



Environmental, Social & Governance Report
(Environment, Health & Safety, Social and Governance)

December 2019

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Introduction

This is the Kilombero Valley Teak Company ('KVTC')'s fifth Environmental, Social and Governance ('ESG') Report which aims to inform our board of directors, the management team, our partners as well as other stakeholders on the actions KVTC takes to create a safe, environmentally responsible and transparent working environment for all our stakeholders.

The ESG report is an expansion on the previous monitoring reports and aims to include more information around the governance and management of the company.

KVTC teak plantations are interlinked with natural indigenous areas; these include evergreen forests, open to dense miombo woodlands, rivers, wetlands and grasslands with scattered trees.

KVTC is committed to maintain a high level of biodiversity within its landholding and believes this represents a value both to the business and to the communities surrounding the project.

KVTC furthermore strives to treat its employees as well as surrounding communities with respect and offers a safe working environment with growth opportunities for all parties involved in the management of the business.

This report contains the various plantations, social and environmental monitoring activities and reflects the present condition of the plantations.

This publication is public domain to allow interested persons to be informed on the achievements and the impact of activities on people and the environment at KVTC.

Company Mission

Our mission is to produce high quality Teak timber products by adding value to resources from plantations which the Company has established, maintained and harvested on a sustainable basis by applying internationally accepted forestry, environmental, health, safety and social best operating practices

Company Vision

Our vision is to maintain and grow our teak plantations in a sustainable and commercially responsible manner. These plantations are the basis for long term growth and value creation and are guided by international best practices. The plantations and the products derived of the plantations will serve both domestic as well as export markets.

Our business operates closely with surrounding communities and (local) governments and the economic, social and environmental benefits are shared widely.

Organisational Structure

The Kilombero Valley Teak Company is a Tanzanian Limited Liability Company and was incorporated in 1992 with Certificate of Incorporation 2820.

The company's Head Quarters are in Mavimba Village, Ulanga District, Morogoro Region in Tanzania. The company has a support office in Dar es Salaam, the commercial capital of Tanzania, and correspondence can be addressed to P O Box 12452, Dar es Salaam, Tanzania.

The company primarily engages in the production of sawlogs for own consumption as well as domestic markets and the production of sawn timber and value-added products.

The company operates a sawmill in Mavimba Village and has plantations in the Ulanga and Kilombero District of the Morogoro Region, Tanzania.

| | | Actual (month) | | | | | | | | | | | | AV. 19 | AV. 18 | AV. 17 | AV. 16 |
|------------------------------|-----|----------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | | Jan-19 | Feb-19 | Mar-19 | Apr-19 | May-19 | Jun-19 | Jul-19 | Aug-19 | Sep-19 | Oct-19 | Nov-19 | Dec-19 | | | | |
| Staffing | | | | | | | | | | | | | | | | | |
| Forest | | | | | | | | | | | | | | | | | |
| <u>JC</u> | | | | | | | | | | | | | | | | | |
| Nursery | no. | 14 | 14 | 13 | 12 | 12 | 12 | 12 | 13 | 14 | 14 | 13 | 13 | 17 | 17 | 19 | |
| Silviculture | no. | 91 | 85 | 83 | 81 | 60 | 60 | 52 | 87 | 88 | 91 | 89 | 87 | 80 | 81 | 82 | |
| Enumeration / Technical Team | no. | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 7 | 7 | 6 | 6 | 8 | 8 | 8 | 9 | |
| Harvest & Haulage | no. | 25 | 26 | 23 | 27 | 25 | 25 | 26 | 29 | 29 | 25 | 25 | 26 | 31 | 33 | 30 | |
| Total Forest | | 138 | 133 | 127 | 128 | 105 | 105 | 97 | 133 | 137 | 141 | 134 | 131 | 126 | 137 | 143 | 140 |
| Processing | | | | | | | | | | | | | | | | | |
| <u>JC</u> | | | | | | | | | | | | | | | | | |
| Sawmill | no. | 66 | 64 | 62 | 64 | 63 | 70 | 70 | 67 | 67 | 70 | 69 | 66 | 67 | 65 | 65 | 62 |
| Kilns | no. | 3 | 3 | 3 | 3 | 3 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 3 | 3 | 3 |
| Drymill | no. | 30 | 30 | 33 | 33 | 33 | 33 | 34 | 34 | 31 | 31 | 32 | 32 | 32 | 30 | 34 | 30 |
| VAM | no. | 30 | 24 | 16 | 19 | 18 | 21 | 19 | 17 | 20 | 22 | 23 | 25 | 21 | 31 | 34 | 35 |
| Sawshop | no. | 7 | 7 | 7 | 7 | 7 | 6 | 6 | 5 | 6 | 6 | 6 | 6 | 6 | 7 | 7 | 7 |
| Total Processing | | 136 | 128 | 121 | 126 | 124 | 134 | 133 | 127 | 128 | 133 | 134 | 133 | 130 | 136 | 143 | 137 |
| Support | | | | | | | | | | | | | | | | | |
| <u>JC</u> | | | | | | | | | | | | | | | | | |
| Admin & Finance | no. | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 2 | 2 | |
| MV Workshop/Drivers | no. | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 6 | |
| Engineering | no. | 10 | 10 | 10 | 10 | 9 | 9 | 9 | 8 | 9 | 10 | 10 | 11 | 10 | 9 | 9 | |
| Sawmill Admin | no. | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 3 | 4 | 5 | |
| Total Support | | 25 | 25 | 25 | 25 | 24 | 24 | 24 | 23 | 24 | 25 | 25 | 26 | 25 | 23 | 23 | 22 |
| Tanzania Management | | 32 | 32 | 32 | 32 | 32 | 32 | 32 | 32 | 32 | 32 | 32 | 32 | 32 | 31 | 29 | 27 |
| Expatriate Management | | 5 | 5 | 6 | 6 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 5 | 5 | 5 | |
| Total Management | | 37 | 37 | 38 | 38 | 36 | 36 | 36 | 36 | 36 | 36 | 36 | 36 | 37 | 36 | 34 | 32 |
| Total Company Staff | | 336 | 323 | 311 | 317 | 289 | 299 | 290 | 319 | 325 | 335 | 329 | 326 | 317 | 332 | 343 | 331 |

The below table provides a snapshot of the employees as per 31st of December 2019:

| Employee Snapshot Dec' 2019 | | |
|-----------------------------|------------|-------------|
| Female Caucasian | 0 | 0% |
| Female Asian | 1 | 0.3% |
| Female African | 44 | 13.5% |
| Male Caucasian | 2 | 0.6% |
| Male Asian | 0 | 0% |
| Male African | 279 | 85.6% |
| Total | 326 | 100% |

Organisational Changes

During 2019 there have been major changes in the organisation structure of the company, whereby the Chief Executive Officer (*Hans Lemm*) resigned from his position in March 2019 and *Mr Irvine Kanyemba* took over the responsibilities.

External Charters, Principles and Initiatives

KVTC is committed to complying with national, international legislation, conventions, guidelines and best operating practises related to its businesses. Below is a list of the most important ones:

- National Environmental Management Council’s framework for Environmental and Social Impact Assessments and (External) Monitoring
- Forest Stewardship Council (FSC)’s Principles and Criteria
- International Labour Organisation (ILO)’s declaration on the Fundamental Principles and Rights at Work
- ILO’s standard for Forestry Workers
- International Finance Corporation (IFC)’s Guidelines and Standards for Sawmilling and manufactured Wood Products as well as various other IFC standards
- Occupational Health and Safety Authority compliance act.

Membership Associations

KVTC is a member of following organisations and associations

- EU Business Group (with effect from 1st January 2019)
- Association for Tanzanian Employers
- CEO Roundtable
- Teaknet
- African Forestry

External Assessments

KVTC adheres to various international and national standards and undergoes environmental assessments for new activities. During 2014 and 2019, KVTC completed several external audits:

| Date | Standard | Type | Results |
|---------|--|------------------------|---|
| Jul-14 | FSC Controlled wood | Surveillance Audit | Successful |
| | FSC Chain of Custody | Surveillance Audit | Successful |
| | FSC Forest Management | 3rd Party Audit | Successful but conversion principle excludes KVTC from full certification |
| Aug-14 | ISO 14001 | Re-certification Audit | Successful |
| | OSHAS 18001 | Re-certification Audit | Successful |
| May-15 | External Environmental Audit Processing Plants | External Audit | Accepted by NEMC |
| | External Environmental Plantation | External Audit | Accepted by NEMC |
| Jun-15 | FSC Controlled wood | Surveillance Audit | Successful |
| | FSC Chain of Custody | Surveillance Audit | Successful |
| | FSC Forest Management | 3rd Party Audit | Successful but conversion principle excludes KVTC from full certification |
| Nov-15 | ISO 14001 | Re-certification Audit | Successful |
| | OSHAS 18001 | Re-certification Audit | Successful |
| Jun-16 | FSC Controlled wood | Surveillance Audit | Successful |
| | FSC Chain of Custody | Surveillance Audit | Successful |
| | FSC Forest Management | 3rd Party Audit | Successful but conversion principle excludes KVTC from full certification |
| Nov-16 | ISO 14001 / OSHAS18001 | Re-certification Audit | Successful |
| Jun-17 | FSC Controlled wood | Surveillance Audit | Successful |
| | FSC Chain of Custody | Surveillance Audit | Successful |
| | FSC Forest Management | 3rd Party Audit | Successful but conversion principle excludes KVTC from full certification |
| Sept-17 | ISO 14001 / OSHAS18001 | Re-certification Audit | Successful |
| Aug-18 | FSC Controlled wood | Re-certification Audit | Successful |

| | | | |
|---------|------------------------|------------------------|---|
| | FSC Chain of Custody | Re-certification Audit | Successful |
| | FSC Forest Management | 3rd Party Audit | Successful but conversion principle excludes KVTC from full certification |
| Sept-18 | ISO 14001 / OSHAS18001 | Re-certification | Successful |
| Aug-19 | FSC Forest Management | 3rd part audit | Successful but conversion principle excludes KVTC from full certification |
| Sep-19 | ISO 14001 / OSHAS18001 | Re-certification | Successful |

Historic Performance External Audits

Below table shows a historic overview of KVTC performance during various audits

| System | CAR | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|--------------|--------------|----------|----------|----------|----------|-----------|----------|-----------|----------|----------|----------|----------|----------|----------|
| ISO14001 | Minor | 0 | 2 | 0 | 5 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 1 |
| | Major | 0 | 0 | 0 | 0 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 0 |
| OSHAS18001 | Minor | N/A | N/A | N/A | N/A | 6 | 4 | 2 | 3 | 2 | 2 | 4 | 2 | 1 |
| | Major | N/A | N/A | N/A | N/A | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TLTV | Minor | N/A | 5 | 4 | 0 | 6 | 0 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| | Major | N/A | 0 | 0 | 0 | 0 | 1 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| FSC FM | Minor | N/A | N/A | N/A | N/A | N/A | N/A | 13 | 5 | 4 | 4 | 4 | 5 | 2 |
| | Major | N/A | N/A | N/A | N/A | N/A | N/A | 3 | 3 | 1 | 0 | 0 | 0 | 0 |
| FSC CoC | Minor | N/A | N/A | N/A | N/A | N/A | N/A | 4 | 0 | 0 | 0 | 0 | 0 | N/A |
| | Major | N/A | N/A | N/A | N/A | N/A | N/A | 0 | 0 | 0 | 0 | 0 | 0 | N/A |
| FSC CW | Minor | N/A | N/A | N/A | N/A | N/A | N/A | 0 | 0 | 0 | 0 | 0 | 0 | N/A |
| | Major | N/A | N/A | N/A | N/A | N/A | N/A | 0 | 0 | 0 | 0 | 0 | 0 | N/A |
| Total | Minor | 0 | 7 | 4 | 5 | 12 | 4 | 15 | 8 | 4 | 6 | 8 | 7 | 4 |
| | Major | 0 | 0 | 0 | 0 | 0 | 1 | 3 | 3 | 1 | 0 | 0 | 0 | 0 |

Aspects and Impacts, Hazards and Risks

KVTC periodically identifies and updates the Impacts and Aspects of its operations on the environment as well as the Hazards and Risks to its employees and stakeholders. The identification process is done through a ranking system that combines the likelihood as well as the severity of an incident to happen. Controls are introduced to reduce the ranking of a Hazard or Aspect.

- **Occupational Health & Safety (OH&S):** Safety is a priority throughout KVTC's operations. KVTC has policies and procedures in place and there is extensive training of employees and managers in all aspects of OH&S
- **Environment:** KVTC wishes to minimise the impact of its operations on the environment and wants to ensure its activities are environmentally sustainable and should have an overall net positive impact. The company monitors rainfall, stream flow, areas of special interest and maintains High Conservation Value Areas on its landholding. Over the years KVTC has worked extensively with external consultants and experts to ensure its plantation layout would not negatively impact the environment and allow for biodiversity protection and wildlife movement.

Monitoring

Monitoring and evaluation of forest and environmental conditions is continuously adapting to changes in the approach of managing the plantations. KVTC implemented a range of plantation and environmental monitoring activities aimed at collecting different types of information, these methods are depending on the FSC, OSHAS 18001 and ISO 140001 principles and guidelines.

Plantation monitoring

The principle objective for the establishment of teak plantations was to establish teak on approximately 30% of the total land holding and to place the balance 70% of the land under a rigorous conservation regime.

To achieve this monitoring is undertaken in the plantations according to a set of standards and progress is measured over time. These subjects are covered in detail in the following paragraphs.

Extent of the plantations

Over time, since 1992, the teak compartments have been established in a mosaic pattern and are embedded into the natural landscape. The block design and mosaic pattern provide for wildlife corridors and buffer zones.



Figure 1: View of plantation and buffer mosaic from fire lookout tower.



Figure 2: High biodiversity buffer zone neighbouring a teak stand in Mafinji plantation.

Table 5: Break Down of KVTC Land Holding (Source 2013 Satellite Survey Unique Forestry)

| 2013 Sat Survey | | Nakafulu (C) | Mafinji (D) | Ichima (A) | Narabungo (B) | Total |
|------------------------|-----------|---------------------|--------------------|-------------------|----------------------|---------------|
| Evergreen | ha | 1,303 | 2,149 | 669 | 48 | 4,169 |
| Dense Miombo | ha | 5,929 | 2,045 | 1338 | 777 | 10,089 |
| Open Miombo | ha | 1,344 | 286 | 143 | 501 | 2,274 |
| Woodland | ha | 8,576 | 4,480 | 2,150 | 1,326 | 16,532 |
| Open / Grassland | ha | 3,250 | 1,357 | 69 | 110 | 4,786 |
| Teak Compartments | ha | 3,643 | 2,960 | 740 | 708 | 8,051 |
| Total Area | ha | 15,469 | 8,797 | 2,959 | 2,144 | 29,369 |

Currently KVTC plantations cover 29% of the total land holding and indigenous woodlands and other infrastructure areas cover 71%.

Permanent sample plots – PSP’s

In order to collect sufficient time series data on the growth of teak for use in the development and calibration of growth and yield models, KVTC has established a comprehensive system of PSP’s. A total of 122 PSP’s was established over the range of growing sites and age profile at KVTC.

An 11.28-meter circle plot (0.004 of a hectare) is established in the selected area in a compartment. All trees are marked individually with a permanent marking paint. All trees are measured for DBH and 4 pairs of 4 trees each are assessed for height. The height pairs are selected for their height classes’ e.g. small, medium, large, and very large within the PSP plot. These plots are assessed and measured on a yearly basis and the data electronically captured and stored in a database for further analysis.

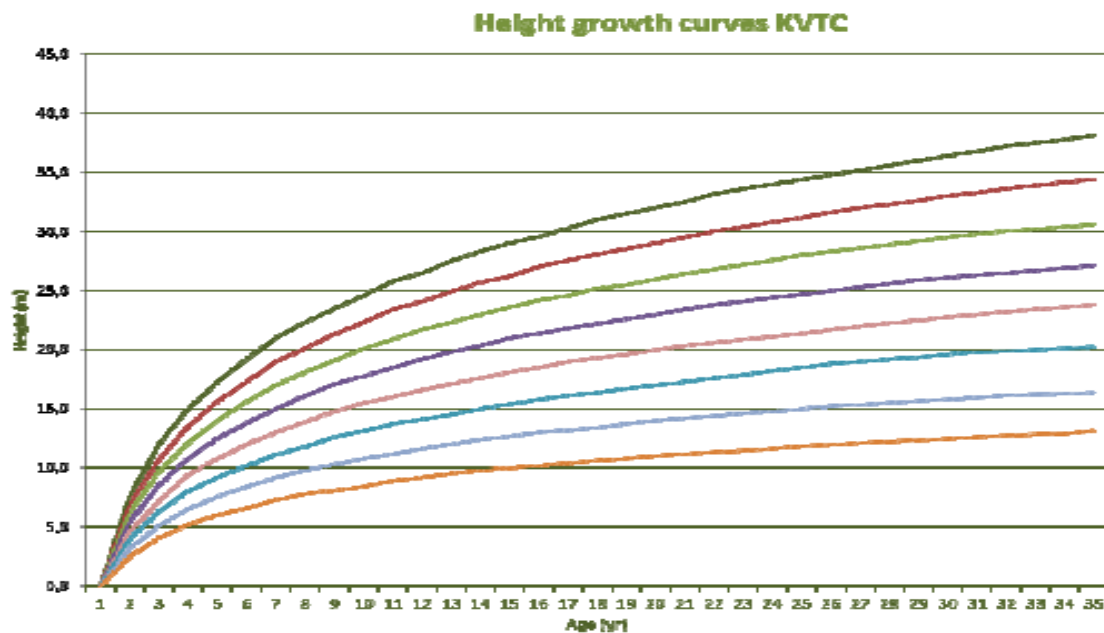


Figure 3: Growth curves based upon data collected from Permanent Sample Plots (PSPs) on eight different growth site classes

Soil evaluation

When comparing the mean growth of teak between different sites, soil is the most influential factor to understand for further improved insight and management intervention.

Teak being such a soil-sensitive tree, a soil monitoring and evaluation program was implemented in order to get a better understanding of growing site conditions and performance. The results of the ongoing evaluations lead to more accurate growth predictions, as well as better management regimes and fertilizer strategies.

Results of the soil analyses are in analytical report form and comparisons are done between different areas to identify factors influencing tree performance.

In 2014 the company undertook a larger soil study to develop a broader classification of growing zones. The result of this work has been incorporated in management plans.

Forest production

The annual allowable cut is determined through the Microforest system by running a simulation with the Harvest Scheduler Simulator - HSS. The annual allowable cut is the utilizable volume that can be harvested each year without compromising the long-term sustainable timber supply. This is expressed as cubic meter (m³) per year and takes into consideration the current stands with their unique parameters and management regimes. The optimum sustained volume is an indication of business sustainability and maximum volume production. This is reviewed on a regular basis to incorporate data obtained from permanent sample plots and harvesting reports.

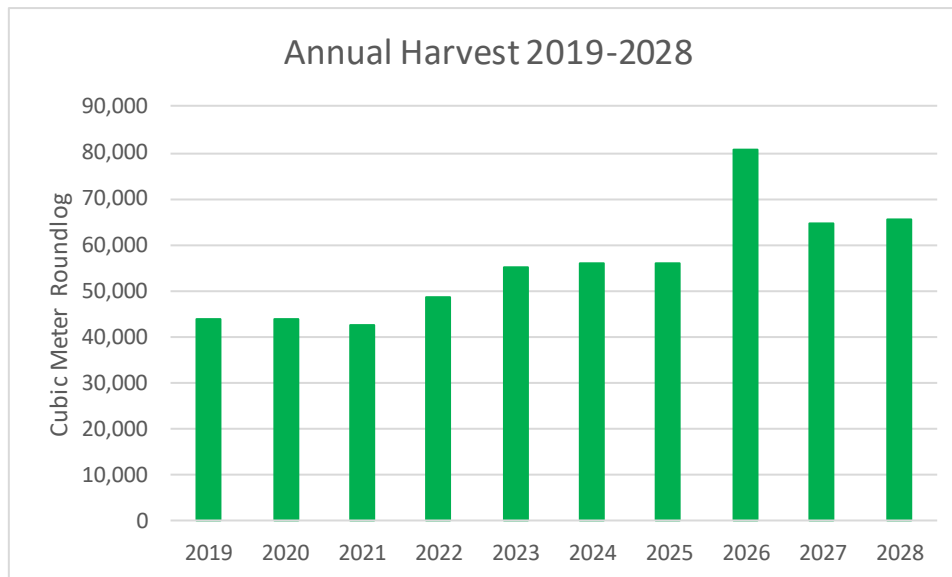


Figure 4: Harvest Scheduler Simulator (HSS run –Nov ‘18) output showing annual allowable cut over the next 10 years. This is currently under review.

Forest inventory

Forest inventory is a high precision operation. Future management decisions, forecasts and volume estimates are based on data that the enumeration teams collect. KVTC uses circular plots for forest inventory work, although special circumstances may require other types of inventory.

- The required radius of circular plots is 12.6 m (giving a 500 m² plot).
- A ratio of **two plots per hectare** is used giving a sampling intensity of 10%.
- All DBH's per plot are measured, excluding dead trees and regeneration.
- The minimum number of plots per compartment is equal to 10% of the area.
- At least 30 DBH/height pairs per compartment, or two pairs per plot (whichever is the greater) are measured. To ensure an unbiased selection of trees for height measurements, the two trees closest to the plot centre are selected.



Figure 5: Diameter at Breast Height (DBH) measurement being conducted using Masser Calipers during an enumeration exercise

Herbicide use

The use of chemicals is controlled, and a process of authorization is followed in accordance with set procedures. Only chemicals on the company’s chemical approved list may be used. All chemicals must be legally registered within Tanzania and conform to the chemical policy guidelines of the Forest Stewardship Council (FSC). Chemical spillage emergency procedures are in place and reviewed periodically. Chemical usage is continuously monitored through the “Job Instruction” process and records are kept; actual vs. planned consumption is compared per liter per hectare according to the prescription.

Water quality

River water quality monitoring is being carried out in compliance with the FSC and ISO 14001 requirements. The monitoring sites are located throughout water courses that pass through KVTC land or could be affected by KVTC operations.



Figure 6: Identification of macro-invertebrates according to the Mini-SASS at Mafinji low (20th Nov 2019)

Mini SASS (South African Scoring System) is used to measure the health of aquatic communities and the general quality of the water in those communities. Monitoring procedures based on the biota measure the health of a river and the ability of aquatic systems to support life, as opposed to simply characterizing the chemical and physical components of a system. Monitoring is done annually, and the results of the rivers monitored in 2019 are shown on figure 7. The results of monitoring between 2012 and 2019, 98% of Mafinji River had experienced natural and good condition. Only Mafinji low had experienced fair condition due to influence of cattle grazing and domestic uses from Madabadaba village as shown in table 6.

Table 6: Summary of timing of KVTC’s river health sampling over last 9 years in terms of month and rainfall

| Year | Month | Season |
|------|-----------|-------------|
| 2008 | October | Dry |
| 2009 | November | Dry (end) |
| 2010 | December | Rains |
| 2011 | September | Dry |
| 2012 | May | Rains (end) |
| 2013 | June/July | Rains (end) |
| 2014 | September | Dry |
| 2015 | November | Dry (end) |

| | | |
|------|---------------|-----------|
| 2016 | August | Dry |
| 2016 | December | Dry (end) |
| 2017 | September | Dry |
| 2018 | October 2018 | Dry |
| 2019 | November 2019 | Dry |

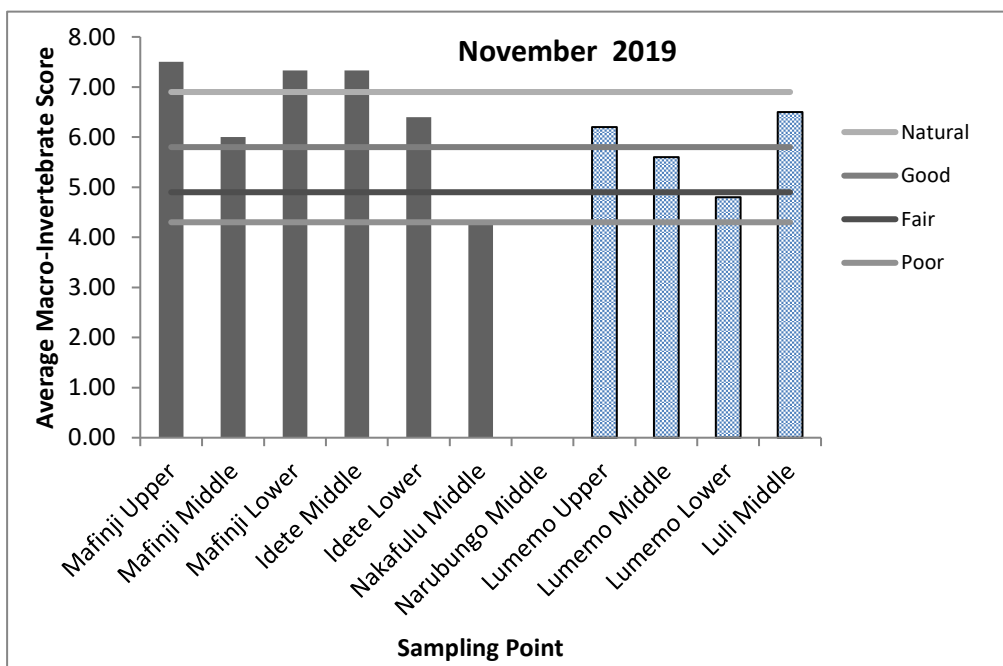


Figure 7: Mini-SASS biodiversity average scores for November 2019 river health monitoring. Note: Chequered bars are those rivers falling outside KVTC Plantation

Table 7: Historic Overview of monitoring results since May 2012 to November 2019 for all rivers within and outside KVTC land

| Date/Year | Monitoring Point | | | | | | | | | | |
|-----------|------------------|----------------|---------------|--------------|---------------|--------------|--------------|-------------|-----------------|------------------|---------|
| | Mafinji Upper | Mafinji Middle | Mafinji Lower | Lumemo Upper | Lumemo Middle | Lumemo Lower | Idete Middle | Idete Lower | Nakafulu Middle | Narubungo Middle | Luli |
| May-2012 | Good | Good | Natural | Natural | Natural | Natural | Good | Good | Poor | Poor | N/A |
| Nov-2012 | Natural | Natural | Fair | N/A | N/A | N/A | Natural | Natural | Poor | N/A | N/A |
| Jun-2013 | Natural | Natural | Natural | Good | Natural | Natural | Good | Natural | Good | Good | Good |
| Dec-2013 | Natural | Natural | Good | Good | Natural | Fair | Good | Good | N/A | N/A | Good |
| Sep-2014 | Natural | Natural | Natural | Good | Fair | Fair | Good | Fair | Fair | N/A | Fair |
| Nov-2015 | Natural | Good | Good | Fair | Good | Poor | Natural | Good | N/A | N/A | Poor |
| Aug-2016 | Natural | Natural | Natural | Fair | Fair | Fair | Natural | Good | Good | Good | Natural |
| Dec-2016 | Natural | Natural | Fair | Fair | Natural | Poor | Natural | Fair | Poor | N/A | Fair |
| Sep-2017 | Natural | Good | Natural | Fair | Poor | Fair | Natural | Fair | Fair | Fair | Fair |
| Oct-2018 | Natural | Good | Good | Fair | Fair | Fair | Natural | Fair | Poor | N/A | Poor |
| Nov-2019 | Natural | Good | Natural | Good | Fair | Poor | Natural | Good | Poor | N/A | Good |



Figure 8: Mini-SASS river sampling being carried out on Idete low (Idete prison bridge) (22nd November 2019)

Areas of Special Interest – ASI

KVTC Area of Special Interest (ASI) database is an archive of locations within the plantation that are significant for archaeological, historical, cultural, or environmental reasons. These locations warrant specific attention and/or management to preserve their integrity. Annual monitoring is carried out in order to assess the status of each site, and to review the effectiveness of the prescribed management. 31 ASI were largely disturbed and lost the significance, hence they were removed from the list. A new register of 39 ASI was updated on KVTC maps.

ASI monitoring is done yearly and the main factors influencing the presence of ASI are external factors like pastoralism, illegal logging, firewood collection, charcoal making, poaching and land encroachment.

KVTC continues to implement its various conservation measures including collaboration with the government authorities, surrounding villages and other stakeholders to protect and recover the ASI sites as they form an important record of the change over time and they are symptoms of the larger changes taking place in the Kilombero Valley.



Figure 9: An active archeological site, remaining Potshards at Mafinji and remaining iron smelting furnaces at Nakafulu. (October 2019)

Red data species protection

CITES (the Convention on International Trade in Endangered Species of Wild Fauna and Flora) is an international agreement between governments. Its aim is to ensure that international trade in specimens of wild animals and plants does not threaten their survival.

Tanzania ratified the convention; and KVTC has identified species present on company land included on the CITES database.

The species have been identified as species that are or may be at risk of becoming extinct on a global or regional level. KVTC policies and procedures ensure that a safe habitat for all species living on company property is provided, whether they are at risk or not. This was achieved by limiting the modification of natural woodland only to areas where the impacts will be small and where mitigation is possible (such as leaving substantial natural corridors linking large habitat areas).

Comprehensive pre-felling assessments take all fauna and flora aspects of a particular area into consideration. This process has ensured that all species present has been able to continue living on KVTC land.

Individual trees identified within the property of KVTC for their aesthetic and genetic potential are protected and listed in the ASI register.



Figure 10: Dalbergia Mmelanoxydon (Mpingo) tree in Mafinji (Mgombalenga) plantation; this particular tree is listed in the ASI (Area of Special Interest) register (December 2019)

Illegal incidents and patrol.

KVTC manages approximately 20,000ha of conservation land consisting of Miombo woodlands (16,000ha) and grass- and wetlands (4,000ha). KVTC has succeeded to conserve and maintain the natural woodland through its various conservation measures. However, it is challenged by increasing level of land encroachment, overgrazing, illegal logging on both teak and natural forest, all these are due to increased population which creates pressure for the demand of various resources like, building materials (timber), charcoal, firewood extensive farming and therefore threaten the conservation efforts.

KVTC secures its area through regular patrols being done by using village game scouts under KVTC and village security agreements. Each village under the agreement provides two village game scouts to patrol in KVTC areas on daily basis and report any illegal incident. In the situation where the incident seems to be beyond the village Game scouts capacity, the company does seek more support from the district authorities.

In 2019 twelve patrols were done in collaboration with the Ulanga district police, village Game scouts, village government leaders and KVTC Management representatives. The patrols have shown great achievement as some people involved in illegal incidents like land encroachment have stopped and declared themselves not to involve in any illegal business in KVTC land after being arrested and legal measures taken upon them.

Stakeholder Relations and Community Development

Communication and Consultation

KVTC's Community Investment program is designed to secure, maintain and strengthen its 'Social license to operate'. Communicating actively and repeatedly about this program is an integral part of the process.

Communicating with our neighbours and operating as part of the community is important to KVTC. To maintain our two-way dialogue with stakeholders, KVTC:

- Ensures an open and transparent relationship with local people, politicians, community representatives and other local groups through provision of information about the operations and policies of KVTC.
- Ensures that its employees and senior executives are kept informed about the company's community involvement and strategies.
- Trains its employees and executives to be ambassadors of the company and all are expected to be aware of the company's strategy towards the communities and to play an active role in realizing this strategy.
- Provides information through verbal communication, radio programs public notices and sometimes electronic formats accessible to all individuals as far as reasonably practicable
- Seeks opinions and views on matters affecting local people working or engaging with KVTC
- Audits KVTC contractors and consults contractor employees
- Provides a forum for discussions about the Company



Figure 11: One of stakeholders' consultative meeting participants held at Lupiro division. 15th Aug 2019

Mitiki Workers' SACCOS

KVTC's workers' Saving and Credit Cooperative Society (SACCOS) was established in May 2001 in order to provide members with an opportunity to invest their savings and to gain access to soft credits. Mitiki SACCOS provides loans to members ranging from small loans for school

fees and agricultural inputs to larger loans for house construction as well as farming implements.

Membership of Mitiki SACCOS is on a voluntary basis and a total of 75 staff are currently registered. KVTC has contributed TZS 3,000,000 to Mitiki SACCOS. At present SACCOS shares and reserves stand at 25 million and 170 million Tanzanian Shillings respectively. At the end of 2016 KVTC provided a capital injection to further grow Mitiki SACCOS' activities. This loan was fully repaid at the beginning of 2018.

Mitiki Workers SACCOS is registered with registration no MGR 313 and operates under Tanzania Co-operative Act No 20 Of 2003. It manages its affairs based on the relevant law and its regulations. The Society has a board responsible for policy of the society, employing staff when the need arises. Every member has a say through the ballot box by electing Board members and passing resolutions through a General Assembly.

Social Fund

The Social Fund is a novel way to provide continuous support to communities that have granted land to KVTC for its forestry and processing operations.

The concept of the social Fund is that annually KVTC will make an available a sum of money towards a selected community project in each of the 17 associated villages. Funds made available through the social fund are deposited in a joint account and will only be released against an approved project.

In recent years money from the social fund has been used for infrastructure projects, educational projects, community projects and many others. During 2018 a total amount of around \$35k was disbursed. Since 2002 an amount of approximately \$485000 has been disbursed through the Social Fund program.

During 2019 projects worth 171m TZS were approved. The Social fund contributed 92m TZS (54%) and other sources of funding amounted to 79m (46%).



Figure 12: Idete primary school classroom built by KVTC social fund project. 29th Oct 2019.

Health Care

It is in the interest of the company to operate in a healthy community from which it can recruit future staff. To support its neighbours and staff, KVTC engages in following health activities:

- Employees undergo an annual medical check-up.
- A dispensary is available at Mavimba for staff to receive first aid and initial diagnosis of injuries or illnesses.
- KVTC provides medical support to staff and their immediate families
- KVTC has a system of Peer Health Educators in its associated villages; these PHE's provide training and raise awareness among villagers on most prevalent diseases such as malaria, typhoid as well as HIV/AIDS
- KVTC holds village seminars as well as work place seminars where villagers as well staff are educated on the risks of HIV/AIDS
- KVTC provides free condoms at the work place
- KVTC brings awareness to their employees and contractors on occupational diseases and work place hazards
- KVTC provides First Aid Training to both employees as well as contractors

Table 8: HIV Test Records 2019

| Month | Jan | Feb | March | April | May | June | July | Aug | Sept | Oct | Nov | Dec | 2019 Total |
|---------------|-----|-----|-------|-------|-----|------|------|-----|------|-----|-----|-----|------------|
| Positive test | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Negative Test | 11 | 20 | 29 | 3 | 9 | 7 | 14 | 17 | 25 | 11 | 32 | 12 | 190 |
| Total test | 11 | 20 | 29 | 3 | 9 | 7 | 14 | 17 | 25 | 11 | 32 | 12 | 190 |

Village Contracts

KVTC believes incentives are to be offered for services that associated villages can provide and that have a common goal, i.e. control of poaching, encroachment and illegal logging as well as fire prevention and firefighting.

KVTC engages with its associated villages through a system of Village Contracts. Under these contracts trained Game Scouts from surrounding villages assist with cleaning boundaries of KVTC land, carry out patrols to avoid illegal logging or poaching and ensure that no land encroachment takes place. The Game Scouts also play an important role in monitoring and recording movements of wildlife.

In the event of fire in or around the plantations, the villages make available fire fighters that work together with KVTC staff in fighting or preventing fires.

Attached to the Village Contract is a bonus scheme where villagers are rewarded if incidents of illegal logging, poaching or fire are prevented during a year.

KVTC has budgeted approximately 120m Tshs in 2020 towards village contracts and village bonuses.

The annual village bonuses are awarded during the Annual Village Seminar which is a forum where associated villages can engage with KVTC and discuss performance, concerns and table specific requests.

Village out Grower Project

KVTC realizes that in order to be aligned with its associated villages it needs to share a common goal as well as offer income generating activities.

In 2008 KVTC embarked on a Village Out Grower Project where annually teak plantations are being established in the associated villages. KVTC finances the establishment and maintenance of these new teak plantations and guarantees a market at a minimum age of 15 years for the trees. The Village is the owner of the new plantations and KVTC holds a right of first refusal to the trees. Close to 70 hectares of new plantings were established. In 2012 the program was replaced with the Out-grower Support Program.

Out Grower Support Program ('OSP')

As KVTC has stopped planting of new areas within its own landholding, this leaves the out grower teak establishment as one option to grow its resource base. By establishing a thriving out grower community, the company aligns itself with the surrounding communities.

The overall objective of the project is to reduce poverty by establishing plantations that contribute effectively and sustainably to improving the lives of poorer members of the community whilst at the same time offering alternatives to more environmentally destructive manners of generating income, i.e. illegal logging, poaching and/or charcoal production.

KVTC started the Out-grower Support Program ('OSP') in 2012 with a first trial planting season of 17hectares, although applications far exceeded this number of hectares. In 2014 KVTC entered a dialogue with its development partners on how to expand and provide finance for an expanded out-grower program. The Program has expanded aggressively since then and currently the OSP program is roughly 1,335ha of teak plantations with close to 600 farmers. During 2019 direct support to farmers amounted to USD 262,000.

Table 9: Development of Village and OSP Programs at KVTC

| Year | Type | Active areas | Cumulative |
|------|---------|--------------|------------|
| | | Ha | Ha |
| 2008 | Village | 3 | 3 |
| 2009 | Village | 24 | 27 |
| 2010 | Village | 23 | 50 |
| 2011 | Village | 17 | 67 |
| 2012 | OSP | 17 | 84 |
| 2013 | OSP | 37 | 121 |
| 2014 | OSP | 50 | 171 |
| 2015 | OSP | 219 | 390 |
| 2016 | OSP | 269 | 659 |

| | | | |
|-------------|-----|-----|-------|
| 2017 | OSP | 350 | 1,009 |
| 2018 | OSP | 250 | 1,259 |
| 2019 | OSP | 76 | 1,085 |
| 2020 (est.) | OSP | 250 | 1,335 |

External Log Purchase

In 2018 KVTC started to purchase logs from external farmers who grew teak by their own initiatives. Close to 1,000m³ were purchased from all three districts (Ulanga, Malinyi and Kilombero District) resulting in revenues of 250m TZS for farmers, contractors and government

Currently three dedicated Out grower Managers drive the OSP program and improve quality and quantity of planted areas.

Community Radio Program

The Company continually looks for novel ways of communicating its messages to its stakeholders in the Ulanga, Malinyi and Kilombero Districts. KVTC has an agreement with a FM radio station with coverage in the Ulanga, Malinyi and Kilombero Districts. The Parties have a joint undertaking to use the radio station as a way to:

- Communicate information, reports and regular news to encourage greater understanding of the Company's operations and business practices
- Receive feedback from stakeholders on the company's performance and community perception of the company's operations and activities.
- Use the radio station to educate the community on matters related to fire management, conservation and forestry related economic opportunities
- Engage with educational institutions to make students and staff aware of employment and training opportunities as well as project and research work.

In 2019 KVTC's Social Manager organised 52 radio programs whereby various KVTC employees attended Pambazuko radio located in Ifakara town to promote various activities and projects done by KVTC.

Annual Consultative meeting

Each year, KVTC update its stakeholders register and invites them to consultative meetings. The invitees are KVTC management, village chairmen, village executive officers, ward councillors, ward executive officers, division officers, community development officers, local forest technical staff, District Council chairpersons, NGO and local mass media representatives.

The main objective is to give local stakeholders a platform to receive feedback and exchange information on the company's operational activities. This also provides them with an opportunity to comment on the company's activities.

Natural woodland project

KVC continues to explore the possibility to develop a program that will bring more benefits from the conservation forest areas to the surrounding communities. There is ongoing dialogue

with government to make the natural woodland management project commercially sustainable.



Figure 13: Implementation of Natural woodland project on tree enumeration stage. (30 June 2019)

KVTC newsletter

In order to improve communication with the communities, out growers local government and other stakeholders, KVTC has established a quarterly newsletter which is being distributed to all surrounding communities, district authorities and other stakeholders. Previous versions of the company newsletter can be found on the KVTC website under the download section: www.kvtc-tz.com/downloads

Canteen Service

KVTC Management together with the workers union representatives agreed to build a canteen at Mavimba sawmill. Construction was completed in 2019 and the canteen is now fully operational. All employees based at Mavimba (about 200 people) have breakfast and lunch every working day.

KVTC Essay Contest

Since 2017 KVTC Management has been organizing an essay contest open to all ordinary secondary schools in the KVTC surrounding villages. The aim of the contest is to tie together knowledge, creativity and understanding of youth on the need for sustainable environmental , social and economic development.

In 2019 the title of the essay was ***“Based on scientific evidence and observed current trends, climate change is real and is happening, how has climate change affected the valley so far? What changes are perceived and what could be the solution to the problem?”***

KVTC Management Retreat program.

On 22nd to 24th of February KVTC organised a retreat program for its management team. KVTC believes that employees are a company's biggest asset and investing in human capital is vital to sustainable business growth and success. The management team devoted three days intensively away from the daily activities. The program was facilitated by Empower LTD whereby the facilitator (Miranda Neiman) brought a wealth of experience in team building strategic, planning and workshops. The team was able to apply new approaches towards business success.



Figure 14: KVTC senior management team at protea Hotel after finishing the training program before departure. (24th February 2019)

Boundary demarcation project at Block C “Nakafulu”

During the end of 2018, some villagers had been farming along a natural stream boundary between KVTC land and village land. They then started farming inside KVTC land. The matter was initially noticed and reported by Mbsa village Game scouts who patrol in KVTC land on a daily basis as per village agreement with KVTC.

The villagers claimed they were not aware of the location of the boundary. KVTC management in cooperation with Mbsa village government leaders reported the matter to district authorities.

Ulanga district land surveyors conducted a field visit to the disputed area and resolved the matter by locating the boundary. A total of 12 permanent beacons were installed along the Lijola river stream and awareness was conducted to the local communities to respect and protect the boundaries of all parties. KVTC used TZS 10 million to facilitate the project. The exercise was successful as there is no more encroachment along Lijora river stream.



Figure 15: Ulanga District land surveyors, Mbasa village leader and KVTC team surveying for boundary during beacons installment along Lijola River stream at Block C. 9th Nov 2019

Collective Agreement Union

KVTC has an annual mechanism through which a collective agreement is reached with the Tanzania Plantation and Agricultural Workers Union ('TPAWU'). This agreement governs the interaction with as well as provides rules and obligations for company and employees. Union members as well as all other staff are kept up to date of the company's Occupational Health and Safety Policy as well as any changes in the company's Staff and Administrative Instructions.

Monitoring of Accidents, Injuries (Disabling and Non-Disabling)

All accidents, near misses or any other incidents are being recorded at KVTC and undergo a formal investigation with recommendations and actions which are reviewed and approved by senior management.

KVTC has a full-time clinical officer, nurse officer as well as a dedicated HSE Manager to look after the safety and well-being of our employees.

KVTC monitors disabling and non-disabling injuries and reports these monthly to the Criterion Africa Partners (CAP) group companies.

Training

Human capital is one of the most important assets of any company. In a country where schooling and education is problematic. KVTC has a policy to develop and maintain a solid and well-balanced organization and staff complement capable of performing the duties of the company properly and thus special consideration is paid to training and development of the company employees. Training is provided both on the job, through in-house courses as well as by bringing in trainers from other areas or sending staff to courses within as well as outside of the country.

During 2019 a total of 114 people were trained in the following fields:

- Defensive driving training (Safe Speed Foundation)
- Chemical Management and Control Act Cap 182. (Government chemist)
- Forest Fire Prevention and Control (FWITC)
- First Aid Training (in house training)
- Safety and Health Representatives Training (by OHSA)
- Industrial First Aid Training (by OHSA)

- International Financial Reporting Standards (IFRS) NBAA
- Procurement Management & PPRA rules and procedures (EPVATE)
- Safe Boiler Operation (by OHSA)
- In-house training on "The use of fire equipment"
- International Fundamental Labour Standards and Labour Laws Compliance in Tanzania (ATE)
- Grievance Handling Procedures and Dispute Resolution (ATE)
- GIS and Microforest Training (Inhouse Training)
- Standard Operating Procedures of Tree Breeding activities (FWITC)
- Strategic HR Transformation Program (HLTI)
- Band saw blade maintenance (FWITC)
- NBAA Review IFRS (PWC)
- Practical Challenges & Recent Changes (PWC)
- Accounting governance best Practices for Decision Makers (NBAA)
- Accounting, Auditing & Tax issues(NBAA)
- Corporate Finance & Valuation Financial Modelling Training EAVCA
- Corporate Strategy Retreat (22-24 Feb) (Empower)

Ethics Policy

The company developed an Ethics Policy to provide the framework and guidelines on the company's approach to ethical behaviour during the conduct of its business.

The policy was approved by the top management, translated into Swahili and distributed to all employees for awareness and implementation. Highlights of the policy are:

- KVTC will not offer or accept anything of value with the purpose of inducing or entering into any business relationship with anyone.
- KVTC will not pay or accept any bribes.
- KVTC's resources, assets or services will not be used directly or indirectly for any personal or improper purpose.
- KVTC will avoid any situation which involves or may involve a conflict between personal interests and the interests of the company.
- KVTC will not make any false or fraudulent statements to any parties in connection with preparation of company documents / reports or during audits and inspections.
- KVTC will treat everyone fairly and with respect without regard to race, tribe, religion, gender, marital or family status, disability, age, political affiliation or any other trait.
- KVTC will keep the local communities informed about issues which may affect them.
- KVTC will not take advantage of position in the company to gain sexual favors from anyone who wants to enter into any business or employment relationship with KVTC.
- KVTC will not divulge or use any confidential company information or any other information which might be contrary to the interests of KVTC without prior authorization from the CEO.

Governance

The highest body at KVTC is the Board of Directors which currently consists of five Directors. The board meets three times per annum of which one meeting is held at the company Head Quarters in Mavimba.

On a monthly basis the Chief Executive Officer circulates a detailed report (including issues related to health, safety and environment) to the board and in addition the Chief Financial Officer prepares a monthly set of Management accounts for the board.

Board of Directors

The Board of Directors of KVTC is responsible for the governance of the company and for the proper organisation of its activities in accordance with the Memorandum of Articles of Association. The board establishes the strategy and organization of the company and appoints the CEO who acts in accordance with the instructions of the board and is responsible for the day to day management of the company.

Currently the composition of the board of directors is as follow:

- Amb. Ami Mpungwe Tanzanian (Chairman)
- Amb. Juma Mwapachu Tanzanian
- Mr Jim Heyes American
- Mr Ilkka Norjamakki Finnish
- Mr Ole Sand Norwegian (Mr. Sand is an alternate to Mr Heyes)
- Mr David Parkhill Irish

The Chief Executive Officer of the company is Mr Irvine Kanyemba a Zimbabwean National.

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