**	**1,397,391**	**84,041**	**72,696**
Total Equity and Liabilities		**4,652,472**	**4,689,204**	**589,264**	**647,071**

Statement of Profit and Loss and Other Comprehensive Income

		Group		Company	
		2016	Restated 2015	2016	Restated 2015
	Note(s)	R '000	R '000	R '000	R '000
Revenue	24	903,297	898,140	318	57
Cost of sales	25	(718,633)	(674,130)	-	-
Gross profit		**184,664**	**224,010**	**318**	**57**
Other income		6,533	7,074	77,701	46,247
Operating expenses		(316,650)	(245,803)	(203,169)	(142,644)
Operating profit / (loss)	26	**(125,453)**	**(14,719)**	**(125,150)**	**(96,340)**
Investment revenue	29	12,632	14,594	12,100	16,913
Fair value adjustments	28	21,769	144,544	-	-
Finance costs	30	(6,445)	(4,249)	(3,674)	(309)
Profit / (Loss) profit before taxation		**(97,497)**	**140,170**	**(116,724)**	**(79,736)**
Taxation	31	47,758	(11,334)	47,572	7,216
Profit / (Loss) profit for the year		**(49,739)**	**128,836**	**(69,152)**	**(72,520)**
Other comprehensive income:					
Items that will not be reclassified to profit or loss					
Gains and losses on property revaluation		6,546	-	-	-
Tax on gain on property revaluations		(1,509)	-	-	-
Total items that will not be reclassified to profit or loss		**5,037**	**-**	**-**	**-**
Items that may be reclassified to profit or loss					
Exchange differences on translating foreign operations		(13,254)	(25,616)	-	-
Other comprehensive income for the year net of taxation		**(8,217)**	**(25,616)**	**-**	**-**
Total comprehensive income / (loss) for the year		**(57,956)**	**103,220**	**(69,152)**	**(72,520)**

Statement of Changes in Equity

	Share capital	Foreign currency translation reserve	Retirement fund reserve	Revaluation reserve	Capital profit reserve	Total reserves	Retained income	Total equity
	R '000	R '000	R '000	R '000	R '000	R '000	R '000	R '000
Group								
Opening balance as previously reported	318,013	(42,040)	64,000	948	64,374	87,282	3,190,464	3,595,759
Adjustments								
Prior year adjustments	-	-	-	-	-	-	(407,129)	(407,129)
Balance at 01 April 2014 as restated	**318,013**	**(42,040)**	**64,000**	**948**	**64,374**	**87,282**	**2,783,335**	**3,188,630**
Profit for the year	-	-	-	-	-	-	128,836	128,836
Other comprehensive income	-	(25,616)	-	-	-	(25,616)	-	(25,616)
Total comprehensive income for the year	**-**	**(25,616)**	**-**	**-**	**-**	**(25,616)**	**128,836**	**103,220**
Balance at 01 April 2015	**318,013**	**(67,656)**	**64,000**	**948**	**64,374**	**61,666**	**2,912,171**	**3,291,850**
Loss for the year	-	-	-	-	-	-	(49,739)	(49,739)
Other comprehensive income	-	(13,254)	-	5,037	-	(8,217)	-	(8,217)
Total comprehensive Loss for the year	**-**	**(13,254)**	**-**	**5,037**	**-**	**(8,217)**	**(49,739)**	**(57,956)**
Balance at 31 March 2016	**318,013**	**(80,910)**	**64,000**	**5,985**	**64,374**	**53,449**	**2,862,432**	**3,233,894**
Note(s)	15	16	17	18	19			

Statement of Changes in Equity

	Share capital	Foreign currency translation reserve	Retirement fund reserve	Revaluation reserve	Capital profit reserve	Total reserves	Retained income	Total equity
	R '000	R '000	R '000	R '000	R '000	R '000	R '000	R '000
Company								
Opening balance as previously reported	318,013	-	64,000	-	64,374	128,374	254,548	700,935
Adjustments								
Prior year adjustments	-	-	-	-	-	-	(54,040)	(54,040)
Balance at 01 April 2014 as restated	**318,013**	**-**	**64,000**	**-**	**64,374**	**128,374**	**200,508**	**646,895**
Loss for the year	-	-	-	-	-	-	(72,520)	(72,520)
Total comprehensive Loss for the year	**-**	**-**	**-**	**-**	**-**	**-**	**(72,520)**	**(72,520)**
Balance at 01 April 2015	**318,013**	**-**	**64,000**	**-**	**64,374**	**128,374**	**127,988**	**574,375**
Loss for the year	-	-	-	-	-	-	(69,152)	(69,152)
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive loss for the year	**-**	**-**	**-**	**-**	**-**	**-**	**(69,152)**	**(69,152)**
Balance at 31 March 2016	**318,013**	**-**	**64,000**	**-**	**64,374**	**128,374**	**58,836**	**505,223**
Note(s)	15	16	17	18	19			

Statement of Cash Flows

		Group		Company	
		2016	Restated 2015	2016	Restated 2015
	Note(s)	R '000	R '000	R '000	R '000
Cash flows from operating activities					
Cash generated / (utilised) in operations	32	(45,263)	125,907	(95,943)	(23,677)
Interest income	29	12,632	14,594	12,100	16,913
Dividends received	29	-	-	-	-
Finance costs	30	(6,445)	(4,249)	(3,674)	(309)
Tax received / (paid)	33	(5,670)	(12,957)	-	642
Net cash inflow/(outflow) from operating activities		**(44,746)**	**123,295**	**(87,517)**	**(6,431)**
Cash flows from investing activities					
Purchase of property, plant and equipment	4	(48,998)	(34,295)	(707)	(109)
Transfer of property, plant and equipment	4	(1,549)	-	-	-
Purchase of intangible assets	5	-	(3,660)	-	(3,660)
Loans advanced to group companies	10	-	-	(971)	99,882
Proceeds on sale of financial assets	6	87	(1,595)	87	(1,204)
Foreign currency translation reserve (non-cash movement)		(13,254)	(25,616)	-	-
Increase in non-current assets held for sale	13	6,546	-	-	-
Net cash inflow/(outflow) from investing activities		**(57,168)**	**(65,166)**	**(1,591)**	**94,909**
Cash flows from financing activities					
Movement in finance leases	20	16,636	13,003	-	-
Net increase/(decrease) in cash and cash equivalents		**(85,278)**	**71,132**	**(89,108)**	**88,478**
Cash and cash equivalents at the beginning of the year		293,294	222,162	266,605	178,127
Total cash and cash equivalents at end of the year	12	**208,016**	**293,294**	**177,497**	**266,605**

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 is a horizontally integrated operation whose main business is the conduct of forestry, timber processing and related activities in Southern Africa.

1. Presentation of Consolidated Annual Financial Statements

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been applied to all years presented which are consistent with those of the previous year, except for new and revised standards and interpretations adopted per notes to the financial statements.

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

The preparation of the annual financial statements in conformity with International Financial Reporting Standards, 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 Statement of compliance

The Annual Group Financial Statements of SAFCOL are prepared in accordance with International Financial Reporting Standards, the South African Companies Act No. 71 of 2008 and the Public Finance Management Act No. 1 of 1999.

The Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods commencing on 1 April 2014.

1.2 Consolidation

Basis of consolidation

Subsidiaries

The consolidated annual financial statements incorporate the financial statements of the Company and its subsidiaries. The Company controls an entity if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

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

Subsidiaries are consolidated from the date on which effective control (power over the investee; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns) is transferred to the Group and consolidation ceases from the date of disposal or the date on which control ceases. All interCompany transactions, balances and unrealised surpluses and deficits on transactions between Group entities are eliminated.

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

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

1.3 Significant judgements and sources of estimation uncertainty

In preparing the consolidated annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the consolidated annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the consolidated annual financial statements. Significant judgements include:

Provision for impairment of tradereceivables

The Group assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in profit or loss, the Company makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset. At each statement of financial position date, the Group assesses whether there is any objective evidence that receivables are impaired. If evidence of impairment exists, the provision is calculated as the carrying value of the receivable less the present value of the estimated recoverable amount.

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 pre-defined products or log classes.
  - The nominal planted area is derived from the core forestry management systems.
- **Volume adjustment factor:**

Due to the nature of plantation forestry, and more specifically its susceptibility to the environment, an adjustment factor is determined to reduce the 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 following:

- Risk free rate which is updated with the market rates applicable at the valuation dates.
- Market premium which has been adjusted to compensate for increased risk factors.
- Inflation assumptions which have been adjusted to incorporate the market view at the valuation date.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 22 - Provisions.

Taxation

The Group is subject to income taxes in South Africa and Mozambique jurisdictions. Significant judgement is required in determining the provision for income 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 measured at fair value less costs to sell. Fair value of plantations is estimated based on the present value of the net future cash flows from the asset, discounted at a current market-based rate. In determining the present value of expected net cash flows, the Group includes the net cash flows that market participants would expect the asset to generate in its most relevant market. Increases or decreases in value are recognised in the statement of comprehensive income.

All expenses incurred in maintaining and protecting the assets are recognised in the statement of comprehensive income. All costs incurred in acquiring additional planted areas are capitalised.

1.5 Investment property

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

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

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

Investment property has been reclassified as non-current asset held for sale per IFRS 5, as the asset meets the requirements of the standard.

1.6 Property, plant and equipment 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.

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

Subsequent expenditure 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, stand-by 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 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 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 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	Average useful life
Buildings and utilities	20 - 50 years
Leasehold improvements: buildings and utilities	25 years
Plant and machinery	4 - 15 years
Furniture and fixtures	5 - 10 years
Motor vehicles	4 - 12 years
Computer equipment	3 - 10 years
Leasehold improvements: telephone lines and fences	10 years
Leasehold improvements: roads	25 years

1.7 Intangible assets

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.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

The Group's intangible assets are assessed as having finite useful lives. Amortisation is charged to the statement of 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 - 5 years

The carrying amount of an item or part of an intangible asset is derecognised at the earlier of the date of disposal or the date when no future economic benefits are expected from its use or disposal. Gains or losses on derecognition of an item of an intangible asset are included in the statement of comprehensive income. The gain or loss is the difference between the net disposal proceeds and the carrying amount of the asset.

1.8 Financial Instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to- maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (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 debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to intial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash) are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Available-for-sale financial assets

Available-for-sale (AFS) financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

The Group also has investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and stated at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term;

- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item.

Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and the 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 net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interestate method, less provision for impairment. Other receivables constitute are amounts due from activities that are outside the ordinary course of business. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the orignal terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, financial re-organization, and default, or delinquency in payments, are considered indicators that the trade receivable is impaired.

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

Trade and other payables

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

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

Cash and cash equivalents

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

Bank overdraft and borrowings

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

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

1.9 Financial instruments Classification

The Group classifies financial assets and financial liabilities into the following categories:

- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities measured at amortised cost

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

Loans and receivables

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

Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in profit or loss.

Available for sale financial assets

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

Financial liabilities

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest rate method.

Loans to (from) group companies

These include loans to and from holding companies, fellow subsidiaries, subsidiaries, joint ventures and associates and are recognised initially at fair value plus direct transaction costs.

Loans to group companies are classified as loans and receivables.

Loans from group companies are classified as financial liabilities measured at amortised cost.

Trade and other receivables

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

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

Trade and other payables

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

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

Cash and cash equivalents

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

Cash and cash equivalents are initially recorded at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Derivatives

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts and interest rate swaps, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in profit or loss.

Changes in the fair value of derivative financial instruments are recognised in profit or loss as they arise. Derivatives are classified as financial assets at fair value through profit or loss - held for trading.

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the group has the positive intention and ability to hold to maturity are classified as held to maturity.

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 theend 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 dependant 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 theend of the reporting period.

Dividend Witholding Tax

Dividends witholding tax (DWT) is a tax levied on the beneficial owner of the share. The tax is witheld 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 to equity.

Indirect taxes

A Company within the group purchases goods and services for mixed purposes. Where the percentage of non-taxable supplies exceeds five percent, the standard apportionment method is used.

Any over/under recovery of non-recoverable Value-Added-Tax is recognised in profit and loss and disclosed separately in the statement of comprehensive income as indirect taxes.

1.11 Leases

Initial Recognition

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Initial Measurement

Finance Lease

At the commencement of the lease term, lessees shall recognise finance leases as assets and liabilities in their statements of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease. Any initial direct costs of the lessee are added to the amount recognised as an asset.

Operating Lease

Payments made under operating leases are recognised in the statement of financial performance on a straight-line basis over the period of the lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset.

Subsequent Measurement Finance Lease

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability. Contingent rents shall be charged as expenses in the periods in which they are incurred.

Leased assets shall be fully depreciated over the shorter of the lease term and its useful life.

Finance leases – lessee

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

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

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 of 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 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 is 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 are 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 bases:

- Finished goods and work-in-progress comprises raw material, direct labour, other direct costs and related production overheads incurred in bringing the inventories to their present location and condition, calculated on the weighted average basis, based on the normal capacity for the period to eliminate the effect of changes in log distribution. Included in finished goods and work-in- progress inventories are sawn timber, 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.

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 group) 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 group) 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 inprofit 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), are 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 or, in the case of non-accumulating absences, when the absence occurs.

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.

Defined contribution plans

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

The Group 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.

Bonus plans

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Group and Company's shareholders after certain adjustments. The Group recognises a provision where obliged contractually, or where there is a past practice that has created a constructive obligation.

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 and contingencies

A provision is recognised when the Group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the effect of the time value of money is material, provisions are measured by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or announced publicly. Costs relating to ongoing activities are not provided for.

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.

If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision. Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note36.

1.18 Revenue

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates, and value added tax and elimination of Group internal sales.

Interest is recognised, in profit or loss, using the effective interest rate method.

Dividends are recognised, in profit or loss, when the Group's right to receive payment has been established.

Sales of Goods

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

Sales are recorded based on the price specified in the sales contracts. The provision for claims is based on actual returns by customers and includes volume, quality and price disputes.

Sales of Services

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.

1.19 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when:

- expenditures for the asset have occurred;
- borrowing costs have been incurred, and
- activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 Translation of foreign currencies

Functional and presentation currency

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

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

Foreign currency transactions

Transactions and balances

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

At the end of the reporting period, foreign currency monetary items are translated using the closing rate.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non- monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Investments in subsidiaries

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

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

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

1.21 Reserves

Non-distributable reserves

Foreign Currency Translation Reserve

If the functional currency of a subsidiary is different to the presentation currency of the Group, the net effect of translating to the presentation currency is allocated to the foreign currency translation reserve. Items are translated at the Group's financial year-end in accordance with section 1.18 Translation of foreign currencies.

Revaluation Reserve

The revaluation of non-current assets and equity instruments are charged to the non-distributable reserve and therefore reflected as a gain or loss in the statement of financial performance.

Distributable reserves

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.

1.22 Post balance sheet events

Recognised amounts in the financial statements are adjusted to reflect events arising after the statement of financial position date that provide evidence of conditions that existed at the statement of financial position date. Depending on materiality, events after the statement of financial position date that are indicative of conditions that arose after the statement of financial position date are dealt with by way of a note.

1.23 Comparative figures

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

1.24 Related Party

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)

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

1.25 PFMA Reportable Expenditure

In terms of section 55(2)(b)(i) of the Public Finance Management Act, 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 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 its impractical to determine, in which case reasons therefore must be provided.

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

2. New Standards and Interpretations

Standards, amendments and interpretations effective in 2016 and relevant to the Group's operations

- IFRS 13,'Fair value' resulting from Annual Improvements 2010-2012 Cycle (amended basis of conclusions to clarify that it did not intend to remove the ability to measure short term receivables and payables at invoice amounts where the effect of discounting is immaterial), (Standard Effective on and after 1 January 2015)
- Amendments to IAS 24, 'Related Party Disclosure' resulting from Annual Improvements 2010-2012 Cycle (management entities), (Standard Effective on and after 1 January 2015)
- Amendments to IAS 19, 'Employee Benefits' to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service (Endorsed 1 February 2015)

Standards, amendments and interpretations effective in 2016, but not relevant to the Group's operations

- Amendments to IFRS 2, 'Share – based payments' resulting from Annual Improvements 2010-2012 Cycle (definition of 'vesting condition'), (Standard Effective on and after 1 January 2015)
- Amendments to IFRS 3, 'Business combinations' resulting from Annual Improvements 2010-2012 Cycle (definition of contingent consideration), (Standard Effective on and after 1 January 2015)
- Amendments to IFRS 8, 'Operating segments' resulting from Annual Improvements 2010-2012 Cycle (disclosure of judgements made in aggregating operating segments, and reconciliation of segment assets to the entity's assets), (Standard Effective on and after 1 January 2015)
- IFRS 1, 'First time adoptions of IFRS's' resulting from Annual Improvements 2011-2013 Cycle, (Standard Effective on and after 1 January 2015)
- IFRS 3, 'Business combinations' resulting from Annual Improvements 2011-2013 Cycle (does not apply to the accounting for the formation of joint venture), Standard Effective on and after 1 January 2015)
- IFRS 13, 'Fair value measurement' resulting from Annual Improvements 2011-2013 Cycle (definition of portfolio exception), (Standard Effective on and after 1 January 2015)
- IAS 40, 'Investment Property' resulting from Annual Improvements 2011-2013 Cycle (IAS 40 and IFRS 3 are not mutually exclusive), Standard Effective on and after 1 January 2015)
- Amendments to IAS 16, 'Property, plant and equipment' resulting from Annual Improvements 2010-2012 Cycle (proportionate restatement of accumulated depreciation on revaluation), (Standard Effective on and after 1 January 2015)

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

- Amendments to IAS 27, 'Separate financial statements', regarding the entity method. (Effective 1 January 2016)
- IFRS 5, 'Non-current assets held for sale and discontinued operations' resulting from Annual Improvements 2012-2014 Cycle (guidance on changes in a plan of sale). (Effective 1 January 2016)
- IAS 19, 'Employee Benefits' resulting from Annual Improvements 2012-2014 Cycle (Determining the discount rate for post- employment benefit obligations). (Effective 1 January 2016)
- IFRS 9,'Financial Instruments', this replaces most of the guidance in IAS 39. (Effective 1 January 2018))
- Amendment to IAS 1,'Presentation of financial statements', regarding the disclosure initiative. (Effective 1 January 2016)
- IFRS 15,'Revenue from contracts with customers', this standard replaces IAS 11,'Construction Contracts,' and IAS 18,'Revenue and related interpretations. (Effective 1 January 2017)

- IFRS 16, 'Leases', regarding the single lessee accounting model. (Effective 01 January 2019)

Amendments and Interpretations issued, but not yet effective and not relevant to the Group's operations

- Amendment to IFRS 11,'Joint arrangements' regarding acquisition of an interest in a joint operation. (Effective 1 January 2016)
- Amendments to IAS 16, 'Property, plant and equipment' and IAS 41, 'Agriculture' regarding bearer plants. (Effective 1 January 2016)
- Amendments to IFRS 10, 'Consolidated Financial Statements' and IAS 28,'Associates and joint ventures', regarding the sale or contribution of assets between an investor and its associate or joint venture. (Effective 1 January 2016)
- Amendments to IFRS 14, 'Regulatory deferral accounts', first time adopters of IFRS to continue to recognise amounts related to rate regulation in accordance with previous GAAP requirements. (Effective 1 January 2016)
- IFRS 7, 'Financial Instruments: Disclosures' resulting from Annual Improvements 2012-2014 Cycle (guidance on servicing contracts and interim financial statements). (Effective 1 January 2016)
- IAS 34, 'Interim financial reporting' resulting from Annual Improvements 2012-2014 Cycle (defines information disclosed elsewhere in the interim financial report). (Effective 1 January 2016)
- Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets', regarding depreciation and amortisation. (Effective 1 January 2016))
- Amendments to IAS 16, 'Property, plant and equipment' and IAS 41, 'Agriculture' regarding bearer plants. (Effective 1 January 2016)
- Amendment to IAS 41, 'Agriculture' and IAS 16, 'Property, plant and equipment' , on bearer plants. (Effective 1 January 2016)
- IFRS 12, 'Disclosure of Interests in Other Entities' and IAS 28, 'Investments in associates and joint ventures', regarding investment entities applying the consolidation exception. (Effective 01 January 2016)

3. Biological assets

Group	2016			2015		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Plantations	3,845,060	-	3,845,060	3,823,329	-	3,823,329

Fair value hierarchy of biological assets

Due to biological assets being recognised at fair value, disclosure is required of the fair value hierarchy, which reflects the significance of the inputs used to make the measurements.

Biological assets are categorised as level 3 as the inputs are not based on observable market data.

Reconciliation of biological assets measured at level 3

Biological assets	**2016**	**2015**
Carrying value at the beginning of the period	3,823,329	3,679,913
Volumes - Growth / Mean Annual Increment (MAI)	64,776	28,732
Prices	809,201	600,476
Costs	(546,743)	(71,438)
Discount rate	(302,729)	225,215
Adjustment	(2,774)	431
Carrying value at the end of the period	**3,845,060**	**3,823,329**

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

- The market prices per cubic metre based on market expectations per log class;
- Activity costs from the operating statements of plantations for the past period;
- Plantation areas of 137 960 ha (2015 : 137,998 ha) for the Group and 0 ha (2015: 0 ha) for the Company. The plantation areas include 16.57 hectares of Kamhlabane Timber SOC Limited;
- During the year the Group harvested approximately 1,317,644 m3 (2015 : 1,364,966 m3), which had a fair value less costs to sell of R 582 (2015: R 519) per cubic metre at the date of harvest;

- Physical statistics in accordance with the plantation management system. These statistics are affected by the impact of fires, enumeration updates and product optimisation;
- Discount rate determined based on a current market-based rate, which is pre-tax real discount rate. Rate used: Komatiland Forests SOC Limited: 10.80% (2015 : 9.78%), IFLOMA: 16.57% (2015: 18.14%); and
- The valuations were performed by an independent external forestry economist.

The following sensitivity analysis shows how the valuation would be affected if the key valuation parameters are changed, keeping all other variables constant.

Sensitivity Analysis	**Valuation**	**Effect of % change**
	R'000	**R'000**
Valuation as at 31 March 2016	3,845,060	-
10% increase in log prices	4,737,245	892,185
10% increase in overhead costs	3,622,552	(222,508)
10% increase in the discount rate	3,521,762	(323,298)
10% increase in volumes	4,561,182	716,122

Split between current and non current portion	**2016**	**2015**
Non-current assets	3,508,701	3,559,766
Current assets	336,359	263,563
	3,845,060	**3,823,329**

Reconcilation of Biological Assets	**2016**	**2015**
Opening balance	3,823,329	3,679,913
Sales / harvested at current NSV	(537,068)	(567,493)
Valuation adjustment	537,068	567,493
Growth at current NSV	21,731	143,416
Closing balance	**3,845,060**	**3,823,329**

4. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land	2,481	-	2,481	4,030	-	4,030
Buildings and utilities	47,465	(21,892)	25,573	47,040	(20,244)	26,796
Leasehold improvements: buildings and utilities	18,283	(5,762)	12,521	18,191	(4,906)	13,285
Plant and machinery	215,078	(131,252)	83,826	198,334	(121,672)	76,662
Furniture and fixtures	8,733	(4,004)	4,729	3,894	(1,517)	2,377
Motor vehicles	153,608	(102,483)	51,125	158,252	(92,971)	65,281
Computer equipment	21,388	(12,123)	9,265	17,476	(8,464)	9,012
Leasehold improvements: telephone lines and fences	22,056	(8,772)	13,284	22,056	(5,303)	16,753
Leasehold improvements: roads	17,277	(4,225)	13,052	14,878	(3,559)	11,319
Capital work in progress	267	-	267	192	-	192
Total	**506,636**	**(290,513)**	**216,123**	**484,343**	**(258,636)**	**225,707**

Company	**2016**			**2015**		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Leasehold improvements: buildings and utilities	186	(52)	134	77	(41)	36
Plant and machinery	265	(121)	144	119	(98)	21
Furniture and fixtures	3,208	(2,918)	290	2,959	(1,014)	1,945
Motor vehicles	3,645	(2,201)	1,444	3,461	(1,823)	1,638
Computer equipment	3,058	(2,484)	574	3,058	(1,814)	1,244
Leasehold improvements: roads	21	-	21	-	-	-
Total	**10,383**	**(7,776)**	**2,607**	**9,674**	**(4,790)**	**4,884**

Reconciliation of property, plant and equipment: Group - 2016

	Opening balance	Additions	Classified as held for sale	Other changes	Depreciation	Impairment loss	Total
Land	4,030	-	(1,549)	-	-	-	2,481
Buildings	26,796	1,098	-	(30)	(2,291)	-	25,573
Leasehold improvements: Buildings and utilities	13,285	109	-	9	(867)	(15)	12,521
Plant and machinery	76,662	31,683	(189)	(2,356)	(19,349)	(2,625)	83,826
Furniture and fixtures	2,377	4,838	-	(312)	(2,174)	-	4,729
Motor vehicles	65,281	4,349	(988)	(4,747)	(10,144)	(2,626)	51,125
Computer equipment	9,012	4,408	-	(189)	(3,966)	-	9,265
Leasehold improvements: Telephone lines and fences	16,753	-	-	-	(3,469)	-	13,284
Leasehold improvements: Roads	11,319	2,513	-	(114)	(666)	-	13,052
Capital work in progress	192	-	-	75	-	-	267
	225,707	**48,998**	**(2,726)**	**(7,664)**	**(42,926)**	**(5,266)**	**216,123**

Reconciliation of property, plant and equipment - Group - 2015

	Opening balance	Additions	Other changes	Depreciation	Total
Land	4,030	-	-	-	4,030
Buildings and utilities	30,440	-	(2,124)	(1,520)	26,796
Leasehold improvements: Buildings and utilities	13,008	1,751	(110)	(1,364)	13,285
Plant and machinery	88,980	12,271	(5,342)	(19,247)	76,662
Furniture and fixtures	11,405	430	(7,269)	(2,189)	2,377
Motor vehicles	63,982	17,376	4,445	(20,522)	65,281
Computer equipment	12,618	1,508	(778)	(4,336)	9,012
Leasehold improvements: Telephone lines and fences	17,518	155	1,541	(2,461)	16,753
Leasehold improvements: Roads	10,905	804	660	(1,050)	11,319
Capital work in progress	197	-	(5)	-	192
	253,083	**34,295**	**(8,982)**	**(52,689)**	**225,707**

Reconciliation of property, plant and equipment - Company - 2016

	Opening balance	Additions	Depreciation	Total
Leasehold improvements: Buildings and utilities	36	109	(11)	134
Plant and machinery	21	145	(22)	144
Furniture and fixtures	1,945	249	(1,904)	290
Motor vehicles	1,638	183	(377)	1,444
Computer equipment	1,244	-	(670)	574
Leasehold improvements: Roads	-	21	-	21
	4,884	**707**	**(2,984)**	**2,607**

Reconciliation of property, plant and equipment - Company - 2015

	Opening balance	Additions	Other changes	Depreciation	Total
Leasehold improvements: Buildings and utilities	26	-	12	(2)	36
Plant and machinery	101	-	(66)	(14)	21
Furniture and fixtures	2,440	-	(178)	(317)	1,945
Motor vehicles	899	109	773	(143)	1,638
Computer equipment	902	-	578	(236)	1,244
	4,368	**109**	**1,119**	**(712)**	**4,884**

Note 1

The Group embarked on a verification exercise of all its property , plant and equipment at year end. The purpose of the exercise was to rectify the existing asset register to ensure that all Property , plant and equipment reflected in the annual financial statements is fairly stated. The verification exercise included the physical verification of all assets to confirm existence and completeness, as well as the consideration of the physical condition and estimated remaining useful life of the assets to ensure that all assets are correctly valued.

The net effect of the results of this exercise has resulted in a restatement of the prior year (2015) Annual Financial Statements and is captured as "Other Changes" in the note above.

The 'Other Changes' column, split by category of asset, comprises of the following 4 elements:

- Additions - Assets that were found but were not on the original register.

- Assets written off - Assets that were on the previous register that could not be found.
- Accumulated depreciation adjustment - a recalculation of depreciation from acquistion date.
- Adjustment for the write back of depreciation - based on the revision of the useful life of certain assets still in use.

Further details of the impact of the restatement are more fully described under note 40 prior period error.

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011 is available for inspection at the registered office of the Company.

5. Intangible assets

Group	2016			2015		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software	66,158	(26,732)	39,426	66,254	(14,987)	51,267

Company	2016			2015		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software	59,202	(19,776)	39,426	59,298	(8,031)	51,267

Reconciliation of intangible assets - Group - 2016

	Opening balance	Amortisation	Total
Computer software	51,267	(11,841)	39,426

Reconciliation of intangible assets - Group - 2015

	Opening balance	Additions	Transfers	Other changes	Amortisation	Total
Computer software	240	-	59,118	-	(8,091)	51,267
Capital work in progress	56,919	3,660	(59,118)	(1,461)	-	-
	57,159	**3,660**	**-**	**(1,461)**	**(8,091)**	**51,267**

Reconciliation of intangible assets - Company - 2016

	Opening balance	Amortisation	Total
Computer software	51,267	(11,841)	39,426

Reconciliation of intangible assets - Company - 2015

	Opening balance	Additions	Transfers	Other changes	Amortisation	Total
Computer software	47	-	59,118	-	(7,898)	51,267
Capital work in progress	56,919	3,660	(59,118)	(1,461)	-	-
	56,966	**3,660**	**-**	**(1,461)**	**(7,898)**	**51,267**

	Group		Company	
	2016	Restated 2015	2016	Restated 2015
	R '000	R '000	R '000	R '000

6. Other financial assets

Available-for-sale				
Investments	2,053	2,138	1,410	1,495
Non-current assets				
Available-for-sale	2,053	2,138	1,410	1,495

Fair value hierarchy of available for sale financial assets

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements.

Level 1 represents those assets which are measured using unadjusted quoted prices for identical assets.

Level 2 applies inputs other than quoted prices that are observable for the assets either directly (as prices) or indirectly (derived from prices).

Level 3 applies inputs which are not based on observable market data.

Level 1				
Risk finance policy - Guardrisk	1,408	1,493	1,408	1,493
Level 3				
Transvaal Wattle Growers Co-Op Agriculture Company	1	1	1	1
KAAP Agri	1	1	1	1
NTE Investments	643	643	-	-
	645	**645**	**2**	**2**
	2,053	**2,138**	**1,410**	**1,495**

	Group		Company	
	2016	Restated 2015	2016	Restated 2015
	R '000	R '000	R '000	R '000

Reconciliation of financial assets measured at level 3

Reconciliation of financial assets measured at level 3 - Group - 2016

	Opening balance	Total
Transvaal Wattle Growers Co-Op Agriculture Company	1	1
KAAP Agri	1	1
NTE Investments	643	643
	645	**645**

Reconciliation of financial assets measured at level 3 - Group -2015

	Opening balance	Total
Transvaal Wattle Growers Co-Op Agriculture Company	1	1
KAAP Agri	1	1
NTE Investments	643	643
	645	**645**

Reconciliation of financial assets measured at level 3 - Company -2016

	Opening balance	Total
Transvaal Wattle Growers Co-Op Agriculture Company	1	1
KAAP Agri	1	1
	2	**2**

Reconciliation of financial assets measured at level 3 - Company -2015

	Opening balance	Total
Transvaal Wattle Growers Co-Op Agriculture Company	1	1
KAAP Agri	1	1
	2	**2**

Available for sale				
Beginning of the year	2,138	543	1,787	291
Movement for the current year	(85)	1,595	(379)	1,496
	2,053	**2,138**	**1,408**	**1,787**

The directors value all unlisted investments at cost.

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

	Group		Company	
	2016	Restated 2015	2016	Restated 2015
	R '000	R '000	R '000	R '000

7. Deferred tax

The deferred tax assets and the deferred tax liability relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the statement of financial position as follows:

	Group 2016 R '000	Group Restated 2015 R '000	Company 2016 R '000	Company Restated 2015 R '000
Deferred tax liability	(1,105,254)	(1,036,144)	-	-
Deferred tax asset	95,551	22,221	69,151	21,579
Total net deferred tax asset / (liability)	**(1,009,703)**	**(1,013,923)**	**69,151**	**21,579**

Reconciliation of deferred tax asset / (liability)

	Group 2016 R '000	Group Restated 2015 R '000	Company 2016 R '000	Company Restated 2015 R '000
Balance at the beginning of the year	(1,013,923)	(1,032,555)	21,579	14,363
Prior year under / (over) provision	(16,120)	-	17,039	-
Charged to other comprehensive income	(1,509)	-	-	-
Reversing/(Originating) temporary differences on property, plant and equipment	(3,986)	3,261	(1,291)	(2,592)
Reversing/(Originating) temporary differences on provisions	950	15,831	(232)	(31)
Reversing/(Originating) temporary differences on other allowances	19,063	7,435	(365)	-
Reversing/(Originating) temporary differences on fair value adjustments	(6,792)	(42,550)	-	-
Reversing/(Originating) temporary differences on retirement benefit assets	(5)	587	9	123
Reversing/(Originating) temporary differences on borrowings	(4,658)	12,114	-	-
Originating difference on assessed loss	33,556	21,954	32,412	9,716
Foreign exchange on deferred tax - IFLOMA	(16,279)	-	-	-
	(1,009,703)	**(1,013,923)**	**69,151**	**21,579**

	Group		Company	
	2016	Restated 2015	2016	Restated 2015
	R '000	R '000	R '000	R '000

8. Retirement benefits

Retirement funds

The employees were members of either the South African Forestry Company SOC Limited Provident Fund or the Forestry Workers Provident Fund at year end, the latter option is for members from forestry and related industries.

These plans are defined contribution funds.

Alexander Forbes is the administrator of the South African Forestry Company SOC Limited Provident Fund.

The following are the results of the actuarial valuation in terms of IAS 19 for the South African Forestry Company SOC Limited Pension Fund and the South African Forestry Company SOC Limited Pension-Linked Provident Fund.

Non-current statement financial position				
Pension and provident fund	177	159	3	33
Statement of profit and loss and other comprehensive income				
Post retirement benefits - defined contribution	20,483	17,441	328	3,662
Key assumptions used				
The principal actuarial assumptions used were as follows				
Discount rates used	7.8%	6.4%	7.8%	6.4%
Expected rate of return on assets	9.1%	5,4%	9.1%	5.4%
Plan assets are comprised as follows: (SAFCOL Provident Fund)				
Cash	17.52%	96.90%	17.52%	96.90%
Equity	29.73%	-	29.73%	-
Bonds	34.19%	3.10%	34.10%	3.10%
International	18.56%	-	18.56%	-
	100%	**100%**	**100%**	**100%**

	Group		Company	
	2016	Restated 2015	2016	Restated 2015
	R '000	R '000	R '000	R '000

9. Inventories

At Cost				
Raw materials	12,998	10,824	-	-
Work in progress	14,400	12,464	-	-
Finished goods	13,574	17,800	-	-
Consumable Stores	25,383	23,982	198	216
At net realisable value				
Finished goods	-	5,294	-	-
At fair value				
Saw logs	4,046	6,404	-	-
	70,401	76,768	198	216
Inventories (write-downs)	(2,102)	(2,375)	-	-
	68,299	**74,393**	**198**	**216**

Inventory - write downs

An allowance of 15% for nursery stock due to non-germination has been made, this estimate is based upon historical data. No inventories were pledged as security.

10. Loans to (from) group companies Subsidiaries

Komatiland Forests SOC Limited	-	-	293,857	292,886

The loan is unsecured, bear interest at prime rate and have no fixed repayment terms.

	Group		Company	
	2016	Restated 2015	2016	Restated 2015
	R '000	R '000	R '000	R '000

11. Trade and other receivables

Trade receivables	117,027	189,888	-	-
Prepayments	1,419	4,679	799	64
VAT	1,239	-	-	-
Provision for impairment of trade and other receivables	(13,487)	(9,615)	-	-
Other receivables	15,977	11,646	4,316	8,042
	122,175	**196,598**	**5,115**	**8,106**

Fully performing trade and other receivables

Of the trade receivables of the Group as at 31 March 2016 R 117 million (2015 : R 190 million), R 75 million (2015: R 112 million) were fully performing. Of the R 16 million (2015 : R 11.6 million) other receivables of the Group of R 1.7 milion (2015: R 3.7 million) were fully performing.

Trade and other receivables with no default history

Trade receivables				
Fully performing trade receivables	75,016	112,133	-	4,095
Fully performing other receivables	1,758	3,735	770	2,588
	76,774	**115,868**	**770**	**6,683**

Trade and other receivables past due but not impaired

Included in the Group's trade and other receivables are trade and other receivables with a carrying amount of 42 million (2015 : R 77 million) and for the Company R 3.5 million (2015: R 1.4 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.

	Group		Company	
	2016	Restated 2015	2016	Restated 2015
	R '000	R '000	R '000	R '000
The ageing of amounts past due but not impaired is as follows:				
Total trade receivables	38,079	70,923	-	-
Total other receivables	4,498	5,632	3,546	1,359
	42,577	**76,555**	**3,546**	**1,359**
Trade receivables				
31-60 days	23,560	50,757	-	-
60-90 days	2,127	5,174	-	-
90-120 days	2,774	3,707	-	-
120-150 days	2,814	1,823	-	-
150+ days	6,804	9,462	-	-
	38,079	**70,923**	**-**	**-**
Other receivables				
31-60 days	49	217	11	(158)
60-90 days	(106)	192	3	88
90-120 days	9	1,549	2	48
120-150 days	1,307	394	1,305	(6)
150+ days	3,239	3,280	2,225	1,387
	4,498	**5,632**	**3,546**	**1,359**

	Group		Company	
	2016	Restated 2015	2016	Restated 2015
	R '000	R '000	R '000	R '000

Trade and other receivables impaired

Included in the Group and Company's trade and other receivables with a carrying amount of 13 million (2015 : R 9.6 million) which have been impaired and provided for. These relate to a number of independent customers which are in difficult economic situations.

The ageing of these loans is as follows:				
Total impaired trade receivables	3,076	6,696	-	-
Total impaired other receivables	10,411	2,919	-	-
	13,487	**9,615**	**-**	**-**

Trade receivables				
90-120 days	1	-	-	-
120-150 days	2	-	-	-
150+ days	3,073	6,696	-	-
	3,076	**6,696**	**-**	**-**

Other receivables				
31-60 days	126	-	-	-
60-90 days	131	-	-	-
90-120 days	62	-	-	-
120-150 days	353	-	-	-
150+ days	9,739	2,919	-	-
	10,411	**2,919**	**-**	**-**

	Group		Company	
	2016	Restated 2015	2016	Restated 2015
	R '000	R '000	R '000	R '000
Reconciliation of provision for impairment of trade and other receivables				
Opening balance	(9,615)	(13,188)	-	(752)
Impairment losses increase	(4,157)	2,599	-	-
Amounts written off as uncollectable	285	974	-	752
	(13,487)	**(9,615)**	**-**	**-**

The average credit period of the Group is 46 days (2015: 53) days. Interest is charged on trade receivables in default. The Group has provided for the majority of receivables over 150 days based on past experience, which indicates that the receivables which are past due beyond 150 days are generally not recoverable. Some past due receivables older than 150 days however have not been provided for due to specific conditions in regards to the repayment of the debt. Trade receivables between 60 days and 150 days are provided for based on estimated irrecoverable amounts.

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

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

12. Cash and cash equivalents

Cash and cash equivalents consist of:				
Bank balances	36,497	31,410	5,978	4,721
Short-term deposits	171,519	261,884	171,519	261,884
	208,016	**293,294**	**177,497**	**266,605**

	Group		Company	
	2016	Restated 2015	2016	Restated 2015
	R '000	R '000	R '000	R '000

13. Non-current assets held for sale

Assets and liabilities				
Non-current assets held for sale				
Property, plant and equipment	1,013	25	-	-
Investment property	8,095	-	-	-
	9,108	**25**	**-**	**-**

14. Financial assets by category

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

Group - 2016

	Loans and receivables	Available-for-sale	Total
Other financial assets	-	2,053	2,053
Trade and other receivables	122,175	-	122,175
Cash and cash equivalents	208,096	-	208,096
	330,271	**2,053**	**332,324**

Group - 2015

	Loans and receivables	Available-for-sale	Total
Other financial assets	-	2,138	2,138
Trade and other receivables	196,598	-	196,598
Cash and cash equivalents	293,294	-	293,294
	489,892	**2,138**	**492,030**

	Group 2016 R '000	Group Restated 2015 R '000	Company 2016 R '000	Company Restated 2015 R '000

Company - 2016

	Loans and receivables	Available-for-sale	Total
Loans to group companies	293,857	-	293,857
Other financial assets	-	1,410	1,410
Trade and other receivables	5,115	-	5,115
Cash and cash equivalents	177,497	-	177,497
	476,469	**1,410**	**477,879**

Company - 2015

	Loans and receivables	Available-for-sale	Total
Loans to group companies	292,886	-	292,886
Other financial assets	-	1,495	1,495
Trade and other receivables	8,106	-	8,106
Cash and cash equivalents	266,605	-	266,605
	567,597	**1,495**	**569,092**

15. Share capital

	Group 2016 R '000	Group Restated 2015 R '000	Company 2016 R '000	Company Restated 2015 R '000
Authorised				
1 500 000 000 Ordinary shares of R1 each	1,500,000	1,500,000	1,500,000	1,500,000

- unissued ordinary shares can only be issued by the passing of an ordinary resolution by the shareholder.

	Group 2016 R '000	Group Restated 2015 R '000	Company 2016 R '000	Company Restated 2015 R '000
Issued				
318 013 000 Ordinary shares of R1 each	318,013	318,013	318,013	318,013

	Group		Company	
	2016	Restated 2015	2016	Restated 2015
	R '000	R '000	R '000	R '000

16. Foreign currency translation reserve

Foreign exchange - IFLOMA	(80,910)	(67,656)	-	-

17. Retirement fund reserve

Lump-sum payment to retirement funds	20,000	20,000	20,000	20,000
Pension fund shortfall funded by Government	44,000	44,000	44,000	44,000
	64,000	**64,000**	**64,000**	**64,000**

18. Revaluation reserve

Adjustment to net asset valuation upon corporatisation	948	948	-	-
Revaluation of Abacus property	6,509	-	-	-
	7,457	**948**	**-**	**-**

19. Capital profit reserve

Capital surplus on sawmill insurance claims	37,061	37,061	37,061	37,061
Adjustment to plant, property and equipment opening balances	(669)	(669)	(669)	(669)
Cancellation of provision for cost of transfer of land	27,982	27,982	27,982	27,982
	64,374	**64,374**	**64,374**	**64,374**

	Group		Company	
	2016	Restated 2015	2016	Restated 2015
	R '000	R '000	R '000	R '000

20. Finance lease obligation

Minimum lease payments due				
- within one year	26,511	19,131	-	-
- in second to fifth year inclusive	58,069	45,775	-	
	84,580	64,906	-	
less: future finance charges	(13,108)	(10,070)	-	
Present value of minimum lease payments	**71,472**	**54,836**	**-**	
Present value of minimum lease payments due				
- within one year	20,687	14,818	-	
- in second to fifth year inclusive	50,785	40,018		
	71,472	**54,836**	**-**	
Non-current liabilities	50,785	40,018	-	
Current liabilities	20,687	14,818	-	
	71,472	**54,836**	**-**	

Finance lease obligations are capitalised between prime plus 0.39% and prime plus 0.19% (2015 : prime plus 0.19% and prime less 0.16%). The effective interest rate prevailing at year end ranged between 9.00 % and 9.44 % (2015: 9.09% and 9.44%). These lease terms are 5 years with between 1 and 5 years (2015: 1 and 5 years) remaining. These liabilities are secured by installment sale agreements over assets with a carrying value of R 71.4 million (2015 : R54 million). Monthly repayments are R 2.3 milion (2015 : R 1.3 million).

	Group		Company	

21. Trade and other payables

	2016 R '000	Restated 2015 R '000	2016 R '000	Restated 2015 R '000
Trade payables	38,472	38,654	2,542	2,399
VAT	3,259	7,049	3,248	103
Other payables	89,784	62,161	68,283	59,611
Land Lease	-	94,061	-	-
Accrued leave pay	16,449	17,005	2,937	3,765
Accrued bonus	10,663	2,700	203	195
Accruals	73,074	40,514	6,828	6,623
	231,701	**262,144**	**84,041**	**72,696**

22. Provisions

Reconciliation of provisions - Group - 2016

	Opening balance	Additions	Change in discount factor	Total
Provisions - IFLOMA	19,159	-	(11,552)	7,607
Product Claims	2,000	545	-	2,545
	21,159	**545**	**(11,552)**	**10,152**

Reconciliation of provisions - Group - 2015

	Opening balance	Additions	Utilised during the year	Transfer	Change in discount factor	Total
Provisions - IFLOMA	16,608	2,514	-	-	37	19,159
Land lease	60,410	46,419	-	(106,829)	-	-
Product Claims	251	2,000	(251)	-	-	2,000
	77,269	**50,933**	**(251)**	**(106,829)**	**37**	**21,159**

Product claims - provision for product returns based on terms and conditions of sale, and will realise within one year. The timing is uncertain regarding when the amounts will be claimed.

Provisions - IFLOMA - The provision for witholding tax represents managements best estimate of the subsidary's liability to settle witholding tax under dispute to Mozambique tax authorities.

	Group		Company	
	2016	Restated 2015	2016	Restated 2015
	R '000	R '000	R '000	R '000

23. Financial liabilities by category

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

Group - 2016

	Financial liabilities at amortised cost	Total
Trade and other payables	231,701	231,701
Finance lease obligation	71,472	71,472
	303,173	**303,173**

Group - 2015

Trade and other payables	262,144	262,144
Finance lease obligation	54,836	54,836
	316,980	**316,980**

Company - 2016

Trade and other payables	84,041	84,041

Company - 2015

Trade and other payables	72,692	72,692

	Group		Company	
	2016	Restated 2015	2016	Restated 2015
	R '000	R '000	R '000	R '000

24. Revenue

Timber sales	583,334	531,527	-	-
Sawn timber sales	277,077	295,425	-	-
Other	42,886	71,188	318	57
	903,297	**898,140**	**318**	**57**

25. Cost of sales

Sale of goods				
Transport	(45,771)	(45,059)	-	-
Harvesting	(136,205)	(125,562)	-	-
Establishment	(15,207)	(19,249)	-	-
Tending	(24,573)	(24,662)	-	-
Production	(100,957)	(94,817)	-	-
Overheads	(213,372)	(188,556)	-	-
Processing	(174,810)	(164,036)	-	-
Other	(7,737)	(12,189) -	-	
	(718,632)	**(674,130)**	**-**	**-**

26. Operating profit / (loss)

	Group 2016 R '000	Group Restated 2015 R '000	Company 2016 R '000	Company Restated 2015 R '000
Operating profit / (loss) for the year is stated after accounting for the following:				
Fees for services				
Administrative services	(11,778)	(12,392)	(10,324)	(12,272)
Managerial services	(529)	(1,069)	(11,461)	(358)
Secretarial services	(264)	-	(264)	-
Technical services	(53,058)	(37,105)	(26,534)	(10,385)
	(65,629)	**(50,566)**	**(48,583)**	**(23,015)**
Operating lease charges				
• Contractual amounts	(9,617)	(9,038)	(4,414)	(5,204)
Amortisation on intangible assets	(12,322)	(8,092)	(11,841)	(7,898)
Depreciation on property, plant and equipment	(42,926)	(52,689)	(2,984)	(712)
Asset Adjustment	(19,259)	(17,510)	(57)	456
Staff Costs				
Salaries and wages	(265,810)	(228,249)	(57,894)	(51,468)
Benefits and other costs	(55,963)	(36,405)	(21,450)	(15,141)
Employer contribution - Defined contribution plan	(11,526)	(25,428)	(3,848)	(4,791)
	(333,299)	**(290,082)**	**(83,192)**	**(71,400)**

	Group		Company	
	2016	Restated 2015	2016	Restated 2015
	R '000	R '000	R '000	R '000
Staff costs are included in operating expenses and cost of sales as follows :				
Cost of sales	(185,276)	(159,092)	-	-
Operating expenses	(148,023)	(130,990)	(83,192)	(71,400)
	(333,299)	**(290,082)**	**(83,192)**	**(71,400)**
Foreign exchange gains / (loss)				
Realised	(8)	-	(7)	(2)
Unrealised	(858)	-	-	-
	(866)	**-**	**(7)**	**(2)**
Other items contributing to operating profit / (loss)				
Internal charges and recoveries	2,401	3,707	(1,084)	(1,222)
Settlement discount received	2,324	2,343	-	-
Travel and accommodation	(11,904)	(5,576)	(7,159)	(2,932)
Material management	(3,988)	(11,279)	(472)	(742)
Forestry contractors	(6,122)	(6,001)	-	(67)
Other asset management	(19,840)	(6,627)	(1,325)	(6,736)
Risk management	(23,287)	(9,771)	(17,034)	(442)
Selling expenses	(2,838)	(1,028)	(926)	(703)
Amounts written off and provided for	(1,235)	(3,260)	-	1,459
Other administrative costs	(29,365)	(17,096)	(10,658)	(5,517)
Socio and economic development	(7,613)	(6,296)	(7,608)	(5,750)
Other expenses	(557)	(356)	(300)	(761)
	(102,024)	**(61,240)**	**(46,566)**	**(23,413)**

	Group		Company	
	2016	Restated 2015	2016	Restated 2015
	R '000	R '000	R '000	R '000
Directors remuneration				
Non-executive directors fees	(2,312)	(2,555)	(2,312)	(2,555)
Executive directors remuneration	(2,545)	(3,654)	(2,545)	(3,654)
	(4,857)	**(6,209)**	**(4,857)**	**(6,209)**

27. Auditors' remuneration

Fees	(5,105)	(3,954)	(3,214)	(2,990)

28. Fair value adjustments

Biological assets - (Fair value model)	21,769	144,544	-	-

29. Investment revenue

Interest revenue				
Subsidiaries	-	-	211	3,570
Bank	11,478	12,866	11,478	12,866
Other interest	1,154	1,728	411	477
	12,632	**14,594**	**12,100**	**16,913**

30. Finance costs

Group companies	-	-	(3,638)	(284)
Finance leases	(6,315)	(4,164)	-	-
Bank	(36)	(25)	(36)	(25)
Other interest	(94)	(60)	-	-
	(6,445)	**(4,249)**	**(3,674)**	**(309)**

	Group		Company	
	2016	Restated 2015	2016	Restated 2015
	R '000	R '000	R '000	R '000

31. Taxation

Major components of the taxation				
Current				
Current period	124	29,964	-	-
Prior period	(25,873)	-	-	-
	(25,749)	**29,964**	**-**	**-**
Deferred				
Current period	(38,129)	(18,630)	(30,533)	(7,216)
Prior period	16,120	-	(17,039)	-
	(22,009)	**(18,630)**	**(47,572)**	**(7,216)**
	(47,758)	**11,334**	**(47,572)**	**(7,216)**
Reconciliation of the tax expense				
Reconciliation between accounting profit and tax expense.				
Accounting profit / loss	(97,497)	140,170	(116,724)	(79,736)
Tax at the applicable tax rate of 28% (2015: 28%)	(27,299)	39,248	(32,683)	(22,326)
Tax effect of adjustments on taxable income				
Net effect of (income)/expenses that are not (taxable)/deductible in determing taxable profit	3,307	10,437	2,150	2,127
Effect of different tax rate of subsidiaries operating in different jurisdictions	(14,040)	7,774	-	-
Adjustments recognised in the current year in relation to prior periods	(9,726)	(35,479)	(17,039	(10,125)
Tax losses (utilised) / carried forward	-	10,871	-	23,108
Effect of fair value adjustments	-	(21,517)	-	-
	(47,758)	**11,334**	**(47,572)**	**(7,216)**

	Group		Company	
	2016	Restated 2015	2016	Restated 2015
	R '000	R '000	R '000	R '000

32. Cash generated / (utilised) in operations

Profit / (loss) before taxation	(97,497)	140,170	(116,724)	(79,736)
Adjustments for:				
Depreciation and amortisation	55,248	60,781	14,825	8,610
Interest received - investment	(12,632)	(14,594)	(12,100)	(16,913)
Finance costs	6,445	4,249	3,674	309
Fair value adjustments	(21,769)	(143,416)	-	-
Impairment on non-current assets held for sale	-	310	-	310
Movements in retirement benefit assets	(18)	2,098	30	441
Movements in provisions	(11,007)	(51,788)	-	-
Revaluation of property, plant and equipment	-	78	-	-
Asset adjustment	(14,107)	(8,982)	-	344
Changes in working capital:				
Inventories	6,094	(4,809)	18	(29)
Trade and other receivables	74,423	(16,325)	2,991	18,526
Trade and other payables	(30,443)	158,135	11,343	44,461
	(45,263)	**125,907**	**(95,943)**	**(23,677)**

33. Tax refunded / (paid)

Balance at beginning of the year	23,181	(115)	-	642
Current tax for the year recognised in profit or loss	25,749	(29,964)	-	-
Balance at end of the year	(46,485)	23,181	-	-
	2,445	**(6,898)**	**-**	**642**

SAFCOL
OUR FORESTS. OUR FUTURE.

34. 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 management of financial risks takes place within South African Forestry Company SOC Limited's centralised treasury and risk management functions. The objective is to ensure that the Group is not unduly exposed to financial risks and is governed by a Treasury Mandate.

The capital structure of the Group consists of debt, which includes short and long-term borrowings and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings. As a contingency plan, in order to manage the liquidity of the Group, a facility (combination of an asset-based finance and multi-option facility) has been secured with a financial institution during the 2010 financial year.

No dividends have been declared in the current financial year (2015: R 0 million).

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.

The Finance and Investment Committee reviews the Group's capital structure on a quarterly basis.

	Note	Group 2016 R '000	Group Restated 2015 R '000	Company 2016 R '000	Company Restated 2015 R '000
The gearing ratio at 2016 and 2015 respectively were as follows:					
Total borrowings					
Finance lease obligation	20	71,472	54,836	-	-
Total debt		71,472	54,836	-	-
Total equity		3,233,894	3,291,813	505,223	574,375
Total capital		**3,305,366**	**3,346,649**	**505,223**	**574,375**
Gearing ratio		2.2 %	1.6 %	- %	- %

Significant accounting policies

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

	Group 2016 R '000	Group Restated 2015 R '000	Company 2016 R '000	Company Restated 2015 R '000
Classes of financial instruments				
Financial assets				
Other financial assets	2,053	2,138	1,410	1,495
Loans to group companies - Non-interest bearing loans	-	-	294,042	294,042
Cash and cash equivalents	208,096	293,294	177,497	266,605
Trade receivables	122,175	196,598	5,115	8,106
	332,324	**492,030**	**478,064**	**570,248**
Financial liabilities				
Finance lease obligation	71,472	54,836	-	-
Trade payables	231,701	262,144	84,041	72,692
Loans to group companies - Interest bearing loans	-	-	185	1,156
	303,173	**316,980**	**84,226**	**73,848**

Major financial risks

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

- Liquidity Risk
- Forward Exchange Risk
- Credit Risk
- Cash Flow Interest Rate Risk
- Market Risk
- Compliance Risk
- Operational Risk
- Price Risk

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. 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 table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity dates.

Group

At 31 March 2015	Carrying amount	Contractual amount	Less than 1 year	2-5 years	Total
Finance lease obligation	54,836	54,836	14,818	40,018	54,836
Trade and other payables	262,144	262,144	262,144	-	262,144
	316,980	316,980	276,962	40,018	316,980
At 31 March 2016					
Finance lease obligation	71,472	71,472	20,687	50,785	71,472
Trade and other payables	231,701	231,701	231,701	-	231,701
	303,173	**303,173**	**252,388**	**50,785**	**303,173**

Company

At 31 March 2015	Carrying amount	Contractual amount	Less than 1 year	2-5 years	Total
Trade and other payables	72,692	72,692	72,692	-	72,692
At 31 March 2016					
Trade and other payables	84,041	84,041	84,041	-	84,041

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.

Credit risk

Credit risk is the risk of default by counterparties.

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

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

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

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

Cash flow interest rate risk

Cash flow interest rate risk is the risk of loss arising from changes in interest rates through higher interest payments or lower interest receipts.

The Group is exposed to interest rate risk as the Group funds working capital shortfalls and assets, and invests surplus funds from time to time. The Group utilises limited asset based finance leases to fund assets. These finance leases bear interest at variable interest rates / 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 inter- Company account.

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

Group	Notes	Weighted average effective interest rate	Floating interest rate	Non-interest bearing	Total
Financial assets					
Other financial assets	6	4 %	2,053	-	2,053
Trade and other receivables	11	- %	-	122,175	122,175
Cash and cash equivalents	12	5 %	208,016	-	208,016
	-	-	210,069	122,175	332,244
Financial liabilities					
Trade and other payables	20	- %	-	(231,701)	(231,701)
Finance lease obligation	19	9 %	(71,472)	-	(71,472)
	-	**- %**	**138,597**	**(109,526)**	**29,071**

As at 31 March 2016

Financial assets	210,069	122,175	332,244
Financial liabilities	(71,472)	(231,701)	(303,173)
	138,597	**(109,526)**	**29,071**

	Notes	Weighted average effective interest rate	Floating interest rate	Non-interest bearing	Total
Company					
Financial assets					
Other financial assets	6	4 %	1,410	-	1,410
Loans to group companies - Non-interest bearing loans	10	- %	-	294,042	294,042
Cash and cash equivalents	12	5 %	177,497	-	177,497
Trade and other receivables	11	- %	-	5,115	5,115
	-	**-**	**178,907**	**299,157**	**478,064**
Financial liabilities					
Trade and other payables	20	- %	-	(84,041)	(84,041)
Loans to group companies - Interest bearing loans	10	- %	(185)	-	(185)
	-	**- %**	**178,722**	**215,116**	**393,838**
As at 31 March 2016					
Financial assets			178,907	299,157	478,064
Financial liabilities			(185)	(84,041)	(84,226)
			178,722	**215,116**	**393,838**

SAFCOL OUR FORESTS. OUR FUTURE.

	Group		Company	
	2016	Restated 2015	2016	Restated 2015
	R '000	R '000	R '000	R '000

Sensitivity analysis for variable rate instruments

The sensitivity has been determined based on the exposure to movement of interest rates on non-derivative floating interest rate instruments at the statement of financial position date. If interest rates had been 200 basis points higher or lower, the increase / (decrease) in the Group's profit / (loss) and equity for the year ending 31 March 2016 are set out in the table below. This increase / (decrease) is attributable to variable interest rate borrowings, cash and cash equivalents,other loans and receivables and available for sale financial assets. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Variable interest rate sensitivity analysis

	Group 2016 R '000	Group Restated 2015 R '000	Company 2016 R '000	Company Restated 2015 R '000
Sensitivity if interest rate increase by 200 basis points				
Increase in profit or loss	2,667	5,072	3,574	5,339
Sensitivity if interest rate decrease by 200 basis points				
Decrease in profit or loss	(2,667)	(5,072)	(3,574)	(5,339)
	-	-	-	-

Market risk (Fair value estimation)

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

At 31 March 2016 and 31 March 2015 the carrying amounts of cash equivalents, trade and other receivables, trade and other payables, accrued expenses and short-term borrowings, approximated their fair values due to the short-term maturities of these assets and liabilities.

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

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

Compliance risk

Compliance risk is the risk of non-compliance with any statutory requirement of central or local Government and includes the South African Reserve Bank, Financial Services Board and various financial exchanges.

This is minimised through effective monitoring and reporting to ensure compliance with the Public Finance Management Act, the Occupational Health & 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.

Fair values

Fair values versus carrying amounts

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

Group

	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents	208,016	208,016	293,294	293,294
Trade and other receivables	122,175	122,175	196,598	196,598
	330,191	**330,191**	**489,892**	**489,892**
Financial liabilities				
Finance lease obligations	71,472	71,472	54,836	54,836
Trade and other payables	231,701	231,701	262,144	262,144
	303,173	**303,173**	**316,980**	**316,980**

Company

	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Other financial assets	1,410	1,410	1,495	1,495
Cash and cash equivalents	177,497	177,497	266,605	266,605
Trade and other receivables	5,115	5,115	8,106	8,106
Loans to group companies - Non-interest bearing loans	294,042	294,042	294,042	294,042
	478,064	**478,064**	**570,248**	**570,248**
Financial liabilities				
Loans to group companies - Interest bearing loans	185	185	1,156	1,156
Trade and other payables	84,041	84,041	72,692	72,692
	84,226	**84,226**	**73,848**	**73,848**

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 2016: 8% to 10.5%
- 31 March 2015: 8% to 10%

	Group		Company	
	2016	Restated 2015	2016	Restated 2015
	R '000	R '000	R '000	R '000

35. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	-	6,976	-	-

The capital expenditure will be financed from cash flows generated from operations, or external financing if required.

Operating leases – as lessee (expense)

Minimum lease payments due				
- within one year	4,949	6,357	4,949	4,499
- in second to fifth year inclusive	2,592	7,541	2,592	7,541
	7,541	**13,898**	**7,541**	**12,040**

South African Forestry Company SOC Limited - operating lease payments represent rentals payable in respect of its office property. The lease was negotiated for a 5 year term commencing 1 October 2012. The rent payment negotiated was R 295,076 per month with an increase of 10% annually. The lease expires on 30 September 2017. No contingent rent is payable.

36. Contingencies

Land Claims

Approximately 61% percent of SAFCOL/KLF land is affected by land claims. This includes 14 claims in Limpopo, 17 in Mpumalanga and 1 in KZN. The total number of claims is 32 in all. The claims are at different stages of the restitution process.

The Abacus properties which are owned by SAFCOL and located in Ngome were revalued by the KZN Land Claims Commission in 2013 in order to determine the market related value of the properties. Based on the report the land was valued at R 8 095 000.

SAFCOL together with the Department of Rural Development and Land Reform (DRD&LR) are currently conducting workshops with all relevant stakeholders, including claimant communities on the proposed settlement model through which the land will be transferred in title to its rightful owners.

The purpose of these workshops has been to get the communities to understand, amongst others, the operational model of SAFCOL/KLF, the current status of the plantations (age class distribution), business operations, financials, what is required to manage the plantation etc. There are draft settlement agreements that need to be finalised and signed by all parties involved, including land claimants.

Bank facilities

There are contingent liabilities in respect of:

- Bank guarantees in respect of Group Company liabilities to the amount of R 0.75 million (2014: R 0,75 million).
- 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 Ltd obligations, including asset based finance.

Competition Commission

1. Normandien t/a Tekwani vs KLF

In October 2013, KLF received an anti-competitive conduct complaint lodged by Normandien t/a Tekwani ("**Normandien**") against KLF with the Competition Commission ("**Commission**").

As a result, in 2014 the Commission commenced with the investigation of allegations that entailed, *inter alia*, the abuse of dominance and price manipulation. The investigation continued for the whole of 2014 and in 2015. The Commission has further extended the investigation until the end of March 2016. However, in December 2015 there was an intent expressed by the Commission to refer the matter to the Competition Tribunal. To date, KLF has not received the referral to the Competition Tribunal.

2. Competition Commission vs KLF

This matter relates to investigation launched by the Commission against KLF in 2011. The allegations that formed the basis of the investigations were an abuse of dominance, market division etc. This investigation by Commission against KLF is open and ongoing. However, it is likely that this matter will be consolidated with that of Normandien should the Commission decide to refer the Normandien's complaint to the Competition Tribunal.

Litigation

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

1. DC Van Der Merwe vs KLF and others

KLF was joined as a defendant by the Provincial Department of Public Works ("**MPDPW**") in Mpumalanga as a result of a claim that the MPDPW received from the Plantiff (DC van der Merwe) arising from the motor bike accident that occurred next to the Bergvleit Plantation.

The MPDPW contends that KLF failed to maintain the access routes to its Bergvleit Plantation which in turn caused gravel to encroach on the main road thereby causing the accident. The matter was then defended through KLF's insurer's attorneys as a third party claim. The trial commenced in November 2015 but did not proceed. This matter was finalized on 08 June 2016 with an amount of R 17 000.00 being paid in full and final settlemeny by KLF's insurers.

2. Johanna Nortjie vs KLF

KLF has received a motor vehicle accident claim wherein Johanna Nortjie claimed that her vehicle was damaged by a KLF's vehicle. As a result an amount of R 25 056.53 has been claimed. The claim has been defended through KLF's insurer as a third party claim.

3. Ladz Trading CC vs SAFCOL

There is a claim against SAFCOL by Ladz Trading CC for an amount of R 498 980.28. There is an allegation that SAFCOL has breached an agreement concluded between its former Chief Executive Officer and the plantiff. As a result, Ladz Trading CC is claiming that there are monies due to it in the form of the said agreement. This claim is currently defended at the High Court. In the unlikely event that it becomes successful, Company exposure will be, estimated, in excess of R 600000.00.

	Group		Company	
	2016	Restated 2015	2016	Restated 2015
	R '000	R '000	R '000	R '000

37. Related parties

Relationships

Ultimate shareholder	Government of the Republic of South Africa represented by the Department of Public Enterprises
Subsidiaries	Komatiland Forests SOC Limited Abacus Forestries SOC Limited Kamhlabane Timber SOC Limited Industrias Florestias de Manica
Members of key management	Listed in the Report of Directors

	Group 2016 R '000	Group Restated 2015 R '000	Company 2016 R '000	Company Restated 2015 R '000
Related party balances				
Loan accounts - Owing (to) by related parties				
Komatiland Forests SOC Limited	-	-	289,868	292,886
Receivables from related parties				
Komatiland Forests SOC Limited	-	-	-	4,095
Other State Owned Entities	-	1,858	-	-
Payables to related parties				
Komatiland Forests SOC Limited	-	-	(414)	(690)
Other State Owned Entities	(130)	(1,025)	-	-
Department of Agriculture, Forestry and Fisheries	(48,870)	(109,049)	-	-
Related party transactions				
Interest received				
Komatiland Forests SOC Limited	-	-	211	3,570
Other State Owned Entities	2	45	-	-

	Group 2016 R '000	Group Restated 2015 R '000	Company 2016 R '000	Company Restated 2015 R '000
Interest paid				
Komatiland Forests SOC Limited	-	-	(3,638)	(284)
Other State Owned Entities	(124)	(43)	-	-
Sale of goods and services				
Komatiland Forests SOC Limited	-	-	74,284	43,108
Eskom	2,490	3,741	-	-
Other State Owned Entities	415	458	-	-
Purchases of goods and services				
Komatiland Forests SOC Limited	-	-	(10,931)	(7,262)
Eskom	(10,323)	(9,496)	-	-
Other State Owned Entities	(2,298)	(1,714)	-	-
Department of Agriculture, Forestry and Fisheries	(48,183)	(47,686)	-	-
Key management compensation				
Salaries and other short-term employee benefits	-	(6,545)	-	(6,545)

Refer to the Directors' and Executive Committee's Remuneration included under the Director's report for the breakdown of key management compensation.

	Group 2016 R '000	Group Restated 2015 R '000	Company 2016 R '000	Company Restated 2015 R '000
Loans to related parties - Non-interest bearing subsidiaries				
Opening balance	-	-	294,042	294,042
Loans (advanced) / repaid during the year	-	-	-	-
	-	**-**	**294,042**	**294,042**
Loans to / from related parties - Interest bearing subsidiaries				
Opening balance	-	-	(1,155)	98,727
Loans (advanced) / repaid during the year	-	-	971	(99,882)
	-	**-**	**(184)**	**(1,155)**

38. Going concern

The consolidated financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

39. Reportable expenditure

Section 51 and 55 of the PFMA imposes an obligation on the Company to take effective and appropriate steps to prevent irregular expenditure, fruitless and wasteful expenditure, losses arising from criminal conduct and expenditure not complying with operational policies of the Company (collectively reportable expenditure). To this end the Company has concluded a Significance and Materiality Framework with the Minister of Public Enterprises (Shareholder Representative) in terms of which the Company is required in terms for S55(2)(b)(i) to report all losses or expenditure that that falls within the above reportable categories, that are equal to or greater than R 10 mil or a class of closely related items. Reportable expenditure is removed from the statement of financial position when: a)Condoned by the Board if no offficial was found to be liable; b)Recovered from the relevant official; or c) Proved to be irrecoverable from an official liable in law.

Company

PFMA REPORTING 2016

Category of reportable item	Notes	%	R mil	Number of items	Disciplinary Cases	Criminal Cases
Fruitless and wasteful expenditure	1	0.05 %	0.1	8	0/8	0/0
Irregular expenditure	2	4.14%	7.1	3	0/3	1/1
Losses through criminal conduct	3	0.55%	0.9	1	0/1	0/1
Total reportable expenditure under investigation		**4.74%**	**8.1**	**12**	**0/12**	**1/2**

PFMA REPORTING 2015

Category of reportable item	%	R mil
Opening balance	-	4.0
Fruitless and wasteful expenditure	-	-
Irregular expenditure	37.09%	21.3
Reportable expenditure condoned *	-44.09%	(25.3)
Losses through criminal conduct		-
Total reportable expenditure under investigation	**0.00%**	**0.0**

* included for comparability

1. Fruitless and wasteful expenditure	%	R mil	Number of items	Disciplinary Cases	Criminal Cases
Fruitless and wasteful expenditure	0.05%	0.1	8	0/8	0/0

2. Irregular expenditure	%	R mil	Number of items
Irregular expenditure current year	4.25%	7.3	5
Amounts condoned in current year to be determined	-0.12%	(0.2)	(2)
	4.14%	**7.1**	**3**

3. Losses through criminal conduct	%	R mil	Number of items	Disciplinary Cases	Criminal Cases
Alleged fraud and corruption current and prior years	23.55%	40.2	9	8/9	8/9
Incident/(s) reported to the South African Police Services and /or National Prosecuting Authority	-23.00%	(39.3)	-8	8/9	8/9
Losses through alleged criminal conduct still under investigation	**0.55**	**0.9**	**1**	**0/1**	**0/1**

4. Irregular expenditure current year	**%**	**R mil**	**Number of items**	**Disciplinary Cases**	**Criminal Cases**
Procurement procedures not adhered to (comparative quotations)	0.12%	0.2	2	0/2	0/0
Procurement procedures not adhered to (tax clearance certificates)	0.00%	0.0	0	0/0	0/0
Procurement procedures not adhered to (contract not formalised)	4.14%	7.1	3	0/3	1/1
	4.25%	**7.3**	**5**	**0/5**	**1/1**

GROUP

PFMA REPORTING 2016

Category of reportable item	**Notes**	**%**	**R mil**	**Number of items**	**Disciplinary Cases**	**Criminal Cases**
Fruitless and wasteful expenditure	1	0.02%	0.2	15	0/15	0/0
Irregular expenditure	2	4.64%	43.9	243	0/243	1/1
Losses through criminal conduct	3	0.10%	0.9	1	0/1	0/1
Total reportable expenditure under investigation		**4.76%**	**45**	**259**	**0/259**	**1/2**

PFMA REPORTING 2015

Category of reportable item	**%**	**R mil**
Opening balance	-	4.0
Fruitless and wasteful expenditure	2.49%	15.7
Irregular expenditure	11.52%	72.5
Reportable expenditure condoned *	-14.65%	(92.3)
Losses through criminal conduct	0.26%	1.7
Total reportable expenditure under investigation	**0.26%**	**1.7**

1. Fruitless and wasteful expenditure	%	R mil	Number of items	Disciplinary Cases	Criminal Cases
Fruitless and wasteful expenditure	0.02%	0.2	15	0/0	0/0

2. Irregular expenditure	%	R mil	Number of items
Irregular expenditure current year	4.66%	44.1	245
Amounts condoned in current year to be determined	-0.02%	(0.2)	(2)
	4.64%	**43.9**	**243**

3. Losses through criminal conduct	%	R mil	Number of items	Disciplinary Cases	Criminal Cases
Alleged fraud and corruption current and prior years	4.42%	41.8	10	9/10	9/10
Incident/(s) reported to the South African Police Services and /or National Prosecuting Authority	-4.32%	(40.9)	-9	(9/10)	(9/10)
Losses through alleged criminal conduct still under investigation	**0.10%**	**0.9**	**1**	**0/1**	**0/1**

4. Irregular expenditure current year	%	R mil	Number of items	Disciplinary Cases	Criminal Cases
Procurement procedures not adhered to (comparative quotations)	0.45%	4.3	234	0/234	0/0
Procurement procedures not adhered to (tax clearance certificates)	0.14%	1.3	1	0/1	0/0
Procurement procedures not adhered to (contract not formalised)	4.07%	38.5	10	0/10	1/1
	4.66%	**44.1**	**245**	**0/245**	**1/1**

The reportable expenditure primarily relates to non-compliance with the Group Supply Chain Policy and matters that were not appropriately addressed in the Supply Chain Manual. The above mentioned documents are under revision with emphasis on the matters that gave rise to the reportable expenditure and with a view of strengthing the internal control environment.

40. Prior period adjustment

2015
Group

Statement of financial position	**As previously reported R'000**	**Prior period error R'000**	**Reclassication R'000**	**As restated R000**
Property, plant and equipment	261,091	(35,384)	-	225,707
Non current assets held for sale	372,445	(372,420)	-	25
Trade and other payables	202,789	59,355	-	262,144
Retained Earnings	3,360,482	(448,311)	-	2,912,171
Deferred Tax	(1,032,734)	18,811	-	(1,013,923)
Statement of Profit, Loss and other comprehensive Income				
Profit before tax	200,230	(60,060)	-	140,170
Taxation	(30,212)	18,878	-	(11,334)

Company

Statement of Financial Position				
Property, plant and equipment	4,831	53	-	4,884
Non current assets held for sale	37,216	(37,216)	-	-
Trade and other payables	13,308	59,388	-	72,696
Retained Earnings	226,203	(98,215)	-	127,988
Deferred Tax	23,243	(1,664)	-	21,579

Statement of Profit and Loss and Other Comprehensive Income	As previously reported R'000	Prior period error R'000	Reclassication R'000	As restated R'000
Revenue	43,165	-	(43,108)	57
Other Income	3,139	-	43,108	46,247
Profit (Loss) before tax	(28,345)	(51,391)	-	(79,736)
Taxation	8,880	(1,664)	-	7,216

Note 1 - During the current financial year, the Group undertook an exercise to physically verify all fixed assets which resulted in adjustments to current and prior periods. These changes comprised of theffg:

1. Additions : these assets have been physically verified but not included on the previous register
2. Disposals : these assets could not be found on site however appeared on the previous register or appear more than once on the register
3. Accumulated depreciation has been recalculated from acquistion date
4. Useful life of certain assets have been revised therefore depreciation was written back

Note 2 - Minority shareholdings were previously incorrectly included in the SAFCOL Group as a non-current asset held for sale. During the financial period under review, the new board obtained a legal opinion on the ownership of the shares, and passed a resolution to correctly transfer these shares out of the SAFCOL Group

17. ABBREVIATIONS

Abbreviation	Description
ARC	Agricultural Research Council
ARMC	Audit Risk Management Committee
ASP	Average Selling Price
B-BBEE	Broad-Based Black Economic Empowerment
BCM	Business Continuity Management
BDWG	Baboon Damage Working Group
BDMT	Bone Dried Metric Ton
BEE	Black Economic Empowerment
BoD	Board of Directors
BRP	Business Renewal Project
CAMCORE	Central America and Mexico Coniferous Resources Cooperative
CAR’s	Corrective Action Requests
CCMA	Commission for Conciliation, Mediation and Arbitration
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COO	Chief Operating Officer
CP	Controlled Pollination
CRO	Chief Risk Officer
GCEO	Group Chief Executive Officer
GCFO	Group Chief Financial Officer
CFROI	Cash Flow Return on Investment
CPI	Consumer Price Index

Abbreviation	Description
CSI	Corporate Social Investment
CSIR	Council for Scientific & Industrial Research
CURA	GRC information system
DAFF	Department of Agriculture, Forestry & Fisheries
DBSA	Development Bank of Southern Africa
DIFR	Disabling Injury Incident Rate
DIRCO	Department of of International Relation & Co-operative Governance
DPE	Department of Public Enterprises
DRDLR	Department of Rural Development and Land Reform
DTI	Department of Trade & Industry
EA	Effective and adequate
EAP	Employee Assistance Programme
EBITDA	Earnings Before Interest, Tax, Depreciation & Amortisation
ECD	Early Childhood Development Centre
ED	Enterprise Development
EDP	Executive Development Programme
EPWP	Extended Public Works Programme
ERP	Enterprise Resource Planning
ER,	Enterprise Risk Management

Abbreviation	Description
EXCO	Executive Committee
FABI	Forest & Agricultural Biotechnology Institute
FAO	Food & Agriculture Organisation
FAWU	Food and Allied Workers Union
FITPA	Forest Industries Training Providers’ Association
FSA	Forestry South Africa
FSC	Forest Stewardship Council
FY	Financial Year (covering 12 months from 1 April to 31 March)
GDP	Gross Domestic Product
GIBS	Gordon Institute of Business Science
HC	Human Capital
HCM	Human Capital Management
Ha	Hectare(s)
HEA	Highly effective and adequate
ICFR	Institute of Commercial Forestry Research
ICT	Information & Communication Technology
IDC	Industrial Development Corporation
IEF	Independent Examination Board
IFLOMA	Indústrias Florestais de Manica, SARL

Abbreviation	Description
IFRS	International Financial Reporting Standards
IGEPE	Mozambican government's Institute for the Management of State Holdings
II	Ineffective and inadequate
IMF	International Monetary Fund
IR	Integrated Report
IRR	Internal Rate of Return
JCF	Joint Community Forums
JDE	JD Edwards
KLF	Komatiland Forests (SOC)
KPA	Key Performance Areas
KPI	Key Performance Indicator
KZN	KwaZulu-Natal
LCC	Land Claims Commissioner
L & D	Learning & Development
LHA	Louis Heyl and Associates
LMS	Learner Management System
LPI	Lumber Price Index
MDF	Medium Density Fibreboard
MEA	Moderately effective and adequate
merSETA	Mandufacturing, Engineering and Related Services Sector Education and Training Authority

Abbreviation	Description
MICT SETA	Media, Information and Communication Technologies Sector Education and Training Authority
MPE	Minister of Public Enterprises
MTSF	Medium Term Strategic Framework
NDP	National Development Plan
NGP	National Growth Plan
NOSA	National Occupational Safety Association
NPV	Net Present Value
NT	National Treasury
NTFP	Non-Timber Forest Products
OECD	Organisation for Economic Co-operation & Development
OSB	Oriented Strand Board
PBIT	Profit Before Interest & Tax
PBITDA	Profit Before Interest & Tax excluding Depreciation & Amortisation
PEFC	Programme for the Endorsement of Forest Certification
PFMA	Public Finance Management Act
R&D	Research and Development
RFID	Radio Frequency Identification
ROE	Return on Equity
SA	South Africa

Abbreviation	Description
SADC	Southern African Development Community
SAFFCAWU	South African Farming, Catering & Allied Workers Union
SAFCOL	South African Forestry Company (SOC) Ltd
SED	Socio-economic Development
SIS	Strategic Intent Statement
SM	Senior Manager
SOC	State Owned Company
TPCP	Tree Protection Cooperative Programme
TU	Temporary Unplanted
UCT	University of Cape Town
USA	United States of America
UMAI	Utilisable Mean Annual Increment

18. Administration and contact details

Head Office: Pretoria

Tel: +27 [0] 12 436 6300
Postal address:
P O Box 1771
Silverton, 0127
Physical address:
Podium at Menlyn
43 Ingersol Road
Lynnwood Glen
Pretoria
0081

Nelspruit Operational Office

Tel: +27 [0] 13 754 2700
Fax: +27 [0] 13 753 3584
Postal address:
Private Bag X11201
Nelspruit, 1200
Physical address:
10 Streak Street
Nelspruit
1200

Marketing Office

Tel: +27 [0] 12 436 6350
Postal address:
P O Box 1771
Silverton, 0127
Physical address:
Podium at Menlyn
43 Ingersol Road
Lynnwood Glen
Pretoria,
0081

Research Centre

Tel: +27 [0] 13 764 3493
Fax: +27 [0] 13 764 1239
Postal address:
KLF Research
P O Box 574
Sabie, 1260

Eco-Tourism Booking & Enquiries

Tel: +27 [0] 13 754 2724
Fax: +27 [0] 13 754 2790
E-mail: ecotour@klf.co.za
Postal address:
Private Bag X11201
Nelspruit, 1200
Physical address:
10 Streak Street
Nelspruit
1200

Platorand Training Centre

Tel: +27 [0] 13 764 1058
Fax: +27 [0] 13 764 2071
E-mail: csieling@klf.co.za

IFLOMA

Indústrias Florestais De Manica, SA
Maputo Warehouse
Av, Dos F.P.L.M 256, Maputo
Tel: 00 258 21 460 782/3
Fax: 00 258 21 460 067

Head Office: Pretoria

Tel: +27 [0] 12 436 6300

Postal address:
P O Box 1771
Silverton
0127

Physical address:
Podium at Menlyn
43 Ingersol Road
Lynnwood Glen
Pretoria
0081