



**Growing Towards  
Sustainability**

**INTEGRATED ANNUAL REPORT  
2018/19**





“

Providing the country with clean and secure  
energy to help meet its growing demand

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# ABBREVIATIONS AND ACRONYMS

|                 |                                                                                                                                                                                        |                |                                                                                          |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|------------------------------------------------------------------------------------------|
| <b>AEMFC</b>    | African Exploration Mining and Finance Corporation SOC Limited                                                                                                                         | <b>MTEF</b>    | Medium Term Expenditure Framework                                                        |
| <b>AFS</b>      | Annual Financial Statements                                                                                                                                                            | <b>MW</b>      | Megawatt                                                                                 |
| <b>AGSA</b>     | Auditor-General of South Africa                                                                                                                                                        | <b>NDP</b>     | National Development Plan                                                                |
| <b>BARC</b>     | Board Audit and Risk Committee                                                                                                                                                         | <b>NEMA</b>    | National Environmental Management Act                                                    |
| <b>B-BBEE</b>   | Broad-Based Black Economic Empowerment                                                                                                                                                 | <b>NERSA</b>   | National Energy Regulator of South Africa                                                |
| <b>BBL</b>      | Barrel (equals 159 litres)                                                                                                                                                             | <b>NNPC</b>    | Nigerian National Petroleum Corporation                                                  |
| <b>BEE</b>      | Black Economic Empowerment                                                                                                                                                             | <b>NOC</b>     | National Oil Company                                                                     |
| <b>BPS</b>      | Basis Points                                                                                                                                                                           | <b>NMBM</b>    | Nelson Mandela Bay Metro                                                                 |
| <b>Bscf</b>     | Billions of standard cubic feet                                                                                                                                                        | <b>NPA</b>     | National Ports Authority                                                                 |
| <b>CCE</b>      | Cape Cleaner Energy Solutions SOC Limited                                                                                                                                              | <b>NT</b>      | NT Energy Corporation Limited                                                            |
| <b>CEF</b>      | Central Energy Fund SOC Limited                                                                                                                                                        | <b>Nymex</b>   | New York Mercantile Exchange                                                             |
| <b>CEF Act</b>  | Central Energy Fund (Act no 38 of 1977) as amended                                                                                                                                     | <b>OPCSA</b>   | Oil Pollution Control South Africa NPC                                                   |
| <b>CEO</b>      | Chief Executive Officer                                                                                                                                                                | <b>PAMC</b>    | Project Appraisal and Monitoring Committee                                               |
| <b>GCEO</b>     | Group Chief Executive Officer                                                                                                                                                          | <b>PAMDC</b>   | Pan African Mineral Development Company Proprietary Limited                              |
| <b>CFO</b>      | Chief Financial Officer                                                                                                                                                                | <b>PASA</b>    | South African Agency for Promotion of Petroleum Exploration and Exploitation SOC Limited |
| <b>CGU</b>      | Cash-Generating Unit                                                                                                                                                                   | <b>PAT</b>     | Project Appraisal Team                                                                   |
| <b>CMG</b>      | Companhia Mocambicana de Gasoduto                                                                                                                                                      | <b>PDD</b>     | Project Design Document                                                                  |
| <b>CNG</b>      | CNG Holdings                                                                                                                                                                           | <b>PFMA</b>    | Public Finance Management Act (Act No 1 of 1999) as amended                              |
| <b>CSI</b>      | Corporate Social Responsibility                                                                                                                                                        | <b>PCE</b>     | Portfolio Committee on Energy                                                            |
| <b>CSP</b>      | Concentrated Solar Power                                                                                                                                                               | <b>PPA</b>     | Power Purchase Agreement                                                                 |
| <b>DIFR</b>     | A ratio related of an injury per million man hours worked                                                                                                                              | <b>PPE</b>     | Property, plant and equipment                                                            |
| <b>DMRE</b>     | Department of Mineral Resources and Energy                                                                                                                                             | <b>PV</b>      | Photovoltaic                                                                             |
| <b>EBITDA</b>   | Profit/(loss) from operations before depreciation, amortisation, impairment of assets, investment revenue, fair value adjustments, income/(loss) from associates and net finance costs | <b>PetroSA</b> | The Petroleum Oil and Gas Corporation of South Africa SOC Limited                        |
| <b>ECS</b>      | Extended Continental Shelf                                                                                                                                                             | <b>REEP</b>    | Renewable Energy and Energy Efficiency Partnerships                                      |
| <b>EIA</b>      | Environmental Impact Assessment                                                                                                                                                        | <b>REIPP</b>   | Renewable Energy Independent Power Producer                                              |
| <b>EPD</b>      | Energy Projects Division                                                                                                                                                               | <b>RENAC</b>   | Renewables Energy Academy                                                                |
| <b>ECSC</b>     | Extended Continental Shelf Claim                                                                                                                                                       | <b>ROMPCO</b>  | The Republic of Mozambique Pipeline Investments Company                                  |
| <b>EXCO</b>     | Executive Committee                                                                                                                                                                    | <b>SDA</b>     | Swiss Development Agency                                                                 |
| <b>FEED</b>     | Front-end Engineering and Design                                                                                                                                                       | <b>SAMSA</b>   | South African Maritime Safety Authority                                                  |
| <b>FID</b>      | Final Investment Decision                                                                                                                                                              | <b>SANEDI</b>  | South African National Energy Development Institute                                      |
| <b>FPSO</b>     | Floating Production, Storage and Offloading                                                                                                                                            | <b>SANERI</b>  | South African National Energy Research Institute SOC Limited                             |
| <b>GAAP</b>     | Generally Accepted Accounting Practice                                                                                                                                                 | <b>SAPIA</b>   | South African Petroleum Industry Association                                             |
| <b>GTL</b>      | Gas-to-Liquid                                                                                                                                                                          | <b>SARS</b>    | South African Revenue Service                                                            |
| <b>GJ</b>       | Gigajoule                                                                                                                                                                              | <b>SFF</b>     | Strategic Fuel Fund Association                                                          |
| <b>GNPC</b>     | Ghana National Petroleum Corporation                                                                                                                                                   | <b>SLA</b>     | Service Level Agreement                                                                  |
| <b>iGas</b>     | The South African Gas Development Company SOC Limited                                                                                                                                  | <b>SOC</b>     | State Owned Company                                                                      |
| <b>IEP</b>      | (National) Integrated Energy Plan                                                                                                                                                      | <b>SWH</b>     | Solar Water Heaters                                                                      |
| <b>IFRS</b>     | International Financial Reporting Standards                                                                                                                                            | <b>Simex</b>   | Singapore Monetary Exchange                                                              |
| <b>IIRC</b>     | International Integrated Reporting Council                                                                                                                                             | <b>SOS</b>     | SOS Children's Village                                                                   |
| <b>IPP</b>      | Independent Power Producers                                                                                                                                                            | <b>ToR</b>     | Terms of Reference                                                                       |
| <b>IPPO</b>     | Independent Power Producers Office                                                                                                                                                     | <b>TFST</b>    | Thin Film Solar Technology                                                               |
| <b>IR</b>       | Integrated Reporting (Framework)                                                                                                                                                       | <b>TNPA</b>    | Transnet National Ports Authority                                                        |
| <b>IRP</b>      | Integrated Resource Plan                                                                                                                                                               | <b>UNDP</b>    | United Nations Development Programme                                                     |
| <b>King III</b> | King III Report on Corporate Governance                                                                                                                                                | <b>UTT</b>     | Upstream Training Trust                                                                  |
| <b>LFT</b>      | Long-fibre thermoplastics                                                                                                                                                              | <b>VAT</b>     | Value Added Tax                                                                          |
| <b>LNG</b>      | Liquid Natural Gas                                                                                                                                                                     | <b>VLCC</b>    | Very Large Crude Carrier                                                                 |
| <b>MMbbls</b>   | Million Barrels                                                                                                                                                                        |                |                                                                                          |
| <b>MOI</b>      | Memorandum of Incorporation                                                                                                                                                            |                |                                                                                          |
| <b>MPRDA</b>    | Mineral and Petroleum Resources Development Act, 2002 (Act 28 of 2002)                                                                                                                 |                |                                                                                          |



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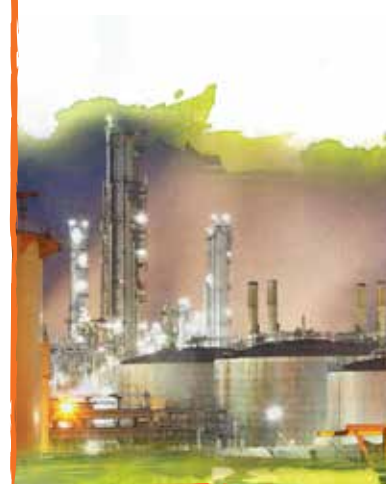
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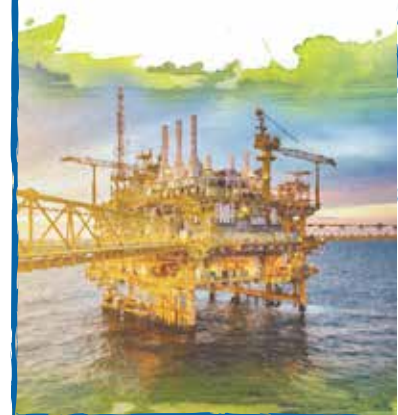
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## Part 2

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## ABOUT THIS REPORT



### Scope

This integrated report provides our Shareholder and Stakeholders with information relating to the CEF Group's strategy, business model, operating context, material risks and opportunities, as well as governance and operational performance for the period 2018 to 2019. As a Group of Companies with commercial and developmental mandate that operates across the entire energy value chain and the African continent this information is key in the assessment on how we create value for our Shareholder and strategic partners.



### Reporting Frames

The compilation of the CEF Group integrated report was guided by the following codes and standards:

- The King Report on Corporate Governance for South Africa, and the accompanying Code on Corporate Governance for South Africa (King IV)
- The International Integrated Reporting Council Framework
- National Treasury guidelines on business performance and planning
- The Public Finance and Management Act No 1 of 1999 (PFMA)
- The Companies Act 71 of 2008 (as amended)
- Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines
- International Financial Reporting Standards (IFRS).



### Report Boundary

Our integrated report covers the performance of the CEF Group for the financial year April 2018 to March 2019 in all geographic regions in which the CEF Group and its subsidiaries operate as a Schedule 2 State Owned Entity (SOE).

Associates and joint ventures are equity accounted and, thus, not included in consolidated non-financial data. The consolidated data incorporates the company and all entities controlled by the CEF Group from a consolidation perspective. The financial and non-financial information provided is aligned to the same financial reporting period, allowing for comparison of performance data. Various disclosures are made in their respective sections in the report. The CEF Group consolidated financial statements are prepared in line with IFRS.



### Our Approach to Reporting

Annually, the CEF Group agrees an outcomes-based Shareholder's Compact to enable the Shareholder to monitor the performance in delivering the strategic objectives mandated by government. The Shareholder's Compact specifies key performance areas from which growth and developmental outcome indicators are identified in line with the core elements of our strategic intent. This approach informs the CEF Group's Corporate Plan and integrated reporting by focusing on achieving real, measurable benefits for the lives of South Africans, the economy and the environment. It provides a tangible route to success by outlining what outcome we expect to achieve, by highlighting the inputs, processes and outputs in a focused manner that are aligned to the National Development Plan (NDP).

The following definitions are used in this integrated report to embed the commercial and sustainable developmental outcomes as per our corporate plan:

- **Inputs:** The various capitals invested in activity, namely human, financial, natural, intellectual, manufactured, and corporate and social capitals.
- **Activities:** The actions that use inputs to produce outputs and outcomes, for example financial management, manufacturing activities, supplier development initiatives, research and development activities, training courses and materials recycling.
- **Outputs:** The direct and tangible products from the activity, for example people trained, suppliers developed, goods produced, and tons of waste recycled or avoided.
- **Outcomes:** Changes to a set of beneficiaries resulting from the activity, including skills enhancement, industry growth and efficient operations, economies preserved and lower costs of waste.





### Determining Materiality

This report provides information on all matters that we believe could substantively affect value creation of the CEF Group. The report is written primarily for affected stakeholders in the energy sector and those that provide the group with key resources for delivering on our mandate. The report is of interest to any stakeholder who wishes to make an informed assessment of the Group's ability to create value over time. In the belief that all the information in this report is material, we do not seek to provide a simple listing of material issues. To identify and prioritise the matters for inclusion in this report, we undertook a structured process involving senior decision-makers from across the Group.



### Assurance

The CEF Board, with the support of the audit committee, is ultimately responsible for CEF's system of internal control, designed to identify, evaluate, manage and provide reasonable assurance against material misstatement and loss. We subscribe to a combined assurance model, which seeks to enhance the assurance obtained from management and internal and external assurance providers, while promoting a strong ethical climate and mechanisms to ensure compliance. Our assurance matrix is provided in detail as part of this report.

All financial information in this report, together with material non-financial indicators, is independently assured by our external auditors, the Auditor-General of South Africa.



### Approval of the Report

The Board acknowledges its responsibility to ensure the integrity of the integrated report. The directors have collectively assessed the content, and confirm that the report addresses all material issues and fairly represents the integrated performance of the CEF Group. The Audit and Risk Committee, which has oversight responsibility for integrated reporting, recommended the report for approval by the Board. The Board, considering the completeness of the material items dealt with and the reliability of information presented, and based on the combined assurance process followed, approved the 2018/19 integrated report, annual financial statements and supplementary information on 30 August 2019.





## PART 1

# Section 1



This report should be read in conjunction with the detailed annual financial statements presented on pages 147 to 244. This report is a summary of our performance as agreed in the Shareholder's Compact with the Shareholder in delivering on the CEF Group's primary mandate. We are committed to playing a major role in growing the energy sector to be a catalyst for economic growth and poverty alleviation through security of supply and access to affordable energy.





# YEAR IN REVIEW – 2018/19





## PERFORMANCE HIGHLIGHTS

For a holistic overview of the CEF Group business performance, this report should be read in conjunction with the detailed annual financial statements on pages 147 to 244. Through this report, the Group is able to highlight business performance in line its Corporate Plan.

As the implementing arm of the Department of Mineral Resources and Energy, the CEF Group also exists to support government's broader strategic objectives in line with the NDP, whilst playing a critical role in enabling economic development. Each entity of the CEF Group focuses on key objectives across the energy sector value chain, through the deployment of capital and human resources towards developing and operating mandated strategic projects.

The following drivers underpins the CEF's Group delivery value procedure:



- **Impact:** The impact of our strategic and operational objectives on the programmes of government and in communities where we operate. This impact is measured both in financial and non-financial terms



- **Sustainability:** The sustainability of our operations in delivering value year-on-year and making remarkable impact on all our stakeholders. This is done by setting clear metrics and by our approach to value creation.

### Financial Performance Highlights



**Revenue increased by**  
13% to R13.2 billion



**EBITDA decreased by**  
29% to R626 million



**Cash increased by**  
10% to R18.9 billion



**Capital investment increased by**  
285% to R1.1 billion





## Non Financial Performance Highlights



### Human Capital

CEF Group maintained its commitment to training and developing employees at all levels by investing a total of R19.27 million on training programmes. Of this amount, a total R4.3 million was allocated to 90 students within the Group in a form of bursaries, R5.2 million was spent on the various Talent Pipeline Programs including Internships, Graduates in Training programme,



### Investments

Our 25% equity stake in Republic of Mozambique Pipeline Investments Company (ROMPCO) delivered a dividend of R496 million versus a target of R250 million



### Corporate Social Responsibility

CEF Group corporate social investment (CSI) for 2018/19 period amounted to R34.5 million.



### Safety, Health, Environment and Quality (SHEQ)

There were no fatalities for the 2018/19 financial year.



### Enterprise Risk Management Maturity

The overall ERM maturity was 48% against set target of 40% for the year, which exceeded the target.



## CHAIRPERSON'S STATEMENT

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**Mr Neville Mompoti**

It gives me great pleasure to submit the CEF Group Integrated Annual Report for the year ended 31 March 2019 to our Shareholder, the Honourable Minister of Mineral Resources and Energy, and all our stakeholders.

The mandate of CEF SOC Ltd, as the Shareholder of a number of diverse subsidiaries comprising the CEF Group, is to provide security of energy supply that supports a number of critical economic and developmental initiatives in South Africa, in alignment with and, in some cases, in support of the Department of Mineral Resources and Energy (DMRE) Strategy, as well as the objectives of the National Developmental Plan (NDP). As the CEF Group, it is imperative that we ensure and maintain commercial viability in order to also deliver on our key developmental mandate.

The year 2018/2019 has been a challenging one for the CEF Group, driven by both external and internal forces. The CEF Group continues to contend with a number of key strategic challenges that threatens the short-, medium- and long-term sustainability of the business.

As a result, the management team has during the year under review, commenced with developing an emerging strategic trajectory for the CEF Group. One of the key objectives of this strategy is to reposition the CEF Group for growth and strategic relevance.

This will certainly require the implementation of a new Group operating model and business model that will define the Group's value proposition, Group portfolio, revenue streams, strategic partnerships, operations and organisational construct to support our strategic objectives. It is envisaged that this will enable the Group to leverage synergies whilst at the same time, stabilise PetroSA and create a foundation for a sustainable Group of companies.

The country's economy continues to make a slow but steady comeback from the 2018 short-lived recession. The biggest risk to the country's economic recovery is the electricity supply challenges, as the electricity utility, Eskom, faces serious financial and operational pressures. It is thus that government's efforts to stabilise state-owned companies – including the reconfiguration of Eskom – and infrastructure reforms are expected to support faster growth and investment in the years ahead.

I am pleased to report that steady progress has been made on developing the new strategy and to deal decisively with issues that continue to have a fundamental impact on our long-term growth and sustainability.



### **Governance**

For the period under review, the Group made positive strides in dealing with issues of governance and aligning key structures to improve oversight, monitoring and evaluation of Group business activities.

### **Financial performance**

For the period ended 31 March 2019, the CEF Group still managed to generate R1.6 billion cash from operations. The cash from operations emanates from higher investment income, reduction in operating expenses and improved working capital management. Despite the operational challenges and deteriorating net profit over the recent years, the Group has managed to continue generating positive cash earnings from its operations with EBITDA remaining above R600 million over the years.

### **Board and governance**

The current CEF Board remains resolute and committed to guiding the Group through its strategy execution phases as we build a stronger CEF Group.

### **Acknowledgements**

I sincerely wish to thank our Shareholder, the Honourable Minister Mantashe for his guidance and direction.

I acknowledge my fellow directors on the CEF Board, and the Group senior leadership team under Acting Group CEO, Mr Sakhawo Makhanya, for having provided leadership and direction during this transitional period. The CEF Board's appreciation also goes, to the chairpersons and board members of the boards of PetroSA, SFF, IGas, AEMFC and PASA and their respective executive teams.

The CEF Group further acknowledges the efforts of our great and dedicated employees across the Group, who continue to persevere during these uncertain and difficult times. Their commitment and loyalty is greatly appreciated.

We further express our gratitude to our external stakeholders, customers, suppliers, industry regulators and advisers for their respective support during the year under review.

I conclude with the inspirational and insightful words of Martin Luther King Jr: "The ultimate measure of a man is not where he stands in the moments of comfort, but where he stands at times of challenge and controversy."

**Mr N Mompoti**  
**Interim Chairperson of the Board, CEF Group**





## GROUP CHIEF EXECUTIVE'S REPORT

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**Mr Kholly Zono**

I am humbled to be able to present the CEF's Group Integrated Annual Report for the 2018/19 financial year which highlights the Group's achievements and progress being made towards delivering on our key strategic objectives in fulfilling our mandate. As an entity that operates across the entire energy value chain, we are witnessing the Energy Sector going through a big transformation that continues to test strongly held assumptions.

We are living in a world of increasing interconnectedness through digitalisation and globalisation, exacerbating environmental conditions, severe economic challenges, uneven distribution of wealth, and geopolitical crises. The world continues to be a complex system and the rapid change among its sub-systems builds up pressure for our Management teams to anticipate change and shape the processes of transformation on time. Continuous change is an intrinsic aspect of our operating environment, in particular when it takes place at an accelerating pace with high degrees of volatility, uncertainty, complexity and ambiguity (VUCA).

As we look into the horizon, emerging technologies are expected to transform tomorrow's world in unforeseen ways. Change, including that deriving from the emergence of technologies, geopolitics, climate, the global economy should be understood beyond risk assessment and threats, but also in terms of opportunities and ability to create something new amid a challenging business environment.

The year under review was underpinned by a number of megatrends and challenges that shaped the Group's key strategic decision making in relation to growth and sustainability and how we deliver on our mandate. These were both at Macro and Micro level. This period was characterised by subdued global and domestic economic growth, trade wars, stubborn levels of unemployment, inequality and poverty and our own operational challenges. Key amongst our operational challenges were experiences in low production volumes against a backdrop of weakening currency, partially funded rehabilitation provision and impairment of production assets.

### **CEF Group Operating Environment**

The 2018/2019 period proved to be a fairly volatile year, with wide swings in prices despite limited changes in the underlying fundamentals. The multi-year global oil surplus was eliminated due to reductions in supply from OPEC and non-OPEC. After reaching record levels of \$80/Bbl. In early 2018, the spot price of Brent crude hovered around \$70/Bbl.



Towards the back end of our financial year as a surprising surge in US crude stockpiles revealed that markets remain sufficiently supplied. This was at the back of a slowdown in North American shale activity together with Saudi Arabia continuing to display a strong commitment to managing supply. Other major global factors and developments that had an impact on our operating environment included the trade war between the US and China; continued uncertainty surrounding Brexit; and potentially slower growth in several of the world's largest economies, including China, the European Union and the US with the International Monetary Fund lowering its forecasts for global growth to 3.5%.

Domestically the South African economy faced significant challenges and underperformed against its emerging market peers. The economy exited its technical recession in the third quarter of 2018 as growth recovered to 2.2%. Real GDP over the period economy grew at 0.8% beating estimates. The local currency was the fifth worst performing currency against the dollar in 2018 – 13.8% weaker and depreciated significantly against the euro, and pound. Furthermore, the rand remains sensitive to domestic growth prospects, political developments and policy settings.

As a result of difficult operating conditions, policy uncertainty, high unemployment and poor growth prospects in the short-term the RMB/BER business confidence index remained relatively low. The weak economic performance has largely been attributed to the electricity supply shortages as the national utility, Eskom, faced serious operational challenges which is getting serious focus and attention as part of stabilising the economy. Security of energy supply is one of the key determinants for the country's economic recovery.

Operationally the 2018/19 financial year also proved to be a challenging one for the CEF Group conspicuous by declining indigenous feedstock, production challenges at our GTL refinery and delays in the statutory shutdown at our biggest subsidiary PetroSA. African Exploration and Mining Finance Corporation (AMFC) was challenged with meeting planned production volumes whilst other subsidiaries were impacted by fluctuating oil prices and exchange rate volatility. Addressing PetroSA's short term and long term sustainability is at the core of the Group's stabilisation initiatives which has seen the development of a PetroSA Emergency plan for addressing critical strategic and operational challenges.

### Financial Performance

For the period ended 31 March 2019, the CEF Group still managed to generate R1.6 billion cash from operations. The cash from operations emanates from higher investment income, reduction in operating expenses and improved working capital management.

Despite the operational challenges and deteriorating net profit over the recent years, the Group has managed to continue generating positive cash earnings from its operations and reported EBITDA of R626 million.

As at 31 March 2019, the gearing ratio for the Group is 93% equity and 7% interest bearing debt. The gearing ratio is within the ceiling imposed by National Treasury of 60% equity and 40% interest bearing debt. Total debt to total equity is 65%:35% due to the high balance for the rehabilitation provision, excluding the rehabilitation provision its 51%:49%. As a result, the Group remains a going concern based on its gearing ratio being low and group's assets exceed liabilities by R13.1 billion.

### Solvency and Liquidity

The Group continues to maintain a positive cash position achieved through cost reduction, working capital management, low debt financing and resource optimisation as part of our stabilisation initiatives. The Group has sufficient cash resources to fund its short-term debt and working capital requirements through cash generated from operations, banking facilities and retained cash. Based on liquidity and solvency, the CEF Group has headroom to grow its investment portfolio by deploying its cash resources to sustenance, growth and diversification projects.

### Governance and Risk Management

Our Governance, Risk Management, and Compliance framework provides the Group's senior executives and board members with a roadmap on how to ensure that the Group incorporates the necessary processes, organisation, and technology to accomplish our strategic goals.

Over the past year the Group has been developing initiatives to promote cooperation and improve integration of the organisational units charged with the tasks of risk management, internal control, compliance and auditing. These initiatives were born from the desire and need to establish more transparent and efficient activities related to governance, risk and compliance. Moreover, the legislative and regulatory pressure is increasing, and the Group is looking to efficiently and effectively meet the requirements of regulatory and other "control frameworks." It is thus that we have adopted an integrated approach to Governance, Risk and Compliance (GRC) through a number of board sponsored programmes.

Great progress is being made in our Group Risk Maturity Index journey with the various entities moving towards the desired maturity level where Risk Management will be central to all operational activities.

In response to a number of governance and reputational challenges facing the Group, we commissioned a Group-Wide Reputational Survey that also involved our customers, investors, strategic partners and communities where we operate. The outcomes of this survey have been sobering and initiatives are afoot in prioritising and executing on the key recommendations that were made in addressing some of the gaps identified. As part of creating culture of awareness and sharing information and experiences we continue to start all Group meetings with a values and a risk management moment. This has proven invaluable in the sharing of best practices and inculcating a culture of shared values. As part of the Ministerial changes, a lot of work is underway in capacitating boards and vacant leadership roles as part of strengthening governance and decision making and making sure that those occupying these positions have the requisite skills and competence for taking the organisation forward.

We have also concluded the forensic investigations into the Sale of the Strategic Stock at SFF and the respective Law Enforcement Agencies and legal team are initiating the process implementing consequence management with the matter before the South African courts. This is great progress in ensuring we address all matters relating to lapses in governance and processes that have negatively impacted the Group over the past couple of years.

### **Employee Focus**

The Group employees are our most important asset. As of 31 March 2019, the CEF Group had 2107 employees. Developing our employees' skills, talents and ensuring there is meaningful engagement is fundamental in motivating them. This is critical in ensuring that as a Group we achieve our ultimate strategic goals and objectives. As a result, employees can be inspired to be part of achieving key business goals – and be taken on the company growth journey. Without our valued employees the execution of our dual mandate would become impossible.

It is thus that as part of our New Human Capital Strategy we are focusing on a being a High Performance Group of Companies as part of our long term journey of creating an 'Exponential Organisation'. This is about ensuring that employees are part of the strategy setting, building leadership capabilities, the creating a culture of continuous learning and innovation. During 2018, CEF SOC the Holding Company piloted a leadership development programme for Senior and Middle Management with the Wits Business School. This is in line with our efforts of preparing the Group's Leadership team for the challenges of an evolving leadership landscape and the advent of the Fourth Industrial Revolution.

Like all other progressive organisation, CEF SOC realised the importance of having a clearly defined values that can act as catalysts towards positive change.

To this effect, the Group reviewed revised its' values and replaced them with a new set of values that are geared towards creating a high performance culture and fostering the right behaviours for the creating a common culture.

In ensuring that CEF remains a best company to work for, business fast-tracked the establishment of Talent Management Committees to oversee the affairs of all employees in terms of talent retention, development and succession planning.

### **Youth Development and Training**

As part of fulfilling the developmental mandate, youth employment and development remains a priority to create opportunities for young people to acquire skills and qualifications that will enable them to participate meaningfully in the economy after completing their respective programs.

For the reporting period, the Group had invested R19 million on various programmes for up-skilling. Of this amount, a total R4.3 million was allocated to 90 students within the Group in a form of bursaries, R5.2 million was spent on the various Talent Pipeline Programs including Internships, Graduates in Training programme.

The Group is committed to creating and maintaining an environment which provides equal opportunities for all employees, with special consideration given to previously disadvantaged groups. An additional R9,7 million was allocated towards an apprenticeship programme and employees younger than 36 years within the Group. This allocation constitutes 62% of the Skills Development programme budget allocation. A significant expenditure portion of this allocation was spent at the PetroSA Centre of Excellence.

### **Corporate Social Responsibility**

In pursuit of the Group's vision of becoming a significant player in the energy sector, the CEF Group remains committed to sustainable development and aims to align its corporate objectives in support of the National Development Plan. It is against this background that the CEF Group aims to advance the quality of life of historically disadvantaged communities is central to the Group's CSI philosophy. This will be achieved through a number of significant initiatives. For the reporting period, a total of R 34 529 486 was spent in support of the social initiatives which covers the following key focus areas;

- community development,
- education,
- environment,
- health
- and sustainable development.



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### Future Outlook

Energy is a key source of economic growth due to the integrated nature of production and consumption activities that involve energy as a basic input. Energy is one of the most important inputs for economic development and responsible for at least half the industrial growth in a modern economy while representing less than one tenth of the cost of production.

The NDP outlines the structural reforms required to boost investment, expand employment and remove constraints to economic growth, and the role of SOEs such as the CEF Group in delivering on the broader objectives of government has never been more important in fulfilling our role from energy and economic development perspective in ensuring security of energy supply. As the Energy Sector goes through a big transformation of decarbonisation, digitization and decentralisation we are gearing ourselves to play a much more meaningful role in the modern energy space.

The continued reduction in the costs of renewables and other technologies, liberation of the electricity market across Europe, new innovative business models, the advent of the fourth industrial revolution emergence of clean coal technologies and the growing number of countries accelerating the implementation of low carbon transport, and electric vehicles (EVs) in particular, by introducing future are key game changers.

The above trends and events coupled with our own internal strategic challenges have necessitated a change of tact. It is thus that as a Group we have embarked on developing strategy that would transform the CEF Group towards a future desired state taking into account the current business realities. The new Group strategy will be unveiled once approved by the Honourable Minister of Mineral Resource and Energy.

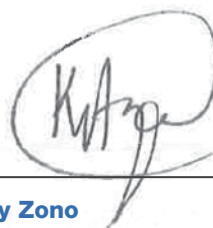
The Group's emerging value proposition encapsulates sustainability, growth, the adoption of new technologies and embracing the Fourth Industrial revolution, pivoting to new and agile operating models, diversification of our portfolio and investment in our people systems and process whilst working closely with the Shareholder and other key strategic partners.

### Conclusion

As a CEF Group we remain solvent and liquid with a strong asset base. We have great growth ambitions in driving the revitalisation of the South African economy.

In conclusion I wish to acknowledge and thank our Group's Board Chairperson, Mr. Neville Mompoti and his co-directors, in providing unwavering guidance and support in our quest to improve the corporate performance of the Group. This also include the Boards members at subsidiaries, my colleagues and all employees within the CEF Group family.

You are the heartbeat of the organisation that supports and drives our performance. Our collective achievements are largely attributable to your ongoing hard work and commitment. To our stakeholders, I thank you for your continued confidence in our leadership and an on-going support whilst we strive to guarantee the security of energy supply in SA. Let us embrace both change and growth for the benefit of the CEF Group.



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**Mr Kholly Zono**  
**Acting CEF Group Chief Executive Officer**

## CEF GROUP OVERVIEW

The Central Energy Fund is a Schedule 2 state owned diversified energy company reporting to the Department of Mineral Resources and Energy. The Mandate of CEF is derived from the CEF Act (No 38 of 1977) and the Ministerial directives issued thereafter. The mandate is to contribute to the security of energy supply of South Africa and the Region through exploration, acquisition, development, marketing and strategic partnerships.



The mission of CEF is to grow our footprint in the energy sector, to be the catalyst for economic growth and energy poverty alleviation through security of supply, and access to affordable energy in Southern Africa

Established in 1977, it has played a central role in ensuring South Africa's energy security supply, and making a significant contribution to the South African economy by:

- Contributing to security of energy supply by providing affordable, reliable, diverse use of primary energy resources and contribution to economic development,
- Being a strategic partner to the DMRE by providing insights in support of policy development and regulation,
- Aligning with government's broad objectives (NDP) and acting as a vehicle for economic growth, poverty alleviation and economic transformation.



### Vision

The Vision of CEF is to be a leading diversified energy company that provides sustainable energy solutions for Southern Africa by 2040. This way, CEF contributes to national energy security.



### Mission

The Mission of CEF is to grow our footprint in the energy sector, to be the catalyst for economic growth and energy poverty alleviation through security of supply, and access to acceptable (affordable) energy in Southern Africa.



### Values

The CEF Group of Companies (CEF), through the holding company CEF SOC Ltd and supported by its subsidiaries, is to be directed by the following values, which form the acronym "BRICS":

#### Batho Pele

We are committed to work together to put our people first in ensuring a zero harm, commercially viable business that adds value to the people of South Africa.

#### Respect

We are committed to hold all our stakeholders in high esteem and treat them with honour and understanding.

#### Integrity

We are committed to do the right things the right way even if no one is looking inculcating transparency in the conduct of business, communications in the application of skills and mobilisation of organisational resources.

#### Continuous Improvement

We are committed to ensure operational excellence, innovation, agility and quality in our opportunity selection, decision making and service and product delivery.

#### Stewardship

We are committed to lead in a responsible manner that ensures caring through professionalism, accountability and custodianship that improves value over time.

- Provide thought leadership in energy policy development and other energy initiatives; and
- Contribute to security of energy supply (in liquid fuels and gas) and support the deployment of new energy technologies in the country.



### The Role of CEF:

- Contribute to security of energy supply. Provide affordable, accessible, diverse use of primary energy resources
- Be a strategic partner to the Department of Mineral Resources and Energy: Provide insights in support of policy development and regulation and implementation of key projects.
- Be a financially sustainable company: Commercially strong SOE that can be relied upon to support the implementation of policies and programmes of the Department.
- Reduce the country's overdependence on multinationals. Operate across the entire energy value chain and minimise market failures.
- Align with government's broad objectives (NDP): Act as a vehicle for economic growth, poverty alleviation and economic transformation.

This will be done through the acquisition, exploitation and manufacture of appropriate energy solutions [from coal, oil, gas and renewable energy resources] to meet the future energy needs of South Africa, the SADC and the sub-Saharan African regions.

## Legislative Environment

The following legislative frameworks drive the organisational strategic thrust of the CEF Group and define the parameters for its operational effectiveness.

### CEF Group Key Legislative Acts

| Key Acts                                                         | Energy Sector Planning                                                                 |
|------------------------------------------------------------------|----------------------------------------------------------------------------------------|
| CEF Act, No 38 of 1977                                           | Draft Regulations on the Mandatory Blending of Biofuels with Petrol and Diesel, 2012   |
| Public Finance Management Act, 1999 and Regulations              | Integrated Resource Plan for Energy, 2010                                              |
| Companies Act, 2008                                              | Energy Security Master Plan, 2007                                                      |
| Petroleum Products Act, 1977                                     | Draft Strategic Stocks Petroleum Policy and Draft Strategic Stocks Implementation Plan |
| Petroleum Pipelines Act, 2003                                    | Integrated Energy Plan                                                                 |
| Gas Act, 2001                                                    | Liquid Fuels Master Plan                                                               |
| Electricity Act, 1987                                            | Gas Utilisation Master Plan                                                            |
| Mineral and Petroleum Resources Development Amendment Bill, 2013 |                                                                                        |
| National Energy Act, 2008                                        |                                                                                        |
| The National Energy Regulator Act of 2004                        |                                                                                        |
| National Environmental Management Act of 2009                    |                                                                                        |



## CEF GROUP OVERVIEW (continued)

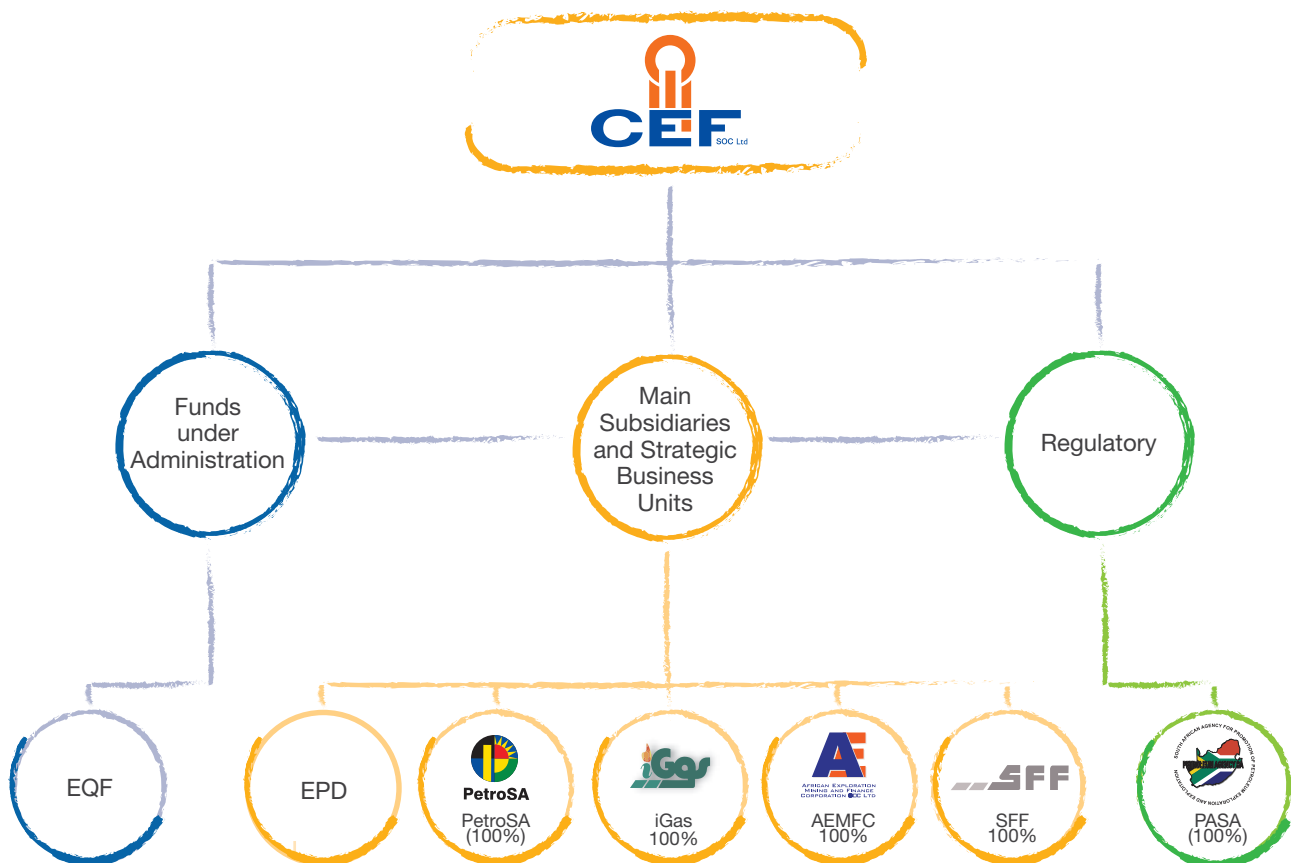
### Integrated Group Structure

CEF (SOC) Ltd is the holding company for a number of subsidiaries, which, when taken together, constitute the CEF Group. These subsidiaries operate in the energy sector with commercial, strategic, regulatory and developmental roles, in support of the CEF mandate and the need to diversify the country's energy mix, as detailed in the Integrated Energy Plan of the DMRE.

The CEF Group also exists to support government's broader strategic objectives in line with the NDP, whilst playing a critical role in enabling economic development. Each entity of the CEF Group focuses on key objectives across the energy sector value chain through the deployment of capital and human resources towards developing and operating mandated strategic projects.

Over time, the legal structure of the CEF Group has evolved to meet the changing requirements of the internal and external operating environment and other legislative changes.

The execution of our mandate and Group strategy is done through our integrated business that operates across the energy-sector value chain, with commercial, regulatory and developmental roles. The primary role of our entities is to create value for the Shareholder, drive the advancement of national objectives in the oil and gas industry, and contribute to energy security of supply, whilst supporting government's overall strategic intent in line with the NDP.



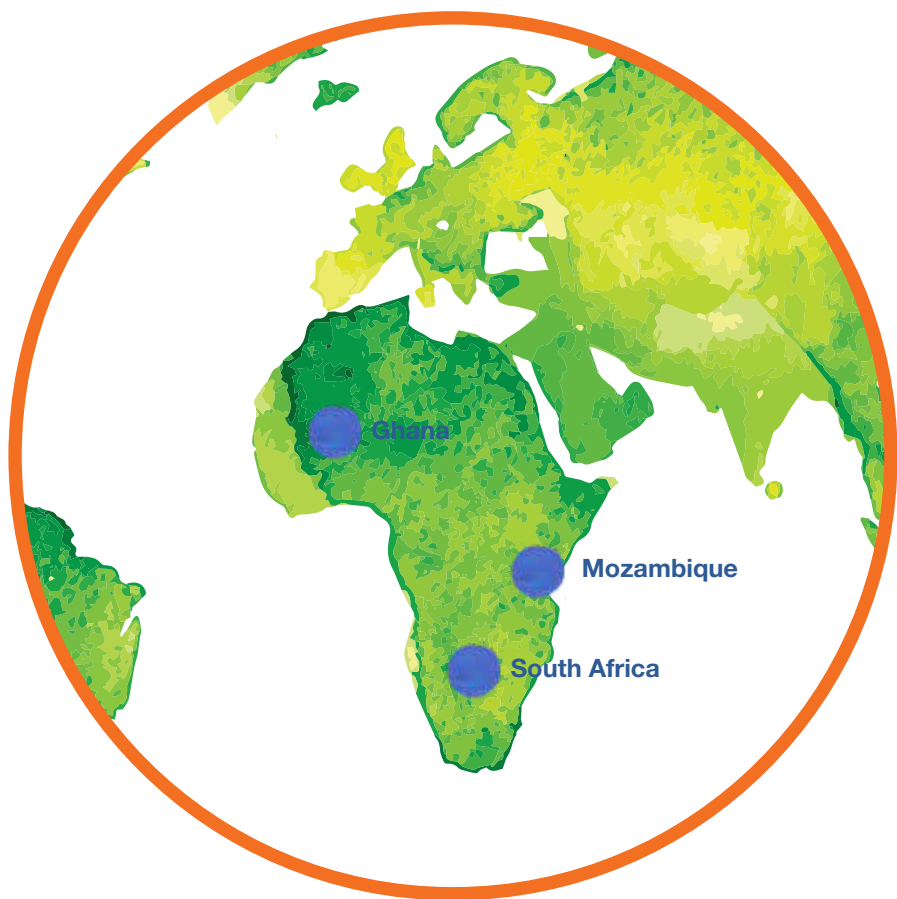
The Central Energy Fund is a Schedule 2 state owned diversified energy company reporting to the Department of Mineral Resources and Energy.

| Subsidiary                                                                                       | Business Focus                                                                                                                                                                                                                                                                                                                                                        | 2019/2020 to 2023/2024 Value Statement                                                                                                                                                                                                                                                                                   |
|--------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <br>CEF SOC Ltd | Holding Company providing strategic direction, monitoring and evaluation, Group oversight and development of new sustainable entities in support of security of energy supply.                                                                                                                                                                                        | <p>To lead the development, financing and management of diverse energy solutions for security of energy supply on behalf of the RSA Government.</p> <p>To oversee subsidiaries and spearhead delivery of mandate.</p>                                                                                                    |
| Energy Projects Division (EPD)                                                                   | Clean and Renewable Energy. The Energy Projects Division aims to become a catalyst for the commercialisation of (new) energy technologies including being a pioneer for energy market development within South Africa. This includes industrialisation, market research for identified technologies and investments in commercially viable renewable energy projects. |                                                                                                                                                                                                                                                                                                                          |
| <br>PetroSA    | PetroSA (The Petroleum, Oil and Gas Corporation of South Africa SOC Ltd) is the national oil company (NOC) of South Africa. Its main activities are exploration and extraction of natural gas and oil from offshore fields in South Africa; the production of synthetic fuels from gas through a gas to liquids (GTL) refinery.                                       | To commercially develop beneficiate, and supply hydrocarbons in order to contribute to security of energy supply.                                                                                                                                                                                                        |
| <br>SFF       | The Strategic Fuel Fund (SFF) is responsible for acquiring and maintaining strategic fuel stocks and providing the country with security of supply of hydrocarbons and related infrastructure in case of emergency.                                                                                                                                                   | To provide the country with security of supply of hydrocarbons and related infrastructure in case of emergency.                                                                                                                                                                                                          |
| <br>AEMFC     | Responsible for securing South Africa's energy supply, primarily through the mining and supply of coal for the generation of electricity, as well as securing other resources that will provide energy for the future, including key minerals for beneficiation in the energy and steel value chain.                                                                  | To ensure that South Africa's energy-producing and beneficial mineral resources are secured to allow economic and social benefits for RSA and its citizens. To drive the transformation of the South African mining industry, utilising the guidelines from the EE, B-BBEE and PPPFA Acts, including the Mining Charter. |
| <br>iGAS      | Responsible for developing the gas infrastructure for South Africa and developing the gas market in the country.                                                                                                                                                                                                                                                      | To support the growth of the South African economy through active investments in South Africa for the provision of gas molecules and gas infrastructure.                                                                                                                                                                 |
| <br>PASA      | The promotion for and regulation of the upstream petroleum industry in South Africa both onshore and offshore.                                                                                                                                                                                                                                                        | Regulate in a manner that promotes the industry and national economic objectives.                                                                                                                                                                                                                                        |

# CEF GROUP OVERVIEW (continued)

## Global Footprint

As at 31 March 2019, our business operations, investments and strategic partnerships spanned two continents and four countries. These activities are in oil and gas, technology and gas infrastructure, mining and renewables, and represent a diversified portfolio in line with our Group strategy. These countries are:



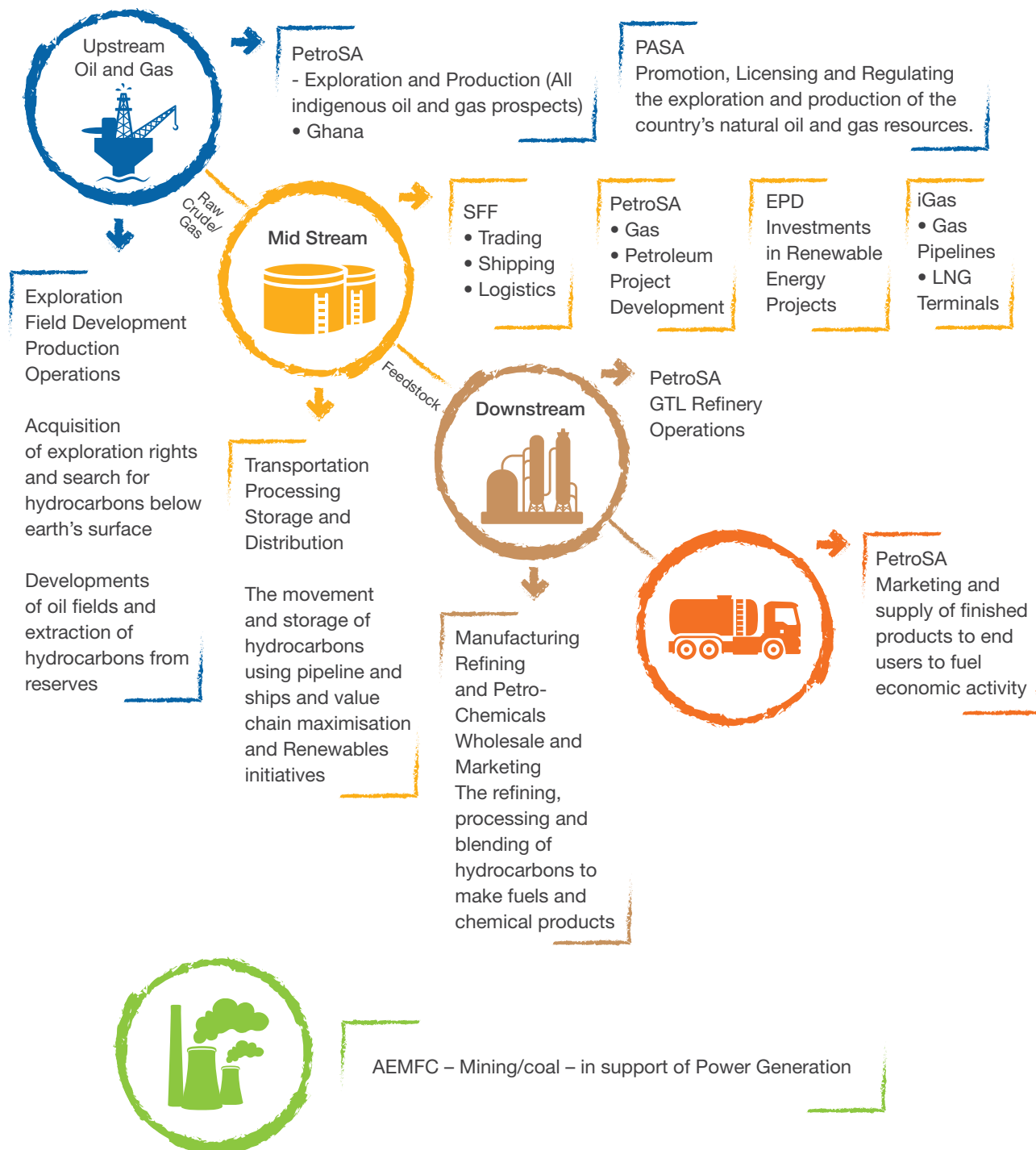
| South African Operations                                     | Mozambique Operations                                                                                                                                      | Ghanaian Operations                                                                                   |
|--------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|
| Mining, offshore production, refining, renewables investment | Mozambique to Secunda Pipeline (MSP); 865 km long gas transmission pipeline from Temane gas field near Vilanculos in Mozambique to Secunda in South Africa | 3% stake in the Jubilee oilfield off the coast of Ghana. Oilfield currently produces 100k to 120k bpd |







## Group Value Chain



**“The CEF Group value chain is our catalyst for value creation”**

## CEF GROUP GOVERNANCE AND LEADERSHIP STRUCTURE

### BOARD OF DIRECTORS

The diverse CEF Group of Companies reports to the Minister of Energy and is governed by the CEF Board of Directors, the CEF Executive Teams, the Board of Directors of the different subsidiaries and each subsidiary's Chief Executive Officer (CEO).



| Neville Mompoti (57)                                                                                                                                                                                                                                                                                                                                                                                          | Gosetseone Florence Leketi (46)                                                                                                                                                                                                                                                                                                                                                                                                                                | Jim Besnaar (44)                                                                                                                                                                                                                                                                                                                                                                                           | Tseliso Maqubela (54)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Lufuno Makhuba (38)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>was appointed as a non-executive director of the CEF Board in 2016. He also serves as the Chairperson of SFF. He is a teacher by profession, but has ventured in the last two decades into various business opportunities, including retail, petroleum and mining. He is currently a non-executive director at African Share Housing and Northern Cape Mining, specialising in manganese and iron ore.</p> | <p>was appointed as a non-executive director (DoE representative) on the CEF Board in 2016. Ms Leketi is not a newcomer to the oil, petroleum and gas sector. She is currently Chief Director: Petroleum and Petroleum Products at the DoE. She also serves as a director on the Chemical Industries Education and Training Authority (Chieta) Base Chemicals and Petroleum Chamber. She holds a BCom (Hons) Statistics from the University of North West.</p> | <p>was appointed as a non-executive director on the CEF Board in 2016. He is currently the CEO of Makomota Investment Holdings (Pty) Ltd. Mr Besnaar has held senior positions in both provincial and local government. He also serves as a director/ shareholder at Circle Way Trading, Bricksnet, Yard Plant Rentals (Pty) Ltd and Dragon Loo (Pty) Ltd. He is a Chartered Accountant by profession.</p> | <p>was reappointed as a non-executive director (DoE representative) on the CEF Board in 2017. He is currently the DDG for Petroleum and Petroleum Products Regulation at DoE. He has 21 years of experience in the energy sector, having started his career at Koeberg Nuclear Power Station. He led the drafting team for the Nuclear Energy Policy of SA and is currently the chairperson of the Council for Non-Proliferation of Weapons of Mass Production. He holds a MAP and a BSc (Hons).</p> | <p>was appointed as the CEF Group CFO in 2017. Mr Makhuba has in-depth experience of financial modelling, preparation of annual financial statements (AFS), consolidated and unconsolidated, budgeting/forecast, auditing, due diligence, corporate finance and risk management. He has worked for Nkonki Inc and CEF in various roles in the finance departments. He is a Chartered Accountant by profession, he holds a Senior Management Development Programme; BCom Hons (Accounting Sciences) and a BCom (Accounting Sciences).</p> |





# CEF GROUP GOVERNANCE AND LEADERSHIP STRUCTURE

## GROUP EXECUTIVES

The diverse CEF Group of Companies reports to the Minister of Energy and is governed by the CEF Board of Directors, the CEF Executive Teams, the Board of Directors of the different subsidiaries and each subsidiary's Chief Executive Officer (CEO).



| Kholly Zono                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Sizwe Madondo                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Mohsin Seedat                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Position:</b> CEF Group Acting CEO</p> <p><b>Age:</b> 49</p> <p><b>Qualifications:</b> MBA, MDP, MTech (Chemistry), BSc (Hons) Chemistry, BTheo</p> <p><b>Appointed:</b> August 2019</p> <p>The CEF Group operates across the energy sector value chain and comprises five key subsidiaries and two associate companies, which operate in a specific arena and with a specific mandate. The subsidiaries are wholly owned by CEF SOC Ltd, which also holds minority interests in the two renewable energy ventures (associates). In addition, CEF also manages the Equalisation Fund on behalf of the government.</p> | <p><b>Position:</b> AEMFC CEO</p> <p><b>Age:</b> 56</p> <p><b>Qualifications:</b> MBA, BSc (Hons), BSc and Postgraduate Diploma in Marketing</p> <p><b>Appointed:</b> 2007</p> <p>AEMFC was established to secure South Africa's energy supply, primarily through the mining and supply of coal for the generation of electricity, and to secure other resources that will provide energy for the future, including key minerals for beneficiation in the energy and steel value chain. Currently the company mines coal in Mpumalanga for supply to Eskom.</p> | <p><b>Position:</b> Acting iGas Chief Operating Officer (COO)</p> <p><b>Age:</b> 43</p> <p><b>Qualifications:</b> BSc Engineering Hons (Industrial), Graduate Diploma in Engineering (GDE) Engineering Management</p> <p><b>Appointed:</b> February 2017</p> <p>iGas is the state agency for the development of the hydrocarbon gas industry in southern Africa. It is a shareholder in the Mozambique-to-South Africa gas pipeline involved in the development of gas and other gas infrastructure.</p> |



**Mojalefa  
Godfrey Moagi**

**Position:** SFF Acting CEO

**Age:** 57

**Qualifications:** Executive Programmes (Wits and Harvard), BCom (Hons) and BCom.

**Appointed:** December 2018  
SFF is a Section 21 company that manages strategic crude oil infrastructure and strategic crude oil stocks on behalf of the state. The organisation's storage facilities are in Milnerton and Saldanha Bay in the Western Cape. It also provides oil pollution control services in Saldanha Bay. Mr Moagi is an oil and gas executive with extensive years of industry experience, and has held many senior roles at BP Southern Africa. He has a wealth of experience in the understanding of global economies and markets in crude, fuels, lubricants, supply and trading, and value chain management.

**Bongani  
Sayidini**

**Position:** PetroSA Acting CEO

**Age:** 42

**Qualifications:** B-Tech in Chemical-Engineering, an MSc in Petroleum Engineering, an LLM in Petroleum Law and Policy and an MBA.

**Appointed:** December 2018  
PetroSA explores, produces, refines and markets oil, gas and petrochemicals. It is also involved in exploration and production of crude oil and natural gas off the southeast coast of South Africa. In addition, PetroSA has exploration acreage on the west coast of South Africa. Internationally, it has producing and development assets in Ghana. PetroSA also has refining operations converting offshore gas and condensate to redefined fuels and speciality chemicals.

**Lindiwe  
Mekwe**

**Position:** Acting Chief Executive Officer

**Age:** 47

**Qualifications:** B.Proc LLB LLM (Commercial Law)

**Appointed:** October 2013  
Lindiwe currently serves as the Acting Chief Executive Officer of the Petroleum Agency SA. Before joining Petroleum Agency, Lindiwe held the position Chief Director: Mineral and Mining Policy where she was responsible for managing the Mineral and Mining legislative process on behalf of the Department of Mineral and Energy. She has extensive experience in the oil and gas industry.

## CEF EXECUTIVES

The diverse CEF Group of Companies reports to the Minister of Energy and is governed by the CEF Board of Directors, the CEF Executive Teams, the Board of Directors of the different subsidiaries and each subsidiary's Chief Executive Officer (CEO).



| Sakhiwo Makhanya                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Lufuno Makhuba                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Phindile Masangane                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Abdul Haffeejee                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Mapula Modipa                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Position:</b> GM: Group Strategy and Subsidiary Management</p> <p><b>Age:</b> 44</p> <p><b>Qualifications:</b> MBA (Business Strategy and Entrepreneurship), Postgraduate Diploma (Advanced Project Management, Sales and Marketing and Mastering Finance)</p> <p>Mr Makhanya is responsible for Group Strategy and subsidiary management, which entails strategy formulation, corporate planning, business performance and ensuring Group coordination of strategy execution. His experience spans strategy and leadership development, sales and marketing, banking and business analysis.</p> | <p><b>Position:</b> Group CFO</p> <p><b>Age:</b> 38</p> <p><b>Qualifications:</b> CA(SA), Senior Management Development Programme; BCom Hons (Accounting Sciences), BCom (Accounting Sciences), MBL</p> <p>Mr Makhuba is responsible for the Group financial strategic direction and long-term commercial viability, and oversees the corporate finance functions and key Group investments. He has in-depth experience of financial modelling, preparation of annual financial statements (AFS), consolidated and unconsolidated, budgeting/forecast, auditing, due diligence, corporate finance and risk management. He has worked for Nkonki Inc and CEF in various roles in the finance departments.</p> | <p><b>Position:</b> General Manager (GM): EPD</p> <p><b>Age:</b> 47</p> <p><b>Qualifications:</b> PhD (Chemistry), MBA, BSc</p> <p>Dr Masangane oversees the development and commercialisation of all CEF Group renewables, alternative and new technology advancements through strategic partnerships with private and public sector entities. She has vast experience in developing, deal structuring and financing of renewable energy projects. She has participated in national energy policy development, including for biofuels, renewables and the gas programme. Dr Masangane previously worked for KPMG, SANERI and EDI Holdings.</p> | <p><b>Position:</b> Group Company Secretary</p> <p><b>Age:</b> 47</p> <p><b>Qualifications:</b> B Proc, Associate of Chartered Secretaries, Admitted Attorney</p> <p>As the Group Company Secretary, Mr Haffeejee is responsible for Group corporate governance framework and legal compliance, and for advising the CEF Board on key governance matters. Having worked for African Defence Systems, Albaraka Bank and AS Kader and Partners, Mr Haffeejee has a wealth of experience in contract management, company secretariat, corporate governance, legal advisory, compliance and risk management.</p> | <p><b>Position:</b> GM Corporate Services</p> <p><b>Age:</b> 53</p> <p><b>Qualifications:</b> MBA, Senior Executive Programme, BA Social Sciences</p> <p>Ms Modipa serves as a General Manager: Corporate Services at CEF. Her experience spreads across various fields such as Petrochemical, Energy, State Security, Water and Forestry among others. She also has proven experience in leadership with a prestigious leadership accolade bestowed on her by the Former President, President Thabo Mbeki. She has a Masters in Business Administration, a Senior Executive Programme and a Bachelor of Social Sciences.</p> |





| Thabani Khanyile                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Vukani Khulu                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Skheto Maluleke                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Pragasen Naidoo                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Zinhle Thupana                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Position:</b> Group Chief Audit Executive</p> <p><b>Age:</b> 55<br/><b>Qualification:</b> Certified Internal Auditor, BCom, Fellow of the Institute of Internal Auditors</p> <p>Mr Khanyile is responsible for driving all Group internal audit activities, compliance, maintaining good relationships with key stakeholders such as the Auditor-General and advising the Board and Audit Risk Committee on key compliance matters. He has worked for Sizwe Ntsaluba, Ebony Financial Services and KPMG. His expertise is in managing internal audit processes, risk management and corporate governance.</p> | <p><b>Position:</b> Group Stakeholder Advisory</p> <p><b>Age:</b> 47<br/><b>Qualification:</b> MBL, Postgraduate Diploma (Marketing and Supply Chain), BSc (Chemistry and Applied Chemistry)</p> <p>Mr Khulu is responsible for advising the CEO and Board on key stakeholder engagements that seek to drive policy direction, strategic partnership (locally and internationally) and long-term growth. His other major responsibilities include driving the Group Stakeholder and Communication Plan. He has worked for PetroSA, Egoli Gas, Eskom, Dulux and Unilever, and he has a wealth of experience in energy advisory, sales and marketing, business development, financial modelling, negotiation, policy engagement, leadership and technical skills.</p> | <p><b>Position:</b> Group IT</p> <p><b>Age:</b> 49<br/><b>Qualification:</b> Postgraduate Diploma (Business Management), BSc, Advanced Diploma (Project Management), IT Diploma</p> <p>Mr Maluleke is responsible for Group IT and provides ongoing strategic alignment between Group Strategy on the one hand and Group information systems and technology on the other. Operationally, he is responsible for ensuring that the IT Infrastructure is available and performing at a level that allows business to operate efficiently, productively and securely. He brings a wealth of experience in, inter alia, IT strategy planning, IT risk management, contract and vendor management, IT governance, IT operations and project management, which he acquired at various companies – Accenture, Business Connexion, ABSA, Liberty and SABS, among others.</p> | <p><b>Position:</b> Group Chief Operations and Business Development Officer</p> <p><b>Age:</b> 42<br/><b>Qualification:</b> BSc Chemical Engineering, MSc Environmental Management, Leadership Development</p> <p>Mr Naidoo holds a total of 18 years' experience in the Oil and Gas and Petrochemicals sector where he gained exposure and expertise in Human Capital Development and Management, Technology Development, Technical Engineering, Capital Project Execution, Business Development, Business Strategy Management and the Commercial and Operational environments. He is responsible for the Group operational oversight and growth agenda contributing to the long term commercial sustainability by utilising the knowledge base gained through having participated in the development and operations of an energy portfolio within the South African and International environments.</p> | <p><b>Position:</b> Risk and Compliance Manager</p> <p><b>Age:</b> 41<br/><b>Qualification:</b> Leadership Development Programme Certified Ethics Officer Master in Business Administration (MBA) Management Development Programme Certificate in Accountancy National Diploma (Accounting)</p> <p>She is responsible for overseeing, and ensuring adherence to generally accepted governance, risk management and compliance practices, embedding the requirements of company ethics, business continuity management and HSEQ. She monitors and reports to Board, GCEO, and EXCO to establish and communicate the implementation of enterprise risk management and compliance programs.</p> <p>She has 20 years experience working for a number of companies like Auditor General, Department of Trade and Industry, National Treasury, SITA, Magalies Water, Transnet, Safcol.</p> |



## Section 2

“

The National Development Plan 2030 recognises that the energy sector is a key enabler for economic growth in the country for industries to create jobs, reduce unemployment, poverty and inequality. The CEF Group is the largest commercial entity for state participation in oil, gas, renewable, coal and other minerals used for energy generation and storage.

”



# BUSINESS OVERVIEW AND STRATEGY





# BUSINESS OVERVIEW AND STRATEGY

## 2.1 Operating Environment

The National Development Plan 2030 recognises that the energy sector is a key enabler for economic growth in the country for industries to create jobs, reduce unemployment, poverty and inequality. It is envisaged that by 2030 South Africa will have an energy sector that promotes economic growth and development through adequate investment in energy infrastructure.

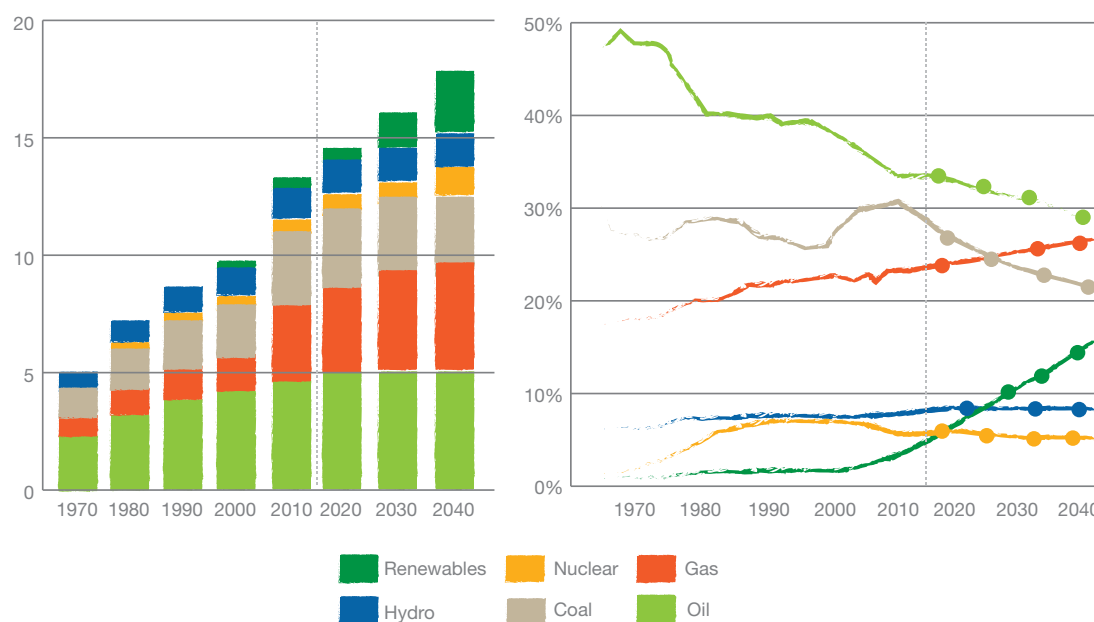
The plan also envisages that by 2030 South Africa will have an adequate supply of electricity and liquid fuels to ensure that economic activity and welfare are not disrupted, and that at least 95% of the population will have access to grid or off-grid electricity. The CEF Group is the largest commercial entity for state participation in oil, gas, renewable, coal and other minerals used for energy generation and storage. The mandate of the CEF Group is to support security of energy supply.

Globally, the energy sector continues to be interrupted by technology advancements including electric vehicles, clean energy technologies (renewables, clean coal) and energy storage. The main drivers for the global energy trends are:

- Global economic growth
- Technology development and technology costs
- The price of various energy sources
- Geopolitics and new energy discoveries
- National policies to transition towards new and cleaner energy technologies

With most countries having signed the Paris Agreement and China implementing its Blue Skies national policy and significant gas discoveries in Mozambique, Tanzania and North America, the 2019 BP Energy Outlook forecasts that the primary energy demand patterns will shift, as shown in Figure 1 below:

**Figure 1BP Energy Outlook (2019) The transition to a lower-carbon fuel mix continues, led by renewables and natural gasstate of the economy.**





One of the biggest challenges that the world is facing is a dual one: The need to meet rising energy demand while at the same time reducing carbon emissions which will require a transition to a lower-carbon energy system, as the world seeks to move to a pathway consistent with meeting the climate goals outlined in the Paris Agreement.

Notable commercial scale new technology initiatives include the 60 million litre waste to gas bioethanol plant in China. The waste gas comprising high concentration carbon monoxide is captured and converted to bioethanol for fuel. A number of countries are implementing advanced coal-to-power technologies that have lower GHG emission profiles due to higher efficiencies and scrubbing technologies. As the world shifts towards a cleaner energy future, the CEF Group will play an important role in supporting the country's energy transition, which has to take into account the current delicate state of the economy.

### **Domestic Economic Environment**

During the period under review, the South African economy was faced with significant challenges, which saw it underperform against its emerging market peers, with a projected annual growth rate of 1.68% per annum between leading up to 2023. The country has high levels of poverty, inequality and structural unemployment and this is on the back of a fragile economy. The weak economic performance has largely been attributed to the electricity supply shortages, as the national utility faces a number of serious operational challenges. Government is however prioritising addressing some of these challenges as part of key initiatives for stabilising and stimulating the economy

During the FY 2018/19, GDP growth has been revised down since the 2018 Medium Term Budget Policy Statement (MTBPS) due to a fragile recovery in employment and investment, and a less supportive global trade environment. Real GDP growth in 2019 is expected to reach 1.5 per cent, improving moderately to 2.1 per cent in 2021.

Gradual improvements in business and consumer confidence, and more coordinated initiatives between government and the public sector will be required to stimulate the economy and partially offset slower global growth. While there has been progress on economic reforms, more effective implementation is needed.

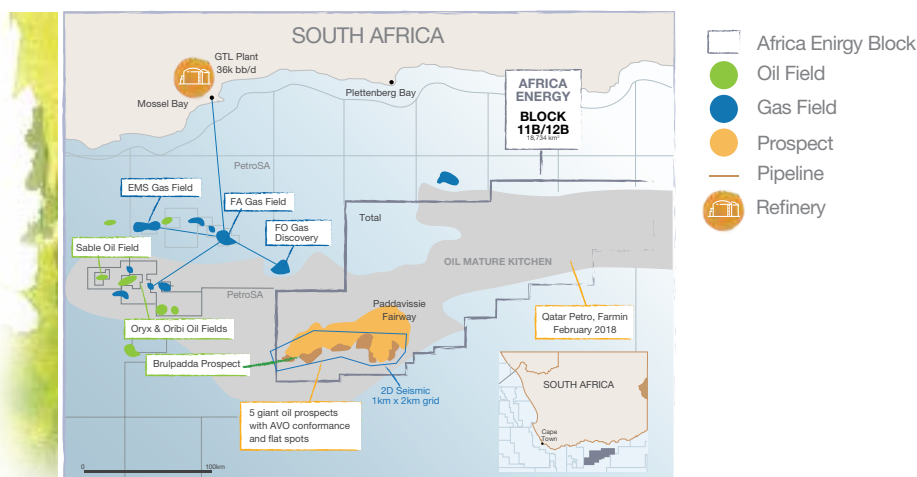
Another emerging energy sector related economic risk is gas supply with the country's only importer of gas from Mozambique (Sasol) having notified the market that from 2023 it can no longer guarantee gas supply to its customers who collectively contribute more than R150 billion to the country's GDP.

On the 7th of February 2019, the French energy company Total announced a 'significant gas condensate discovery' some 175 kilometres off the southern coast of South Africa within what is known as the Outeniqua Basin. The gas has been discovered in Block 11B/12B of the so-called Brulpadda prospects. Block 11B/12B covers an area of 19 000 square kilometres with water depths ranging from 200 to 1800 metres. the find could produce as much as one billion barrels of gas condensate (a light liquid hydrocarbon) and condensate light oil (a form of light crude oil and could well be a game-changer for South Africa and will have significant impact for the country's energy security and the development of the upstream oil and gas sector.



## BUSINESS OVERVIEW AND STRATEGY (continued)

On the positive side, Total has announced a significant condensate gas find in the South Coast of South Africa, about 70 km south of PetroSA's producing gas fields, as shown in Figure 3 below.



**Figure 3 Brulpadda gas field, PetroSA gas producing fields and the Gas-to-Liquids Refinery**

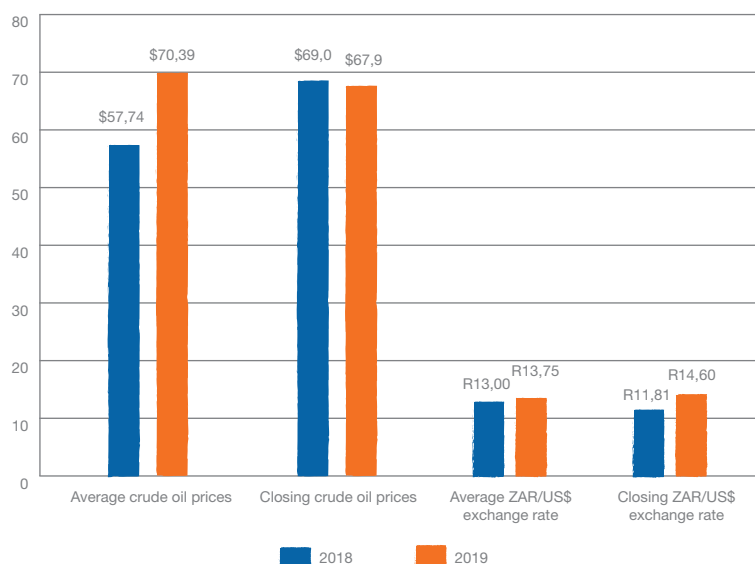
To create large numbers of jobs, build an inclusive and transformed economy, and reduce inequality, South Africa needs strong, sustained expansion. Yet in contrast to many of its developing-country peers, South Africa has experienced a period of protracted economic weakness, mainly because of domestic constraints. Security of energy supply is one of the key determinants for the country's economic recovery. In addition, the NDP outlines the structural reforms required to boost investment, expand employment and remove constraints to economic growth, and the role of SOEs, such as the CEF Group, in delivering on the broader objectives of government has never been more important.

The CEF Group which operates across the entire energy value chain can play a critical role in supporting the governments broader strategic objectives whilst at the same time stimulating the economy. The large hydrocarbon (especially gas), coal and renewable energy potential of the country is an opportunity for the beneficiation of indigenous resources which can spur economic growth, reduce the high levels of unemployment and fight poverty.

### Commodity Prices and Exchange Rate

The CEF Group sells transport fuel at the regulated basic fuel price (BFP) which is determined by global crude oil prices and exchange rate. CEF also leases oil storage facilities and the demand for oil storage is dependent on crude oil forecasts i.e. contango or backwardation market structure. During the FY2018/19, Brent crude oil prices fell, due to muted global economic performance and less demand from the US. The ZAR weakened significantly from R11.81 to about R14.60/US\$.

### Brent Crude oil price and R/US\$ Exchange during FY 2018/2019



**Figure 4 FY2018/2019 Brent crude oil prices and ZAR/US\$ exchange rate**





During the year under review, the GTL refinery had its statutory shutdown for major maintenance, which has US\$ denominated costs. The PetroSA decommissioning liability is also based on US\$ costs, therefore the deterioration in the local currency increases this liability in ZAR terms.

### Policy, Planning and Regulatory Environment

The energy sector policy, planning and regulatory environment is informed by the National Development Plan 2030 and the Integrated Energy Plan (IEP), which itself has sub-sector plans, being the Integrated Resource Plan for electricity, the Gas Master Plan and the Liquid Fuels Master Plan for transport fuel.

During the FY2018/2019, the Department of Mineral Resources and Energy started the processes of updating both the Gas Master Plan and the Integrated Resource Plan but both reviews were not finalised by the end of the financial year. The CEF Group provided extensive input to both reviews. In addition, the development of the new biofuels regulatory framework also continued during the financial year but it was also not finalised.

Government announced the decision that the amendment of the MPRDA will re-start and be split into Petroleum Resource Development legislation (for exploration and production of petroleum or hydrocarbons) and Mineral Resource Development legislation (for the exploration and mining of minerals).

### Mozambique Economic Outlook

As a country that is endowed with ample arable land, water, energy, mineral resources and natural gas Mozambique offers many economic opportunities. The CEF Group through IGAS and our investment in ROMPCO, Mozambique is a very important country for allowing us to bring gas into South Africa for economic benefit.

According to the World Bank, Mozambique continues in a slow growth trajectory that followed the 2016 hidden debt crisis. Macroeconomic conditions are improving, but the economic performance is yet to revert to the pre-crisis levels. Real gross domestic product (GDP) growth is estimated at 3.3% in 2018, down from 3.7% in 2017 and 3.8% in 2016. This is well below the 7% GDP growth achieved on average between 2011 and 2015. Small and medium enterprises have fallen back and their capacity to generate jobs has been restricted even further as credit supply and demand for goods and services remains constrained. A slight recovery in growth is expected, projections sit around 4% of GDP for 2019 and may be higher in the medium term if gas production investments are materialized.

Inflation has eased to 3.5% roughly the pre-crisis levels, supported by a cautious monetary policy stance, stable currency, and stable food prices. Debt levels remain unsustainably high. External debt declined from 103.7% of GDP at end-2016 to an estimated 85.2% by end-2017, mainly due to the appreciation of the metical.

In the meantime, central government domestic debt levels have increased due to budget financing needs. Further, contingent liabilities and debt costs continue to arrive from state-owned enterprises under operational and financial difficulties. Mozambique continues to be in default of its Eurobond and the two previously undisclosed loans. The government reached an agreement in principle with 60% of the Eurobond holders but final closure is still pending and may take time due to revived public appeals for the cancellation of this debt following the revelation of illegalities surrounding the borrowing process.

As the CEF Group we continue to focus on building holistic relationships in Mozambique and strengthen economic ties.

### Ghana Economic Outlook

As the CEF Group through our subsidiary PetroSA, we have upstream operations through a joint venture that continue to do well and being able to declare dividends. Ghana is one of the world's fastest-growing economy located in Africa: Ghana's economic strength is expected to ascend in 2019 whilst many of its peers continue to lag far behind according to the IMF.

In 2018, Ghana's economy continued to expand rapidly, albeit at a slower pace than the rate in 2017. Quarterly gross domestic product (GDP) growth was estimated at 5.4% in the first quarter of 2018; and 5.4% in the second quarter. The full-year real GDP growth projection was revised from 6.8% to 5.6% due to the larger base for 2017 because of the rebasing exercise conducted in October 2018. This is significantly below the 2017 growth rate of 8.1%.

Ghana's growth target for 2019 is 7.4% mainly to be driven by the industry sector, especially oil, gas and mining. Industry's growth is expected to improve to 9.7%; the agriculture sector is expected to grow by 7.3% on the back of the government flagship programs in the sector which will enhance performance in the crops sub-sector. The service sector growth, however, is projected at 6.1%, slightly below the 2018 projection of 6.2% as the financial sector continues to recover from its recent challenges.

Ghana's growth target for 2019 and 2020 is 7.4% mainly to be driven by the industry sector, especially oil, gas and mining. Manufacturing is also expected to post higher growth. In the medium-term (2019-2022), overall GDP is projected to grow on average at 7.0%, as the effects of oil on growth declines and non-oil growth strengthens. Inflation is expected to remain in the central bank's target range of 6-10% in 2019, while the fiscal deficit is expected to be marginally higher at 4.2% of GDP.

## BUSINESS OVERVIEW AND STRATEGY (continued)

### South Sudan Economic Outlook

During the period under review the Governments of South Africa and South Sudan concluded a MoU and agreed to embark on a project to develop petroleum infrastructure in South Sudan for the benefit of both countries and the continent in support of the Agenda 2063 and the dawn of energy independent Africa. South Sudan is increasing its activities within the oil and gas value chain to unlock its hydrocarbon potential and provide security of supply of refined petroleum products. The country has estimated oil reserves of 3.5 billion barrels (bbl) and 3 trillion cubic feet of gas, making it the third largest resource base in Sub Saharan Africa. CEF through its subsidiary the Strategic Fuel Fund (SFF) will be working closely with Nilepet on a joint project to monetise various oil in Sudan now reside in South Sudan.

The African Economic Outlook asserts that South Sudan's real GDP contracted by an estimated 3.8% in 2018, following a contraction of 6.3% in 2017, supported by a slight recovery in global oil prices. On the supply side, the oil sector continued to be the main contributor to growth, accounting for about 70% of GDP in 2017, followed by agriculture (10%), manufacturing (7%), and services (6.1%). On the demand side, public consumption was the main contributor, following the 2017 56% increase in public salaries. The current account turned to an estimated deficit of 12.7% of GDP in 2018, from a surplus of 1.7% in 2017, due to a decline in exports, and continued to stymie growth. Income tax increases, high inflation, internal conflicts, disruptions to oil production, a fall in oil prices, and weak agricultural production were the main drivers of the decline in GDP.

The fiscal deficit was an estimated 1.5% of GDP in 2018, down from a surplus of 5.8% in 2017. Recent debt sustainability analysis puts South Sudan in the debt distress category, with total public debt estimated at 48.5% of GDP in 2018 and public external debt at 32.6% of GDP. Inflation remained high at an estimated 104.1% in 2018, due mainly to uncontrolled growth in the monetary base.

The South Sudanese pound depreciated further in 2018, and the economy continued to have severe foreign exchange shortages, leading to an active parallel market. Further improvements in growth prospects are due mainly to projected increases in global oil prices and oil production. Real GDP is projected to contract further, by 2.6% in 2019 and 2.5% in 2020. The signing of the peace agreement in June 2018 and the opening of four border crossings with Sudan are vital opportunities for reviving the economy. The country's main downside risks are the vulnerability of agriculture to climate change, the high volatility of oil prices, and ongoing conflicts in the Blue Nile, Darfur, and South Kordofan states.

The country's key challenges include continued internal and external threats to peace, security, and stability; the disputed oil-producing region of Abyei; institutional and human capacity weaknesses; a narrow economic base; and dilapidated infrastructure. Heavy dependence on the oil sector is a source of economic fragility and vulnerability and underscores the urgent need for economic diversification. And decades of civil war destroyed the country's basic infrastructure and much of its productive capacities.

Key opportunities include abundant natural resources, potential hydropower sites, and regional integration. South Sudan is endowed with abundant natural resources, including a large amount of fertile rain-fed agricultural land that is potentially irrigable, aquatic and forest resources, and mineral resources, including oil. It is also has several potential hydropower sites on the White Nile River that could provide up to 3,000 MW, suiting the country's energy and security needs. And regional integration can act as a major driver for economic development, particularly in the form of investment and imports from neighbouring countries and regional blocs and as a market to support economic diversification. The tourism industry has great potential to ensure inclusive growth but lacks investment in infrastructure, human capital, and adequate policy reforms.





### Responding to Negative Price Sentiments:

Over the past couple of years, the CEF Group adopted a number of strategies across the entire value chain in responding to the negative price sentiments in the market place. Due to volatility, uncertainty and pressures from various market forces we constantly review and effectively managed these sentiments using a three-tiered strategy:



Constant review of strategic and operational risks and impact in response to emerging negative price sentiments.



Prioritisation of strategic initiatives in response to negative price sentiments in line with our internal governance and approval processes.



Timely execution of these strategic initiatives across the value chain.

### Portfolio Diversification

The CEF Group operates across the entire energy sector value chain, whose operating environment is characterised by a high degree of volatility and uncertainly. Various dynamics, therefore, play a critical role in shaping our Group Strategy in relation to our business portfolio. The diversification of our portfolio is driven by the CEF mandate, which provides an overarching area of focus in relation to the security of energy supply. Our approach to portfolio diversification is focused on the reduction of risk by operating and investing in different areas and investment options, adaptability and flexibility. Our portfolio diversification strategy rests on the following pillars:

| Portfolio Diversification Pillar               | Strategic Rational                                                                                                                                                                                                                                                                                                                                                                                                     |
|------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Continued de-risking of the Group              | The ongoing bid to de-risk the Group, in line with changes in our internal and external operating environment, by exploring means such as strategic partnerships to leverage technical experience and capital of other SOEs and private company in fulfilling our mandate.                                                                                                                                             |
| Optionality                                    | The ability to create space to explore various options as and when they present themselves, in line with internal and external market changes and how these can complement business strategy on the planning horizon.                                                                                                                                                                                                  |
| Timing                                         | Finding a balance of short-, medium- and long-term investments without draining key resources that are essential for ensuring that the Group continues to operate optimally. It is about balancing the demands of the business of today and the business of tomorrow. The Group is strengthening its pipeline of strategic projects to ensure that it has initiatives with the appropriate balance of maturity levels. |
| Income stream and contribution diversification | Over time, the Group has thought it prudent that the diversification of income streams takes place, to minimise over-reliance on one entity in the Group. This would also support the country's objective of diversifying the energy mix of the country.                                                                                                                                                               |
| Business excellence and synergies              | Ongoing operational excellence across the value chain in ensuring that we maximise Group return in all our investments and further augment this by exploiting and capturing synergies among the various subsidiaries that make up the federation.                                                                                                                                                                      |

Underpinning the above is the annual portfolio review, as part of the Group planning cycle. As part of monitoring and evaluation, the Group executive team undergoes a quarterly business performance review to assess business performance and overall portfolio. This is also to test strategic fit and overall relevance of the projects in supporting the delivery of Group Strategy.



## BUSINESS OVERVIEW AND STRATEGY (continued)

A well-diversified portfolio provides reasonable protection from the volatile market conditions. We believe that our approach to diversification is important because:

- Not all types of CEF Group investments will perform well at the same time.
- Different types of investments and operations are impacted differently by global events and changes in economic factors such as interest rates, exchange rates and inflation rates.
- Diversification enables us to build a portfolio whose combined risk is lower than a single income company's is.

The strategic initiatives and projects being undertaken at a subsidiary level are further consolidated into the following portfolio pool. The CEF Group has identified a number of significant initiatives and opportunities that it will pursue and these fall into the following three categories:

| Portfolio      | Overview                                                                                                                                                                                                                                                                                                                                                            |
|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Sustainability | Portfolio of key strategic projects and initiatives that are geared towards sustaining the Group in the short- to medium-term, but also act a catalyst for long-term objectives. These span engineering, strategy definition, human capital, change management, policy, stakeholder management, operations, feasibility studies and various turnaround initiatives. |
| Growth         | Portfolio of strategic projects and initiatives geared towards growing the Group's current portfolio including product development, commercial infrastructure development, strategic partnerships, diversification, acquisitions and market penetrations.                                                                                                           |
| Developmental  | Portfolio of developmental projects and initiatives to support the broader objectives of government. These cut across strategic infrastructure development to address market failures, support of policy development, corporate social investment programmes, job creation, education and other collaborative initiatives with a number of stakeholders.            |



## 2.2 Business Context – Our Value Creation Business Model

The mission of CEF is to grow its footprint in the energy sector, and to be the catalyst for economic growth and energy poverty alleviation, while supporting security of energy supply, and access to acceptable (affordable) energy in Africa. The CEF Group has interdependent business activities and coordination to capture synergies across the value chain to give us the required competitive edge in the delivery of our mandate.

Below, we aim to provide holistic context on how we use our strategic resource inputs to deliver desired outcomes, while managing the impacts and related material issues to achieve our intended outputs in our business operations.



## Business Model:



## How we add value through:

- Our renewables programmes - we support the government objective of diversifying the country's energy mix and increasing the use of cleaner and affordable energy sources.
- Our GTL Refinery produces products from indigenous hydrocarbons, thus reducing the burden on imported feedstock, which has an impact on the balance of payments.
- We provide high-grade quality coal to Eskom power stations, thus ensuring that the utility continues to power the economy.
- Through our investment in Rompco and gas infrastructure developments, we bring more gas into South Africa in support of key industrial activities.
- Storing strategic fuel stock for the country.
- Promotion for exploration and regulation of the upstream sector.

## 2.3 Strategic Outlook

In January 2019, the CEF Board recognised that there had been significant technology advancement in the area of CEF's core mandate, including clean coal technologies, energy storage, carbon capture for biofuels production and renewable energy. The Board also noted that tangible progress has also been made in developing the new gas fields in the Rovuma basin in Mozambique, while indigenous gas production in South Africa is near depleted, putting the CEF Group at a serious sustainability risk, as there is no affordable alternative feedstock for the Gas-to-Liquids refinery.

## BUSINESS OVERVIEW AND STRATEGY (continued)

In order to capture the opportunities presented by the changes in technology advancements and global trends, while addressing our own internal challenges, the Board started a process of reviewing the long-term strategic plan of the Group. It has been recognised that in order to continue to support security of energy supply and transition towards a cleaner energy future, the CEF Groups needs to:

- a. Develop gas infrastructure, including LNG receiving terminal and gas pipelines;
- b. Enter into strategic partnerships to advance oil and gas exploration and production in South Africa;
- c. Undertake feasibility studies to determine the technical and economic viability of building a new refinery in South Africa;
- d. Secure interests in other minerals (in addition to coal) that are relevant to the energy sector including energy storage;
- e. Commercialise clean coal technologies and energy storage technologies, in line with the country's minerals beneficiation potential or strategies;
- f. Participate in strategic regional projects (e.g. oil, gas, Inga) that support regional integration.

- g. Integrate the Group's commercial interests across the value chain for each of the sectors it operates in, viz. downstream distribution and beneficiation of gas, fuels and coal in order to capture the full commercial benefits of its investments.
- h. Continue the strategic partnerships for renewable and gas power generation.
- i. Stabilise PetroSA and reposition the CEF Group for growth.

Most of these initiatives have long lead times but the implementation of the long-term strategic plan will create much-needed jobs and contribute to sustaining other industries including engineering and construction in the immediate. The initiatives will start yielding significant financial dividends in 10 years' time when the assets come into commercial operation. The new emerging group strategy, is undergoing internal approval processes. The emerging roadmap is shown below:

| Stabilise and Consolidate                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Transition                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Accelerate                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Refocus                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Formulating the right foundation for future growth and sustainability. It entails the strategic and targeted stabilisation and consolidation of the Group strategic and operational activities across the value chain.</p> <p>Key focus will be on Strategy execution and formation of key strategic partnerships, New Operating Model design, creating of an Exponential Organisation driven towards high performance. Systems and processes that will embrace the 4th Industrial Revolution and automation of key activities, mandate alignment, Leadership and skills capacitation and the strengthening of Group governance structures.</p> <p>This phase also sees key resources being channelled towards Growth and Sustainability projects with the PetroSA Turnaround, Shared Services and progress being made on large commercial infrastructure projects to support economic development.</p> | <p>Having set the right foundation for exponential growth and transformation by aligning the Group towards a commercially driven strategy, the process of transition takes shape. This phase is about transitioning to a New Operating Model and Group configuration to embrace the rapid changes in the energy sector.</p> <p>It is about the adoption of new technologies in our value chain to create value, the creation of a new organisational culture that supports the delivery of the commercial strategic objectives and understanding the role of energy in stimulating economic growth. The process of Transition will involve the implementation of change through systematic planning, organizing and implementation of change to reach the desirable future state without affecting the continuity of business during the process of change through economic, technology and innovation.</p> | <p>To have long-term success the Group must continue to look for ways to grow and scale up for new markets, services and products. Strategic partnerships will play a significant role in the Group achieving its target of being an integrated Energy Company with presence in the Region and the African continent as a whole. Collaborative partnership will be central to our growth ambitions.</p> <p>This phase is about accelerating the configuration of a world-class integrated energy company that will play a leading position in the country's security of energy supply and igniting the economy through scale, pace, impact, and operational excellence and being among the best in the world whilst leading with technology developments and thought leadership in the energy space. Improved and international competitiveness and influence further enhanced, thus becoming a respectable enterprise worldwide.</p> | <p>In a complex operating environment with rapid external changes there is a near continuous need for the Group to keep repositioning itself and re-work its strategies in the pursuit of success.</p> <p>This phase will be about refocusing the Group Strategy in line with energy sector changes to still achieve the strategic objectives of Vision 2040. It's about asking key questions if we are still on the right path and what the key fundamental changes in our operating environment that necessitate key strategic changes.</p> |





## 2.4 Our Risk Management Process – embedding risk in our business operations

### Enhancing our Risk Management and opportunities

CEF is committed to effective risk management in pursuit of its strategic objectives, with the ultimate aim of growing shareholder value sustainably. We have significantly enhanced our capability to anticipate risks and respond with agility and confidence in managing them. This is in response to the characteristic of our operating environment being capital intensive, risky, volatility and fluctuations in commodity prices, geopolitics and the sector being dominated by multinationals that are endured with the necessary financial resources and infrastructure to undertake large complex projects.

As we seek to expand our business locally and globally, in line with our group strategy, we recognise that proactive risk management is both an essential element of sound corporate governance and crucial enabler in realising opportunities.

CEF Group continued to operate in a sector that is undergoing massive transformation driven by new technological advancements and the move towards cleaner sources of energy. This is against the backdrop of a number of geopolitical and global economic challenges that have a bearing on market supply and demand dynamics.

In the face of current difficult conditions, the role of an effective risk management process is critical. Effective risk management contributes to the achievement of our business objectives and will enhance the resilience of the business through the current, difficult trading times. Key to this is anticipating change and how best to manage it.

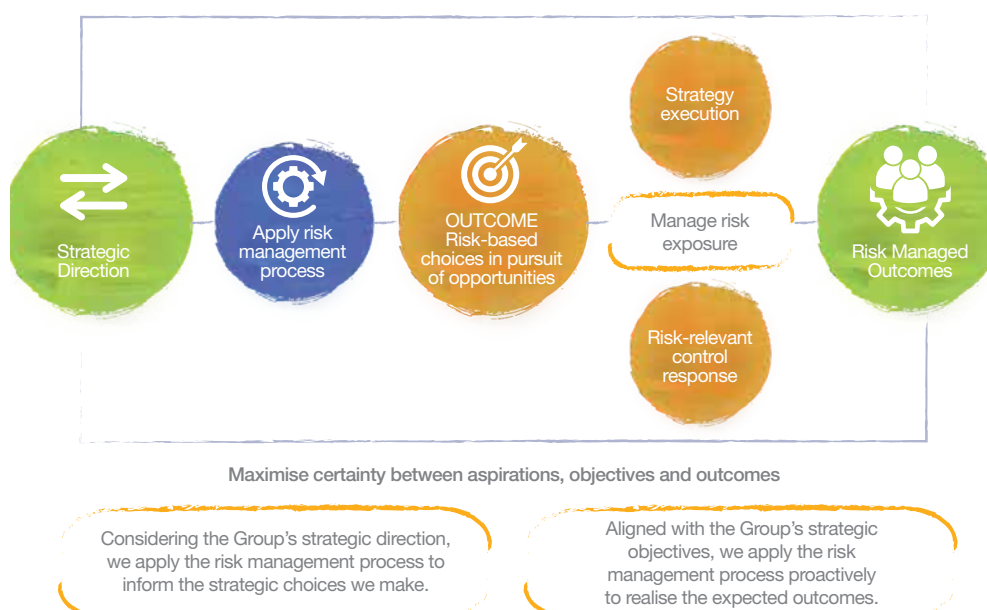
### Our Risk Management Approach

Our Board-approved Risk Management Policy guides our approach to risk management. To ensure effective management of risks across the Group, we have a risk management standard in place, supported by an integrated framework.

Over the past year, we have continued aligning our processes and standards with international best practices where applicable, such as ISO 31000, the Public Sector Risk Management Framework and the King IV Report on Corporate Governance. Our drive to ensure an appropriate balance in the management of internal, strategic and external risks is the bedrock of our strategic intent for embedding a risk management culture across the Group.

The leaders of each of the subsidiaries, business units and Group functions are responsible and accountable for the management of risks in their area and may delegate specific responsibilities appropriately. Oversight of risk management at each subsidiary level takes place through the relevant executive. We align the governance and reporting of the Risk and Compliance Department with best practices. Our integrated approach, as highlighted in the figure below, aligns all risks identified with strategic objectives of the organisation. This process seeks to achieve an appropriate balance of strategy, risk, opportunities and reward in our operations, taking cognisance of all stakeholders' interests.

### Risk and Opportunity Management



## BUSINESS OVERVIEW AND STRATEGY (continued)

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### Our risk management journey

CEF's risk management plan for the 2018/19 financial year detailed enterprise risk management (ERM) objectives, associated activities and initiatives. The themes for the 2018/19 risk management plans were to:

- Introduce a stabilised ERM;
- Introduce ERM standardisation approaches and processes;
- Introduce a governance, risk and compliance (GRC) information system;
- Focus on emerging risks and opportunities in terms of strategic initiatives across the business; and
- Become more visible and be an enabler to the organisation for effective risk management.

During the year under review, we addressed the standardisation for risk management processes by:

- Implementing an ERM maturity assessment for the Group to establish the maturity levels on ERM initiatives
- Appointing risk Champions within the organisation
- Developing key strategic initiatives for Group Combined Assurance aligned with vision 2040+
- Standardising the reporting template
- Approving a Group strategic risk register and cascading it into business operations
- Monitoring the top Acts and codes that have an impact on CEF operations
- Implementing risk management software for capturing and reporting
- Conducting ERM training for employees
- Over exceeded by 8% ERM maturity assessment for the Group against set target

### Risk Governance

Our Board of Directors has the ultimate responsibility for risk management in the organisation, and oversees the enterprise risk management process at CEF. The Board's Audit and Risk Committee works closely with management to make sure that the risk management process complies with the relevant standards and governance requirements and works effectively.





## Roles and responsibilities to strengthen Risk Governance

|                                      |                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                  |                                                                                                                                                      |
|--------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Risk governance</b>               | <b>Board of Directors and Risk and Audit Committee</b> <ul style="list-style-type: none"> <li>• Ensure the risk culture (tone at the top)</li> <li>• Approve the risk appetite</li> <li>• Ratify the key components of the ERM maturity index</li> <li>• Discuss enterprise risks with executive management</li> <li>• Approve ERM policies</li> </ul> |                                                                                                                                                                                                                                                                                                                                                      | <b>Technology</b> <ul style="list-style-type: none"> <li>• Provide real-time dashboards to oversee risks</li> <li>• Facilitate risk escalations</li> </ul>                                       |                                                                                                                                                      |
| <b>Risk resources and management</b> | <b>Executive management</b> <ul style="list-style-type: none"> <li>• Define the risk appetite</li> <li>• Evaluate proposed strategies against risk appetite</li> <li>• Capacitate risk and compliance function</li> </ul>                                                                                                                              | <b>Enterprise risk management</b> <ul style="list-style-type: none"> <li>• Create common ERM framework</li> <li>• Provide direction on applying framework</li> <li>• Implement and manage technology systems</li> <li>• Provide guidance and training</li> <li>• Aggregate risk information</li> <li>• Monitor risks and mitigation plans</li> </ul> | <b>Internal audit</b> <ul style="list-style-type: none"> <li>• Provide assurance on ERM processes</li> <li>• Provide assurance on the controls and the mitigation plans for the risks</li> </ul> | <ul style="list-style-type: none"> <li>• Make monitoring and reporting easier</li> <li>• Support timely maintenance and pre-empt problems</li> </ul> |
| <b>Risk ownership</b>                | <b>Business units</b> <ul style="list-style-type: none"> <li>• Take business-appropriate risks</li> <li>• Identify and assess risks</li> <li>• Respond to risks</li> <li>• Monitor risks and report to risk management</li> <li>• Support risk and compliance management</li> </ul>                                                                    |                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                  |                                                                                                                                                      |

Risk management is an essential part of CEF. However, we understand that if it is not properly managed it can impede growth. That is why we have endeavoured to place risk management at the core of the operating structure of the Group. We recognise that strategy, performance, sustainability and risk are inseparable. Hence, the maturity journey and ERM plans operate within an integrated risk management approach, ensuring that appropriate processes are used to address all risks across the Group. We continue to integrate the risk management approach with the combined assurance model, to drive improved levels of assurance related to our significant risks. The adopted combined assurance model provides independent oversight, assurance and alignment on Group-wide significant risks. Our Board-approved Risk Management Policy guides our approach to risk management. To ensure effective management of risks across the Group, we have a risk management standard in place, supported by an integrated framework.



## BUSINESS OVERVIEW AND STRATEGY (continued)

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The Board Risk Committee, oversees risk management on behalf of the Board, through regular feedback by management on all risk management activities. These activities include ensuring that:

- Internal controls are in place and operate effectively across the Group to mitigate risk;
- Key operations and support functions are covered by our risk management process;
- Adequate monitoring and control functions are in place, responsible for the various lines of defence within the company's combined assurance framework.
- Regular risk assessments are done through a structured risk management framework and methodology comprising a rigorous process of facilitated workshops with multidisciplinary teams.
- The resulting identified risks are prioritised and appropriate mitigation actions are captured to enable monitoring and reporting of risk activity.

In terms of our integrated approach to risk management, we assess, manage and report on all significant risks and related mitigation plans consistently, in accordance with our defined risk reporting protocol across the Group. As part of our journey to become more proactive and responsive, we have developed key risk indicators for our top risks to enhance the monitoring of key trends in relation to each risk.

We have embedded the process to identify, track and report on emerging risks. The CEF integrated the Group risk management approach with the combined assurance model, to drive integration across risk-related functions such as safety, health and environment (SHE), procurement, compliance, internal audit and Group finance. In the year ahead, we will continue to prioritise key risk assessment focus areas, based on materiality, in relation to CEF's strategy, sustainability issues and shareholder value drivers.

### **Risk tolerance and risk appetite**

The CEF Group defines risk appetite as 'the nature and extent of the risk the group is willing to accept in relation to the pursuit of its objectives'. We look at risk appetite in the context of severity of the consequences should the risk materialise, any relevant internal or external factors influencing the risk, and the status of management actions to mitigate the risk. A scale is used to help determine the limit of appetite for each risk, recognising that risk appetite will change over time. If a risk exceeds appetite, it will threaten the achievement of objectives and may require management actions to be accelerated or enhanced to ensure the risks remain within appetite levels.

### **Risk identification and opportunities**

Risk management is not only about understanding what threatens our business, it is about finding out what can strengthen it. In light of the current difficult conditions, management continues to seek opportunities to enable it to adapt to change, improve the resilience of the business and continue to deliver sustainable value to all stakeholders.

Accordingly, key focus areas for 2018 were identified. We use this process, as outlined earlier, to identify opportunities that the CEF Group has, both now and in the future, and to find ways to leverage these. The CEF Group management considers the company's key opportunities to include:

- Reconfiguring operating plans by prioritising areas of lower stripping ratios to reduce costs, improve profitability and preserve cash;
- Shift from a volume- to a value-based strategy to reduce the amount of waste mined and save costs;
- Sharing of resources among Group companies, and taking advantage of synergies in the energy value chain;
- Implementing value-adding technology into our mining extraction and beneficiation processes to reduce unit cost and make operations safer;
- Implementing a work operating model at our operations to ensure that all work is adequately planned, scheduled and resourced.

### **Key risks for the Group**

The issues that might affect CEF ability to create value in the short, medium and long term can be grouped into three (3) categories:

- Strategic risks or opportunities which could significantly affect CEF's ability to implement its strategy, but could be mitigated if they are understood and proactively addressed;
- Operational risks or opportunities which are managed daily through implementing policies and process controls;
- Systemic or global risks or opportunities which affect nationals and companies globally, some of which could be mitigated by localised efforts or through collective or multilateral actions.



From our Group risk assessment, we have identified key strategic risks, which were approved by the Board. The Board and management continue to monitor the implementation of risk mitigation plans for these risks.

**Figure below: Strategic risk description, root causes and progress risk mitigation plan implementation**

| Risk Category 1. Financial Sustainability                                                                                                                                                                                                                                                                                                                                                                                 |                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Risk description:</b><br/>The financial sustainability of the CEF Group is under threat.</p> <p><b>Root causes:</b><br/>The CEF Group derives more than 70% of its revenue from PetroSA, whose gas feedstock is depleting. At the same time, PetroSA has an abandonment liability that needs to be funded. These two factors constrain the CEF Group balance sheet.</p>                                             | <p><b>Residual exposure:</b><br/>Extreme</p> | <p><b>Progress on Risk Mitigation Plans:</b></p> <ol style="list-style-type: none"> <li>1. PetroSA emergency plan is in place to address short term challenges which include feedstock sourcing, refinery optimisation and development of long term solution.</li> <li>2. The requests for farm outs were submitted to the department to reduce commitments.</li> <li>3. The shared service model business case was concluded and submitted to the CEF Board</li> <li>4. Engagements with PASA took place to discuss Wells Closure Certificate processes which will further reduce the current liability cost.</li> </ol> |
| Risk Category 2. Security Of Supply                                                                                                                                                                                                                                                                                                                                                                                       |                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <p><b>Risk description:</b><br/>The CEF Group may not be able to effectively fulfil its mandate of supporting the DMRE in ensuring security of energy supply for the country.</p> <p><b>Root causes:</b><br/>PetroSA does not have affordable feedstock to produce a significant portion of the market share of national liquid fuels demand. The rotation of the SFF strategic stock reserves is under legal review.</p> | <p><b>Residual exposure:</b><br/>High</p>    | <p><b>Progress on Risk Mitigation Plans:</b></p> <ol style="list-style-type: none"> <li>1. As part of the new group strategy prioritisation of diversifying new portfolio solutions to be able meet the demand.</li> <li>2. Increase Condensate processing progressing well.</li> <li>3. Farm-out strategy approved and submitted to the Minister.</li> <li>4. Strategic Stock replenishment to be finalised upon Court outcome.</li> <li>5. Leverage on blending capacity by Blendcor.</li> <li>6. New Refinery build feasibility study has commenced in partnership with Saudi Aramco.</li> </ol>                       |

## BUSINESS OVERVIEW AND STRATEGY (continued)

| Risk Category 3. Human Capital                                                                                                                                                                                                                                                                                                            |                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Risk description:</b><br/>The CEF Group may not have adequate skills and experience to implement strategic projects required for the financial sustainability of the Group.</p> <p><b>Root causes:</b><br/>Bad publicity currently being received may create the perception that the CEF Group is not the 'employer of choice'.</p> | <p><b>Residual exposure:</b><br/>High</p>     | <p><b>Progress on Risk Mitigation Plans:</b></p> <ol style="list-style-type: none"> <li>1. Prioritisation of stabilising leadership and capacitating leadership roles has commenced.</li> <li>2. The skills audit to identify capabilities within the CEF Soc during the 2018/19 FY this is to be rolled up to the rest of the group.</li> <li>3. Talent Sourcing Strategy developed</li> <li>4. CEF Group Leadership Competency Framework and Leadership Development Program undertaken with Wits Business School.</li> <li>5. EVP programmes have been developed.</li> <li>6. The workforce plan will articulate business critical and essential competencies and HC will implement plans to develop and retain those skills.</li> </ol> |
| Risk Category 4. Regulatory and Governance                                                                                                                                                                                                                                                                                                |                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <p><b>Risk description:</b><br/>The CEF Group governance and operating model is cumbersome and impacts on effective and efficient decision making.</p> <p><b>Root causes:</b><br/>Each subsidiary has an autonomous Board of Directors, which requires approvals of key decisions.</p>                                                    | <p><b>Residual exposure:</b><br/>Moderate</p> | <ol style="list-style-type: none"> <li>1. Review of the governance framework and model is being reviewed and revised in an effort to enhance effectiveness and streamline key decision-making;</li> <li>2. Board capacitation and strengthen in partnership with the IODSA to empower them;</li> <li>3. Continuous board evaluations</li> <li>4. Filling of board vacancies with the support for DMRE</li> <li>5. Continuous strengthening of governance structures/forum to improve decision making.</li> </ol>                                                                                                                                                                                                                           |
| Risk Category 5. Stakeholder and Reputation Management                                                                                                                                                                                                                                                                                    |                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <p><b>Risk description:</b><br/>Misalignment of the CEF Group Stakeholder and Reputation Management processes.</p> <p><b>Root causes:</b><br/>Each subsidiary has an communication strategy approved by their board, which impacts on response time with the stakeholders.</p>                                                            | <p><b>Residual exposure:</b><br/>Moderate</p> | <ol style="list-style-type: none"> <li>1. Development of stakeholder engagement plan and the group brand strategy.</li> <li>2. Implementation of the group's reputation survey recommendations.</li> <li>3. Articulation of group strategy to give direction and guidance</li> <li>4. Alignment with shareholder on key commercial and developmental initiatives.</li> </ol>                                                                                                                                                                                                                                                                                                                                                               |





#### Risk Category 6. Project Execution

**Risk description:**

The CEF Group project execution model is not effective, which impacts implementation of strategic process

**Root causes:**

Each subsidiary has an autonomous Board of Directors, which requires approvals and key decisions.

**Residual exposure:**

Moderate

1. Development of group integrated project execution model.
2. Projects are being done in line with company project execution model following a gated stage model.
3. Utilisation of the PAMC to select the projects that will be executed.





## Section 3

“

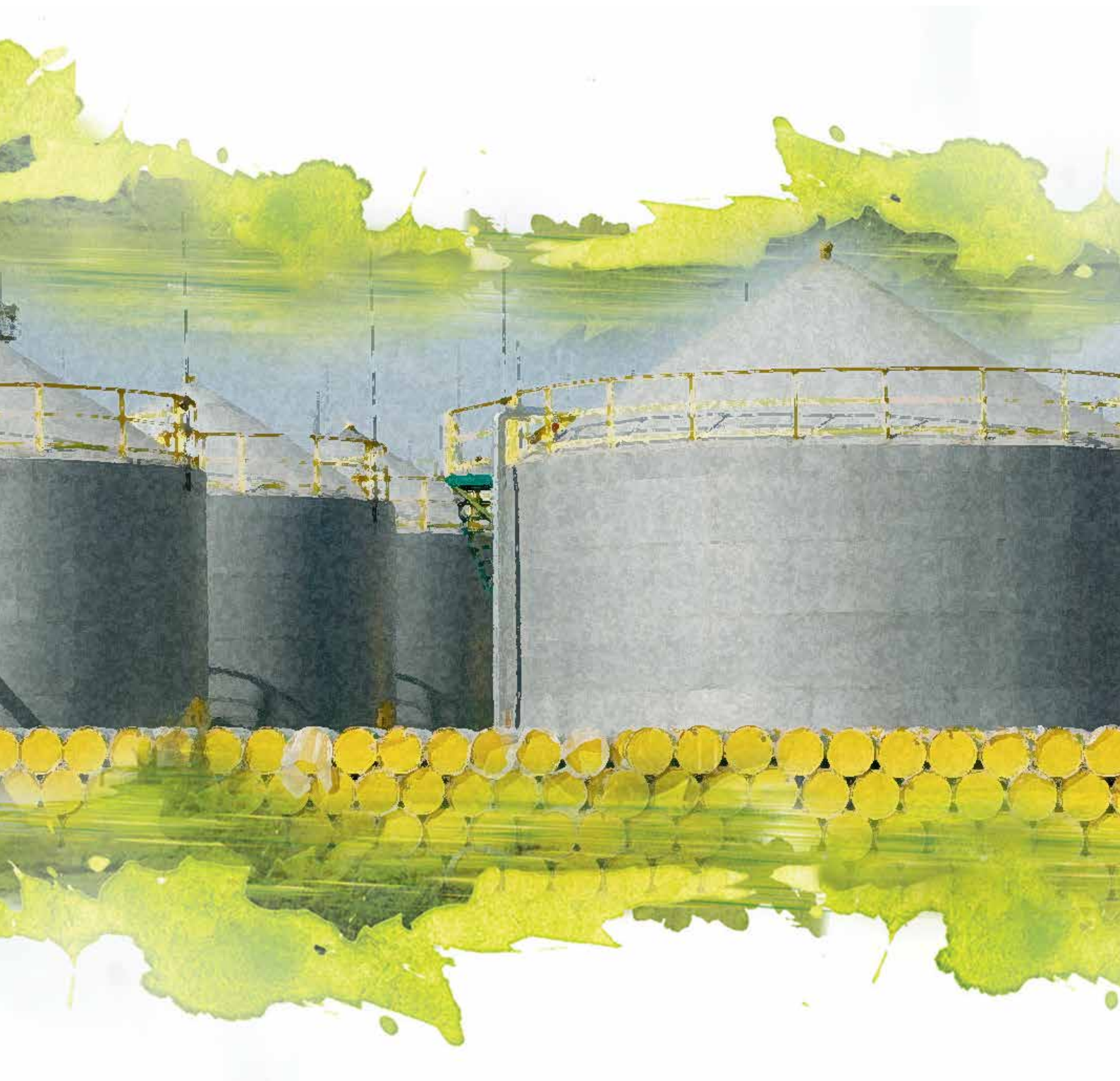
CEF is a catalyst for energy value creation that creates significant impact on South Africa's energy landscape in a developmental and commercially sustainable way while transforming the local energy sector in a socially responsible way.

”





# VALUE CREATION





## VALUE CREATION

The CEF Group of Companies (CEF), through the holding company CEF (SOC) Ltd, is a state owned company of the Department of Mineral Resources and Energy, which is governed by the Central Energy Fund Act, conducting its business through the holding company and its subsidiaries. This together constitutes the CEF Group of companies and represents an energy security of supply value chain comprising exploration and production, coal and gas supply, liquid fuels processing, a renewables division and liquids fuels storage/infrastructure value chain that is enhanced by regulatory, coal and administrative value chain components.

CEF's primary value proposition is to conduct its business to provide and enable zero harm sustainable energy security solutions for South Africa that ensures shareholder and stakeholder value that enables its developmental agenda in a commercial environment.

i.e. CEF value =  
function (Developmental)  
and function (Commercial).

*CEF is a catalyst for energy value creation that creates significant impact on South Africa's energy landscape in a developmental and commercially sustainable way while transforming the local energy sector in a socially responsible way.*

The global macro-economic factors, combined with the South African socio-economic environment and the energy industry requirements, defines and demands that CEF, through its holding company, conducts its business, whilst enabling and ensuring the strategic pillars of:

- a) transformation
- b) operational excellence
- c) innovation
- d) strategic partnerships

Whilst ensuring an attractive employee value proposition that grows our fit-for-purpose human capital and ensures compliance to the relevant legal framework.

Within the above context, CEF's principle activities and value proposition are to include stabilisation, expansion, diversity and growth of its portfolio by engaging in, amongst others, an operational and business development agenda that intends to conduct its business within the operating model framework of Explore, Develop, Operate and Sell by participating in either a single or combination of the following roles: Advisor, Financier, Regulator, Project Developer, Security Champion, Operator, Marketer or Social Champion to:

- enable and deliver on its developmental strategic initiatives and in turn contribute to South Africa's socio-economic growth,
- enable and deliver on its commercial strategic initiatives and in turn contribute to South Africa economic development,
- enable and deliver on its energy security of supply and in turn decrease South Africa's dependency on international oil companies,
- enable and deliver on its energy advisory, assurance and facilitation role and in turn support in developing and sustaining a best in class national energy industry, and
- efficiently and effectively be a South Africa Corporate Citizen that contributes to the People of South Africa.





To effect the value proposition CEF through fulfilling its energy security requirement, ensures shareholder and stakeholder value in both its developmental and commercial portfolio i.e.

**CEF value proposition = function (Developmental) and function (Commercial)**



The CEF value proposition taking into consideration the energy security definition, see below, is directly aligned with CEF's strategic intent.

|                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                    |
|------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <br><b>South Africa Definition</b>  | <p>“Energy security means ensuring that diverse energy resources, in <b>sustainable quantities</b> and at <b>affordable prices</b>, are available to the South African economy in support of <b>economic growth</b> and <b>poverty alleviation</b>, taking into account <b>environmental management</b> requirements and <b>interactions</b> among economic sectors” - <i>Energy Masterplan Phase 1 (2007)</i></p> |
| <br><b>A more Global Definition</b> | <p>“...a condition in which a nation and all, or most of its citizens and businesses have <b>access to sufficient</b> energy resources at reasonable prices for the <b>foreseeable future</b> free of major <b>disruption</b> of service.” - <i>Barton, B, Redgwell, C, A. (2004): Energy Security: Managing risk in a dynamic legal regulatory, Second ed, Oxford University Press</i></p>                        |

## VALUE CREATION (continued)

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As the global energy sector is being transformed by three reinforcing trends –decarbonisation, digitalisation and decentralisation – policymakers will come across new opportunities to make progress on the Energy Trilemma. At the same time, they will be required to sustain the advancements made on the trilemma over the past years by managing and actively integrating a greater diversity of market actors and technologies without fragmenting the energy system. CEF is best positioned via its initiatives to ensure value to the South African Energy Trilemma that is best described as follows:

- Energy security: Effective management of primary energy supply from domestic and external sources, reliability of energy infrastructure, and ability of energy providers to meet current and future demand.
- Energy equity: Accessibility and affordability of energy supply across the population.
- Environmental sustainability: Encompasses achievement of supply- and demand-side energy efficiencies and development of energy supply from renewable and other low-carbon sources.

In support of CEF's delivery on its commercial and developmental value proposition includes; amongst others, to develop and offer:

- Diverse, reliable and affordable energy solutions,
- Energy infrastructure,
- Energy advisory,
- Value to the fiscus, employment and people of South Africa,
- Customer centricity value,
- Strategic partnerships to execute the South African energy agenda.

The strategic intent for CEF is to execute its developmental objectives within the commercial business environment by:

- stabilising its existing asset base and ensuring a favourable return on the asset base, and
- by pursuing new and diversified business development opportunities to enable growing the asset base, whilst ensuring a favourable return.

The CEF Group's performance measurement is an overarching approach that is driven by CEF's mission and goals and the nature of the paradigm in which the various initiatives identified exist. It is envisaged that the ongoing Monitoring and Evaluation of the following key performance areas will improve our value proposition:

- Commercial Viability
- Energy Poverty Alleviation
- Governance
- Operational Excellence
- Human Capital
- Stakeholder Management

Value is created not only within the traditional boundaries of the CEF Group, but also crosses organisational and geographical boundaries by connecting various value drivers, many of which are intangible. This requires reputable information to inform good decision-making and a clear strategy, business model – all of which rely on internal cohesion created through a clear understanding of what the Group is seeking to achieve and how it is fulfilling its mandate. As a responsible corporate citizen, the CEF Group, through its business model, seeks to operate and grow inclusively, responsibly and sustainably.

The CEF Group strategic decisions made in allocating the limited required resources for our business and advancing our growth are based on integration of the six capitals, namely human, financial, natural, intellectual, manufactured and corporate and social capital. These capitals are stores of value that, in one form or another, become inputs to the Group's business model. They are also increased, decreased or transformed through the myriad activities of the Group, in that they are enhanced, consumed, modified or otherwise affected by those activities.

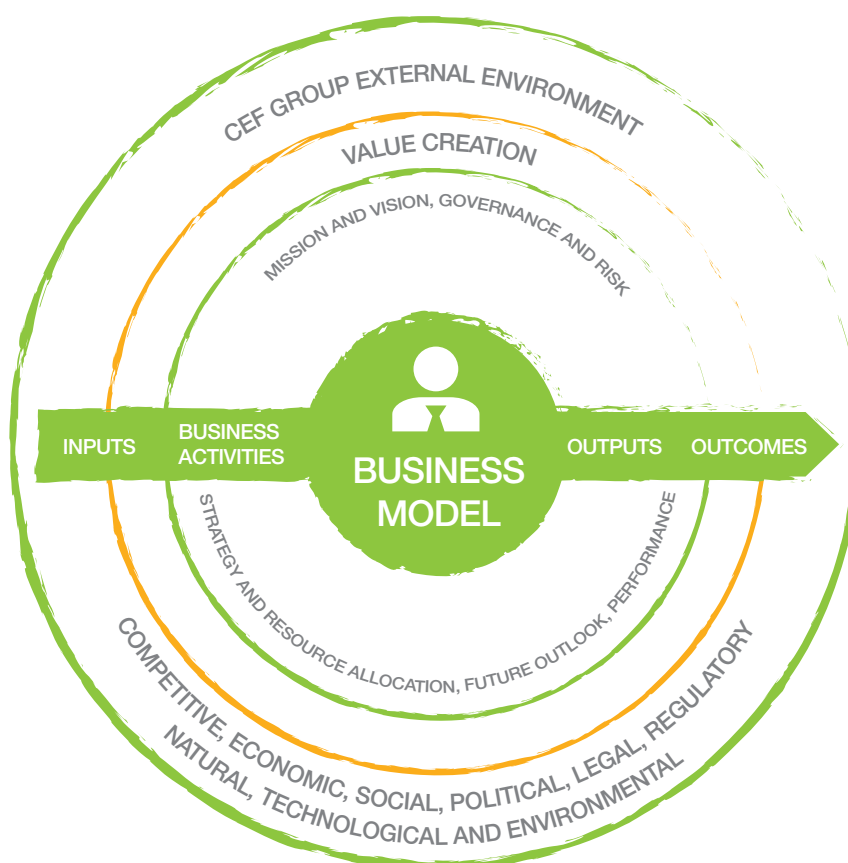




Inputs of each are needed for the effective production and delivery of our products and services, thereby creating value for all CEF's stakeholders. The CEF Group's business model is an integrated system of transforming inputs, through its business activities, into outputs and outcomes that aim to fulfil the Group's strategic priorities and create value over the short-, medium- and long-term. A definition of some of the Group inputs, business activities, outputs and outcomes is summarised below.

| Elements            | Brief Description                                                                                                                                                                                                                                                         |
|---------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Inputs              | The Group resources, relationships and other capitals that the various entities depend upon or that provide a source of differentiation. These are inputs that are material to appreciating the robustness and resilience of the Group business model.                    |
| Business activities | Numerous undertakings or what the Group does, how it goes about creating value for itself and its stakeholders, including communities.                                                                                                                                    |
| Outputs             | Including the Group's key products and services as well as any by-products, waste or emissions that need to be discussed, depending on materiality relative to an understanding of the robustness and resilience of the business model and complexity of the value chain. |
| Outcomes            | The internal (employee morale, revenue) and external (customer, stakeholder satisfaction, tax payments), as well as either positive or negative impact                                                                                                                    |

With the constant competition for resources in the Group to fulfil strategic objectives, integrated thinking on how resources are better managed and deployed is central to our long-term growth. This integrated thinking and decision making is based on an information set that is much broader, more interconnected and more forward-looking than traditional approaches we have used in the past. Integrated thinking is essential in breaking down internal silos, reducing duplication and driving positive behaviours focused on the long-term success of the Group and, thus, creating value for our Shareholder, whilst bolstering our strategic relevance. The business model sits at the heart of the Group, within the context of the external environment.



## VALUE CREATION (continued)

### Human Capital

To operate our facilities safely, reliably and efficiently and to deliver our Vision 2025 on time and within budget, CEF requires high-performing and diverse human capital with the right competencies, capabilities and experience, and the motivation to innovate, including their:

- alignment with and support for the Group's governance framework and risk management approach, and ethical values such as recognition of the developmental mandate.
- ability to understand, develop and implement the Group's strategy
- loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate, especially with SOEs, communities and strategic partners.

Over the past financial year, the Group has worked to increase the human capital component through targeted training, the creation of forums for sharing best practices and inculcation of a Group thinking. Our human capital investments programmes covered later in this section bear testimony to this.

| Inputs                                                                                                                                                                                                                                                                    | Core Activities                                                                                                                                                                                                                                      | Outputs                                                                                                                                                                                                                                                                                                                                     | Outcomes                                      |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|
| <p>The business requires a safe, healthy, engaged, innovative and high performing workforce with expertise and right experience to grow the business</p> <p>A diverse and representative leadership team demonstrating value-driven behaviour</p> <p>Employees: 2 107</p> | <p>Exploration</p> <p>Development of projects</p> <p>Manufacturing of fuel</p> <p>Distribution of fuel</p> <p>Coal extraction</p> <p>Construction of gas infrastructure</p> <p>Transmission of gas</p> <p>Storage of crude oil</p> <p>Regulation</p> | <p>The Group is in the business of production and trade of the following:</p> <p>Petroleum products</p> <p>Petrochemical products</p> <p>Coal</p> <p>The Group further conducts the following:</p> <p>Oil pollution control</p> <p>Mineral regulation and licensing</p> <p>Rental of crude oil storage tanks</p> <p>Transmission of gas</p> | <p>Employee benefits:</p> <p>R1.6 billion</p> |



## Financial Capital

Financial capital is broadly understood as the pool of funds available to the CEF Group for use in the production of goods or the provision of services. This includes both debt and equity finance or grants, or those generated through operations or investments. The Group's description of financial capital focuses on the source of funds, rather than their application (across the value chain) which results in the acquisition of manufactured or other forms of capital. The CEF Group uses a capital allocation model to deliver on its mandate. Financial capital has an impact on the development and maintenance of capitals with other organisations in the supply and value chain.

| Inputs                                                                                                                                 | Core Activities                                                                                                                                                                                               | Outputs                                                                                                                                                                                                                                                                                              | Outcomes                                                                                    |
|----------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
| For funding our operations and growth, we use retained profits, investments, debt and cash from operations<br><br>Capital: R27 billion | Exploration<br>Development of projects<br>Manufacturing of fuel<br>Distribution of fuel<br>Coal extraction<br>Construction of gas infrastructure<br>Transmission of gas<br>Storage of crude oil<br>Regulation | The Group is in the business of production and trade of the following:<br>Petroleum products<br>Petrochemical products<br>Coal<br><br>The Group further conducts following:<br>Oil pollution control<br>Mineral regulation and licensing<br>Rental of crude oil storage tanks<br>Transmission of gas | Income: R16 billion<br>EBITDA: R626 billion<br>Cash generated from operations: R1.6 billion |

## Natural Capital

The Group's definition of natural capital includes all renewable and non-renewable environmental resources that provide goods and services that support the current and future prosperity of the CEF Group. These include air, water, land, forests and minerals. In addition to these resources, there are a number of processes from which humans benefit that are provided by nature, which we define as ecosystem services and biodiversity, forcing us to be responsible citizens across the entire value chain. Given CEF's need to balance its energy mix, as a bridge to a lower-carbon economy it focuses on enabling alternative and renewable energy products, solar and the gas market through investments in infrastructure. This indicates that both current and future Group prosperity is fundamentally dependent on natural capital, which is essential to the provision of goods and services.

| Inputs                                                                                                                                                                                                                                                                                             | Core Activities                                                                                                                                                                                               | Outputs                                                                                                                                                                                                                                                                                              | Outcomes                                                                                                                           |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| CEF's mandate is to contribute to national security of energy supply<br>We require gas, oil, coal for production of petroleum and petrochemical products<br>Further to the above, water, land, air and energy are required in the process of conversion of mineral reserves into finished products | Exploration<br>Development of projects<br>Manufacturing of fuel<br>Distribution of fuel<br>Coal extraction<br>Construction of gas infrastructure<br>Transmission of gas<br>Storage of crude oil<br>Regulation | The Group is in the business of production and trade of the following:<br>Petroleum products<br>Petrochemical products<br>Coal<br><br>The Group further conducts following:<br>Oil pollution control<br>Mineral regulation and licensing<br>Rental of crude oil storage tanks<br>Transmission of gas | Manufactured petroleum product: 4.4 million barrels<br><br>Crude Oil Production: 1.6 million barrels<br><br>Coal: 2.1 million tons |



## VALUE CREATION (continued)

### Intellectual Capital

The CEF Group's success relies on the development and protection of its assets. Our intangible assets are drawn from our process knowledge, fully funded from our capital. The Group defines intellectual capital as Group knowledge-based intangibles, including:

- intellectual property, such as patents, copyrights, software, rights and licences
- 'organisational capital', such as tacit knowledge, systems, procedures and protocols
- intangibles associated with the brand and reputation that an organisation has developed.

Within the Group, we see close cutting of boundaries of intellectual capital with human capital and social and relationship capital.

| Inputs                                                                                                                                                                                    | Core Activities                                                                                                                           | Outputs                                                                                                                                                                                                                                                                                              | Outcomes   |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| Licensed technologies, patents to support the business<br>Technically skilled and experienced employees and external experts<br>The CEF Group's business processes and management systems | Exploration<br>GTL<br>Distribution of fuel<br>Coal extraction<br>Construction of gas infrastructure<br>Storage of crude oil<br>Regulation | The Group is in the business of production and trade of the following:<br>Petroleum products<br>Petrochemical products<br>Coal<br><br>The Group further conducts following:<br>Oil pollution control<br>Mineral regulation and licensing<br>Rental of crude oil storage tanks<br>Transmission of gas | 14 patents |

### Manufactured Capital

Our business involves deployment of capital through investments in projects with or without industry partnerships, depending on which business segment of the Group we are investing for. The Group views manufactured capital as human-created, production-oriented equipment and tools. These are mainly plant and equipment (tangible capital) available for the production of goods or the provision of services as part of delivering on our strategic objectives such as:

- buildings
- equipment
- infrastructure (such as roads, ports, bridges and waste and water treatment plants)

| Inputs                                                                                                                                                                                                                     | Core Activities                                                                                                                           | Outputs                                                                                                                                                                                                                                                                                              | Outcomes                                                                                                                        |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| Property, plant and equipment to extract and convert mineral resources into finished products<br>Property, plant and equipment that operate efficiently, reliable and assist the Group to comply with industry regulations | Exploration<br>GTL<br>Distribution of fuel<br>Coal extraction<br>Construction of gas infrastructure<br>Storage of crude oil<br>Regulation | The Group is in the business of production and trade of the following:<br>Petroleum products<br>Petrochemical products<br>Coal<br><br>The Group further conducts following:<br>Oil pollution control<br>Mineral regulation and licensing<br>Rental of crude oil storage tanks<br>Transmission of gas | Petroleum product sales: 1.4 billion litres<br><br>Crude oil sales: 1.4 million barrels<br><br>Coal sales of: 2.08 million tons |



## Social and Relationship Capital

CEF defines social and relationship capital as the institutions and relationships established within and between each community, group of stakeholders and other networks (and an ability to share information) to enhance individual and collective wellbeing. Social and relationship capital includes:

- Shared norms, and common values and behaviours across the value chain
- Key relationships, and the trust and willingness to engage that an organisation has developed and strives to build and protect with customers, suppliers, business partners and other external stakeholders
- The Group's social licence to operate.

To create an enabling environment for investment, CEF is committed to integrating the needs of its stakeholders into its business processes. Social and relationship capital is underpinned by our stakeholder management philosophy, which, over the past year, has had to be fortified to deal with a number of Group reputational challenges and misalignment with key stakeholders.

| Inputs                                                                                                                                                                                                                                                                                                                                                       | Core Activities                                                                                                                           | Outputs                                                                                                                                                                                                                                                                                              | Outcomes                                                                        |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| Developing and maintaining trusted relationships with CEF Group stakeholders.<br>Sustained investor and shareholder confidence<br>Strong engagement with employees and recognised unions<br>Effective and timely communication with internal stakeholders, customers, suppliers and industry sector<br>Positive relationships with government and regulators | Exploration<br>GTL<br>Distribution of fuel<br>Coal extraction<br>Construction of gas infrastructure<br>Storage of crude oil<br>Regulation | The Group is in the business of production and trade of the following:<br>Petroleum products<br>Petrochemical products<br>Coal<br><br>The Group further conducts following:<br>Oil pollution control<br>Mineral regulation and licensing<br>Rental of crude oil storage tanks<br>Transmission of gas | Tax paid: R129 million<br><br>CSI: R34.5 million<br><br>BEE spend: R5.2 billion |





# Section 4



The CEF Group Balanced Scorecard is at the heart of our strategic planning and management systems. It exists to align the organisation behind a shared vision of strategic and operational success, and get our employees working on the critical things and focusing on results.







# GROUP PERFORMANCE



# BUSINESS PERFORMANCE INPUT

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## Overall business performance

The CEF Group Balanced Scorecard is at the heart of our strategic planning and management systems. It exists to align the organisation behind a shared vision of strategic and operational success, and get our employees working on the critical things and focusing on results. Senior executives understand that the organisation's measurement system strongly affects the behaviour of managers and employees. Our scorecard is therefore more than a way of keeping score it is a system, consisting of people, strategy, processes, and technology in helping us deliver on our mandate.

During the previous planning cycle the CEF Group recognised the need to align its Key Performance Areas (KPA's) as a means of focusing the various entities on the critical strategic and operational elements that were required delivering on our core mandate. Over and above the mandate priority it was also important that we find ways to improve our strategic relevance, focus on growth and sustainability but ultimately make sure that key stakeholder like employees, financiers, strategic partners become central in our value creation endeavours. The KPA's also take cognizance of the financial position of our biggest subsidiary PetroSA and he need to focus on the commercial aspects of the business as our license to operate. It is thus that the weighting of the various aspects of our KPA's are deliberately done to drive the desired focus from management and the organisation as a whole.

### Commercial Viability (50%)

The viability of the CEF Group is measured by its long-term survival and its ability to sustain profits over a period of time. As an entity we must remain commercially viable and continue to create value for shareholder and the organisation at large. As a schedule 2 entity we are expected to generate our own revenue and remain viable without and funding from the state. The Group future growth is depended on long term viability of the business. The 50% weighting and the corresponding initiatives that support financial sustainability was designed to bring about the desired commercial approach to all our business operations and commercial projects. For the period under review this target was partially achieved as a result of a difficult operating environment and productions from volumes from two of our subsidiaries.

### Energy Poverty Alleviation (15%)

As the implementing arm of the DMRE, we have huge responsibility to play as part of our mandate in ensuring that we find solutions for energy poverty alleviation hence the high weighting of 15%. As a Group we had set ourselves a number of key strategic projects and driving the transformation agenda as part of achieving on the KPA.

For the year under review great progress was made in initiating the strategic projects but much more must still be done to drive an integrated Group transformation agenda.

### Governance 10%

Good governance is not just about compliance with formal rules and regulations. It is about establishing internal processes and attitudes that add value, enhance the reputation of your business, make your business more attractive to external investors and lenders and ensure its long term success. With challenges that the Group has had over the years relating to lapses in governance and controls focus was made on creating an environment for effective decision making by having leadership structures that were capacitated and effective for making the Group much more agile and improving transparency. The Group combined assurance component began to take shape driving a number of initiatives for dealing with issues of controls. Much more work still needs to be done but the plan afoot are beginning to yield the right results.

### Operational Excellence 10%

In the previous years, the litany of operational challenges has had a direct impact on our bottom line with some of our operations operating at sub optimum levels driven internal and external factors and our inability ability to quickly adapt to changing market conditions. Our quest for Operational Excellence is about the execution of the business strategy more consistently and reliably than our peers, with lower operational risk, lower operating costs, and increased revenues. The operational challenges at PetroSA (Depleting feedstock and plant efficiency) and at AEMFC with coal volumes and quality have had an impact on our KPA.

### Human Capital 5%

Organisations that focus on performance are more successful and deliver better financial results. Our human capital is the cornerstone of all our business activities and such a number of initiatives were started for the year under review for creating a high performance organisation. These are the key blocks of our Human Capital Strategy and development of an employee value propositions

### Stakeholder Management 5%

Over the past couple of years, the CEF Group has had a number of incidents that have eroded the Group's reputational value. These revolved around financial losses at our subsidiaries, poor business performance, governance issues and perceived corruption. It is thus to better engage with our stakeholders in a proactive manner we embarked on reputational survey as part of our broader Stakeholder Engagement strategy. The survey results have provided us with a framework for future initiatives on managing and working with our stakeholders much better.



| Key Performance Area                                | Key Performance Indicator               | Status             |
|-----------------------------------------------------|-----------------------------------------|--------------------|
| Commercial Viability (50%)                          | Financial sustainability                | Partially Achieved |
| Energy Poverty alleviation and transformation (15%) | Strategic Projects                      | Achieved           |
|                                                     | Transformation                          | Partially Achieved |
| Governance (10%)                                    | Efficient and effective decision making | Achieved           |
|                                                     | Combined assurance                      | Achieved           |
| Operational Excellence (15%)                        | Plant availability                      | Partially Achieved |
|                                                     | Volume                                  | Partially Achieved |
|                                                     | SHEQ Index                              | Achieved           |
| Human Capital (5%)                                  | High performance culture                | Achieved           |
| Stakeholder Management (5%)                         | Reputation                              | Achieved           |

#### 4. Material Projects under consideration / in progress

| Project Name                                            | Description of the Project                                                                                                                                                                                                  | Economic Benefit                                                                                       |
|---------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|
| <b>ACWA REDSTONE renewable project</b>                  | A100 MW project with 12 hours of full-load energy storage will be able to reliably deliver a stable electricity supply to more than 200,000 South African homes during peak demand periods, even well after the sun has set | Economic transformation and job creation                                                               |
| <b>Nile Orange Energy Project in South Sudan</b>        | Construction of 60 000 barrels per day Crude Oil Refinery                                                                                                                                                                   | A better Africa and world and Security of Energy Supply                                                |
| <b>Mining</b>                                           | Bid to acquire a Coal Mine and its associated assets                                                                                                                                                                        | Job Creation and Security of Energy Supply and a better Africa and world and Security of Energy Supply |
| <b>New Build Refinery Programme in Richards Bay, SA</b> | Construction of 300 000 barrels per day Crude Oil Refinery                                                                                                                                                                  | Economic transformation and job creation                                                               |
| <b>LNG Infrastructure Developments</b>                  | Development of key LNG infrastructure to drive the country's gas economy                                                                                                                                                    | Economic transformation and job creation                                                               |



## ENGAGING WITH OUR STAKEHOLDERS

The CEF Board of Directors has prioritised protecting the company's reputation through the management of relationships with its stakeholders. The CEF Board directed management to conduct a stakeholder customer survey to baseline the level of engagement and get feedback from stakeholders on brand, communication and reputational matters. The survey further did a gap analysis and helped management to identify areas where they were big gaps between stakeholder expectations versus our service offering. The survey also highlighted the need for a stakeholder grievance line where all the unmet expectations can be discussed and the remedy to be effected. In pursuit of the vision of becoming a significant player within the energy sector, the CEF Group remains committed to sustainable development and aims to align its corporate objectives to its performance as a corporate citizen. Therefore, our grievance line would cover broader industry issues including equalisation fund matters and generic industry matters.



Several stakeholder engagements were held with; DMRE, other SOEs, Parliament, independent power producers (IPPs), the National Energy Regulator of South Africa (NERSA) to obtain their buy-in and approvals on a number of projects. We also supported the Shareholder, the Department of Mineral Resources and Energy on many fronts.

In our effort to pursue growth and diversify our income stream the CEF Group has adopted a strategy of working very closely with key State Owned Entities to be the preferred partner and supplier of their energy needs through the provision of energy products and the associated infrastructure. The CEF Group also engaged various other international partners including Saudi Aramco for strategic project partnership.





CEF Group aims to advance the quality of life of historically disadvantaged communities central to the Group's CSI philosophy through initiatives aimed at providing a better life for historically disadvantaged South Africans. During 2018/19, the CEF Group spent R 34.5 million in support of the development initiatives, which cover community development, education, environment, health and sustainable development.

Consideration was given to the extent to which projects will yield value to the CEF Group in terms of:

- Broad-based impact in previously disadvantaged communities
- Positive enhancement of the Groups' Image and long-term reputation-building goals
- Increased awareness for CEF and its subsidiaries
- Improved community relations, specifically in geographical locations where the Group operates
- Positive contribution to the CEF Group's BBBEE scorecard
- Alignment to the CEF Group corporate values.

Employees were at the centre of stakeholder satisfaction and a number of policies aimed at enhancing employee value proposition were reviewed using employee feedback. The policies covers areas such as training and development, recruitment and selection, long service award, performance management, disciplinary and leave.

Employee equity forum was utilised as a platform for engaging employees. Sponsorship of employee activities extended to birthday celebrations and the sponsorship of employees who participated in the Comrade Marathon.

A number of employee engagements and town halls took place in each quarter to ensure employees were kept in the know on all CEF Group performance and challenges. Awards were also extended to employees who participated in the Wits Leadership Development programme.

## ENGAGING WITH OUR STAKEHOLDERS (continued)

| STAKEHOLDER                                                                                                                                       | WHY THEY MATTER                                                                                                                                                                                                                     | HOW WE ENGAGE                                                                                                                                     | STAKEHOLDERS' EXPECTATIONS FROM CEF                                                                                                                                                                                                                                                                      |
|---------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  Employees                                                       | Employees are the primary interface between us and our key stakeholders and they are critical to meeting our goals and fulfilling our purpose                                                                                       | Human resource business partners through employee opinion surveys, Intranet, newsletter, email communiques, workshops and performance discussions | A safe, stimulating and rewarding work environment supported by fair remuneration and benefits as well as opportunities for career and personal development                                                                                                                                              |
|  Department of Energy                                            | The DMRE is CEF's only shareholder. The department provides directives to CEF Group business                                                                                                                                        | Regular meetings, e-mail communicate, teleconferences and partnerships for key programmes                                                         | Return on investment through strategic growth                                                                                                                                                                                                                                                            |
|  CEF Group subsidiaries, partners and associates                 | The CEF subsidiaries, associates and joint ventures lead to delivery and growth of the CEF Group                                                                                                                                    | Performance and governance meetings performance audit reports                                                                                     | Mutually beneficial business opportunities in a responsive and relevant manner                                                                                                                                                                                                                           |
|  Suppliers                                                      | Our suppliers provide valued expertise, support, products and services that strengthen CEF business                                                                                                                                 | Supplier performance contracts, project meetings, briefing sessions, site visits, surveys and feasibility studies as well as performance reports  | Opportunities to fairly present their credentials and be given an opportunity to compete for business in a fair and open way. Reasonable contract terms and on-time payment                                                                                                                              |
|  Media                                                         | Central vehicle for most of the company's messages to the public                                                                                                                                                                    | Media releases, physical meetings, telephonic or electronic communicate, media briefings, corporate events and project launches                   | Provide responsible and transparent information on business, societal and environmental issues as well as respond to media queries timeously                                                                                                                                                             |
|  Communities, civil society and non-governmental organisations | The success of our business depends on the wellbeing of the societies in which we operate. Charities and non-governmental organisations enable the Group to amplify our impact in addressing a number of socio-economic challenges. | Community investments through outreach programmes, corporate social investment initiatives, learnerships and bursary programmes                   | Job creation, meaningful contribution to education and skills development, support and funding of worthy causes, solutions for affordable energy and full compliance with environmental regulations                                                                                                      |
|  Government, regulatory bodies and industry bodies             | Regulations and government provide the legal and regulatory frameworks that guide the way we do business. Industry bodies are an important channel through which we engage with regulators and government                           | Management meetings, presentations, conferences, participation in government-initiated platforms, bilateral engagements                           | Job creation, alleviation of poverty, contribute to the eradication of inequality, transparent and responsible behaviour, compliance with relevant legislation such as BBBEE, codes and environmental regulations, demonstrate commitment to transformation and innovative solutions for energy security |
|  Investors and analysts                                        | Investors are critical in ensuring we reach our mandate of ensuring energy security in the country                                                                                                                                  | Investor meetings, presentations, telephone and e-mail communicate, briefing sessions as well as financial reports                                | Return on investment and Information share                                                                                                                                                                                                                                                               |





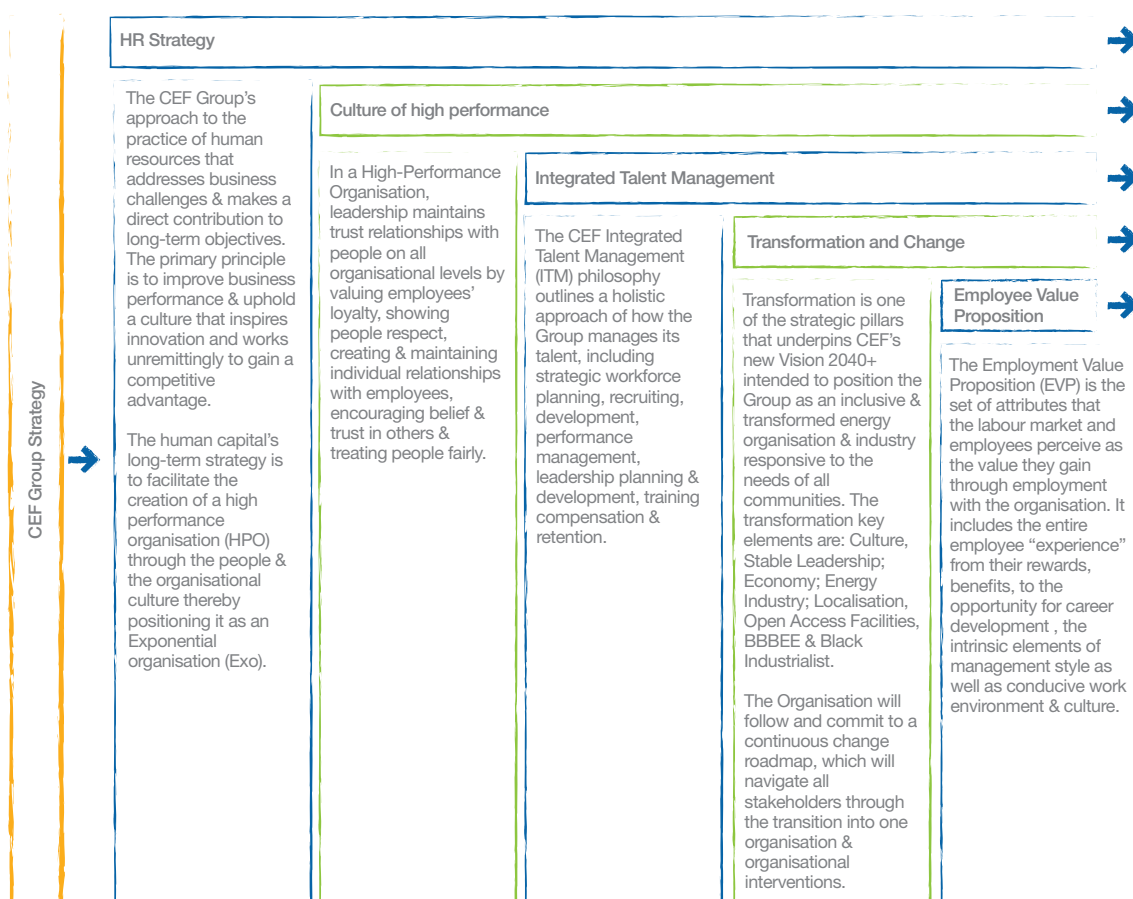
# HUMAN CAPITAL

Human Capital is a critical enabler in the delivery of the CEF Group Strategy and is an integral part of driving the organisation forward. CEF Group Human Capital's long-term strategy is to facilitate the creation of a high performance organisation (HPO) and to position it as an Exponential organisation that will thrive through the Fourth Industrial Revolution (4IR). This will be achieved through the people who are our most valued asset and the organisational culture. The Group HC Strategy is premised on the understanding that intellectual capital i.e. the talent, skills and expertise our talent, serve as an engine behind the value creation for the organisation and will enable us to realise our emerging group strategy.

At the CEF Group, organisational effectiveness and conducive culture are underpinned by leadership capability and by creating an enabling environment for employees to contribute to organisational goals, while being fairly remunerated for their contribution and initiative. Human capital mandate of HR is to:

- Provide strategic support to the CEF Group of companies by ensuring that there is a supply of the requisite skills and talent for long-term sustainability;
- Facilitate a culture of high performance across the Group that delivers the Employee Value Proposition which will ultimately translate to "Employer of Choice";
- Create an agile environment, which enables consistent and streamlined HR policies, systems, processes and procedures and contributes to the development of "One CEF";
- Entrench a calibre leadership and management that has the skills, capability, attitudes and behaviours that inspires all employees and stakeholders to achieve high performance; and
- Enable the business to achieve the objectives of the emerging group strategy.

**Diagram 1: CEF Group Human Capital Strategy and pillars**



Enablers: Integrated information Management Platform Policies & Processes Shared Services Operating Model, Organisational Culture & Values



Table 1 below outlines the respective initiatives aligned to the 2018/19 HC objectives, while leading the journey towards High Performance Culture.

**Table 1: Progress against 2018/19 Group HC Objectives**

#### 2018/19 HC Objectives

##### Streamline and Optimise the Group Operating Model

##### Change Management Road Map has been developed and approved for implementation:

- A Group Change Management working committee, including representatives from various entities, has held several meetings, however, due to the change mainly being hooked to the implementation of the NOM, little progress was made by this structure.
- Change Management Roadmap will be refined to reflect the different strategy rollout phases and ensure that of the emerging group strategy is adequately supported. The Change Framework will be adopted to support various initiatives including the Values rollout campaign.

##### Group HR Strategy

- The Group Human Capital (HC) Strategy has been developed, socialised with the respective subsidiaries HR representatives and submitted to GM Corporate Services for approval.
- The HC strategy will therefore focus on the below areas to ensure a sustainable culture of High Performance, namely:
  - High Performance Organisation with a stable and capable leadership, the right organisational culture and skilled project execution capability
  - Appropriate business and operating models, as well as an efficient governance structure
  - Modern and efficient business support systems
  - Strong strategic partnerships to leverage skills, funding and know-how e.g. SANEDI, CSIR, MOUs and bi-national agreements

##### Integrated Talent Management

##### Approved Leadership Competency Framework:

- The Leadership baseline programmes, which commenced in November 2017, have been completed. This culminated in a graduation ceremony, which marked the beginning of a journey of implementing what has been learned. The programmes' Action Learning projects will now be implemented and all skills and competencies will be used to chart the journey of Executive Leadership Development going forward.
- The Leadership Development Programme was piloted within CEF SOC during 2018/19 FY, where 35 delegates, comprising 10 senior managers for SLDP and 25 managers for MLDP attended the programme delivered by Wits University. This 12-month programme was successfully completed, with 21 delegates graduating.
- The Core CEF Group Values rollout plan has been approved. This will unpack the organisational values with the articulation of desired behaviours.

##### Establishment of Talent Committee:

- As part of ensuring that talent development is prioritized, the organisation has kicked-off on activities around Talent Management by piloting the TMC (Talent Management Committee) at CEF SOC. The long-term plan is to have two levels of Group TMC i.e. Executive Management and at Managerial level.
- Talent Management Committees are responsible for ensuring that there is an integrated, objective and a systematic approach to the following talent management processes:
  - Performance Management
  - Training and Development
  - Talent identification as well as
  - Succession Planning
- Talent Management Committees enable the organisation to integrate all talent aspects. This includes succession planning where the high fliers/ excellent performers and high potentials (Hi-Pos) will be groomed to transition into more critical, scarce and senior roles, swapping talent across the Group. This will contribute to high retention of talent.



## HUMAN CAPITAL (continued)

### 2018/19 HC Objectives

#### Training and Development:

- The Group HR Strategic pillar of Develop, Upskill and Reskills outlines the importance of training and development, as an integral aspect of HR, by ensuring that skills and expertise are geared towards addressing the achievement of organisational objectives.
- In its drive to develop effective leadership and empowered employees, the Group maintained its focus to invest in skills and competencies required to drive business objectives, which will take performance to the next level of excellence.
- Continuous Upskilling and reskilling of the employees is key to achieve the organisational strategy and position the Group to compete with other energy companies as well as transition into 4IR.
- PASA concluded a skills audit and developed training needs based on the audit results, these were incorporated into Work Place Skills Plan for 2018/9.

#### Performance Management:

- Performance Management (PM) process remains a critical tool in managing organisational effectiveness and ensuring that organisational objectives are achieved through people. This requires conscious effort, not only focusing on compliance to the PM process, but also on quality and assurance to check if the individual performance contracts are aligned to the divisional, subsidiary and Group Corporate objectives.
  - Skills-audit project was piloted at the Holding Company to assess the skills that exists within the business and this project will be finalised across the group to ensure understanding of the organisational skills profile.

#### Group Employee Value Proposition

- The proposed CEF Group EVP will include the entire employee “experience” from rewards, benefits, to the opportunity for career development, the intrinsic elements of management style as well as conducive work environment and culture.
- It must be noted that HR has been implementing different initiatives linked to the different EVP Levers e.g. policy harmonisation, training and development, employee wellness programme etc.
- The below model depicts CEF Group’ approach to EVP and the applicable levers.



- Below are some of the initiatives linked to the Work Environment EVP Pillar:

#### Group Policy Harmonisation:

- Policy Harmonisation project is ongoing, with the Holding Company developing policy frameworks, which will guide subsidiaries to customise fit for purpose to their respective environments. This approach will still drive the harmonisation, without dictating to the subsidiaries.
  - CEF SOC successfully launched the 6 HR policies through a “Know your policies campaign”.
  - 7 more HR policies have been developed and are being progressed through various governing structures for approval:
    - Acting Policy Framework – recommended by HR Committee for Board approval
    - Employment Equity Policy Framework
    - Grievance Policy Framework to be submitted to Exco
    - Sexual Harassment Policy Framework and Procedure
    - HIV/Aids Policy Framework
    - Incapacity Policy Framework



## 2018/19 HC Objectives

### Employee Wellness:

- CEF Group is committed to provide an atmosphere where employees' holistic well-being is provided and supported to ensure that they excel at work. Through our employee wellness programmes, we support a high performance culture by optimising the wellness of employees, using a multidimensional approach, including information sharing, education and empowerment of employees for employees to take responsibility for their own wellness.
- The objective of the EWP programme is to provide an infrastructure for wellness-related benefits that support the CEF Group employee value proposition
- Careways Wellness was appointed as EWP service provider during the 2018/19 FY to deliver a comprehensive range of wellness and health-related services for executives, managers and employees. These include psychosocial services, trauma, incapacity, HIV/AIDS and disease management, health and safety services, absenteeism, fatigue and lifestyle management.

### Workforce Diversity:

- The Group's performance against the Diversity targets has been disappointing during the period under report. Although the achievement of the employment equity and skills development target remain critical B-BBEE HR pillars, the overall progress when considering quarter to quarter performance raises serious concerns about the ability of this organisation to achieve the long term overall targets.
- The demographic gender representation in the Group has remained the same between 2017/18 and 2018/19 at 71% Male vs 29% Female.



## HUMAN CAPITAL (continued)

### Group Employee Profile

The CEF Group employee headcount increased between 31 March 2018, which was 1 911, when compared to March 2019, which is standing at 2 107. This includes permanent and fixed-term employees. This was mainly caused by PetroSA driving cost savings and the executive management decision to place on hold the recruitment of support functions vacancies, pending the completion of the business operating model review.

**Table 2: Headcount movement**

| 2018/19 FY Employee Numbers             | Permanent vs Fixed/Short Term Employees | PLWD Representation                                                                                      | Number of Youth                         | % of Female Employees                                                                            |
|-----------------------------------------|-----------------------------------------|----------------------------------------------------------------------------------------------------------|-----------------------------------------|--------------------------------------------------------------------------------------------------|
| 2107<br>Increased by 9% from 2017/18 FY | 1823 permanent<br>284 Fixed/ Short Term | 1% of employee population consist of people living with disabilities. This is less than EAP target of 2% | 337 which is 16% of employee population | 29% overall Female representation with 26% of the Female population at Top and Senior Management |

The high attrition was reported due to the termination of short-term and fixed term contractors appointed to support various phases of the shutdown project during the period under reporting.

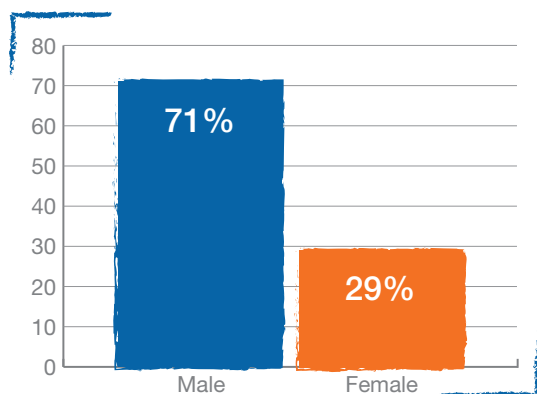
### Diversity Progress in the Group

The drive for societal and industry transformation is not only an attempt to redress historical imbalances, but is in recognition of the fact that promoting transformation in the workplace will ultimately improve organisational performance. Furthermore, CEF Group, as a state owned entity, is legally obliged to conform to the Employment Equity and Skills Development Acts, which form a key element of transformation.

To date, there has not been any recognisable improvement towards the National EAP (Economically Active Population) targets or the organisational target of attaining 50% women, 30% youth and 2% PLWD (People Living with Disabilities). The CEF Board had during 2018/19 FY raised a concern to the executive about their lack of commitment in increasing women representation in top and senior management and requested that appointment of women into all the vacant leadership positions must be prioritised.

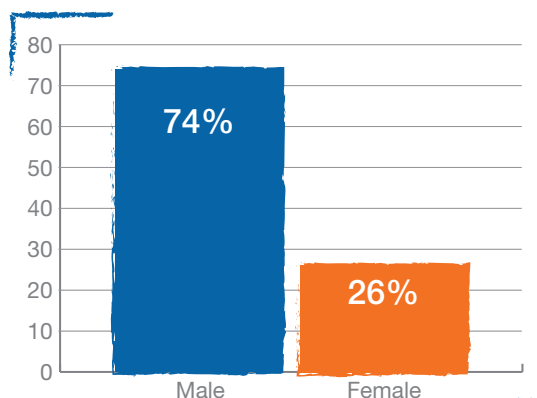
Although the Group employee numbers increased from 1 911 at the beginning of the FY to 2 107 at the FYE, there was no changes on the overall gender demographics, which remained at 71%:29% Male vs Female, as illustrated in Diagram 1 below, when compared to Q3 2018/19 profile. The Group's overall female profile remained unchanged between Q1 and Q4 2018/19 at 29%, which is still below the long-term target of 50%. The female representation at top and senior management continued to decrease YTD from 31% at the end of Q1, 28% at end Q2 to 26% at end Q3.

**CEF Group Gender Profile**



**Diagram 2: Gender Demographics 2018/19 YTD**

**Group Top and Senior Management Gender Profile**



**Diagram 3: Top and Senior Management profile at 2018/19 YTD**





Table 3 below illustrates that there are gaps between National EAP vs CEF Group profile and also each entity profile vs respective provincial EAP.

**Table 3: CEF Group Demographic profile vs. National EAP YTD Figures**

| Race         | EAP Target | CEF Group<br>31/03/2018 | CEF Group<br>30/06/2018 | CEF Group<br>30/09/2018 | CEF Group<br>31/12/2018 | CEF Group<br>31/03/2019 |
|--------------|------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| African      | 77%        | 54%                     | 48%                     | 54%                     | 56%                     | 57%                     |
| White        | 10%        | 16%                     | 16%                     | 16%                     | 14%                     | 13%                     |
| Coloured     | 10%        | 28%                     | 33%                     | 28%                     | 28%                     | 28%                     |
| Indian/Asian | 3%         | 2%                      | 2%                      | 2%                      | 2%                      | 2%                      |

## Talent Attraction

The Group maintained the 2017/18 recruitment moratorium that saw the delay in filling roles, mostly within support functions due to the ongoing Business Model Review and Shared Services projects. The above and the change in strategic direction of the Group has further delayed the filling of most leadership vacancies at the Group. It is anticipated that the moratorium will be uplifted once the emerging group strategy and the NOM have been approved and implemented.

### Talent sharing/Secondment

The objective of the CEF Group HR Strategy's Deployment and Retention pillar is to ensure a steady and sustainable supply of talent and skills required across the group. Whilst this is achieved through mainly sourcing of such required talent, it is crucial to create meaningful engagement for existing talent such that the flight risk is avoided. Many organisations employ good talent; however, the retention of such talent depends on how well that talent is utilised.

Talent Sharing/Secondments is one of the initiatives of the Skills Deployment element. It is intended to benefit both organisations and employees through retention of key talent, taking advantage of existing skills and capabilities, exposing its talent to new challenges and enabling them to create networks and communities of practice.

Respective entities continued to participate in the talent sharing process through secondment, whereby an employee from different division/ subsidiary is temporarily moved to a different role within the Group. To date the focus has mostly been on strategic skills; however, this has also been expanded to include lower level roles.

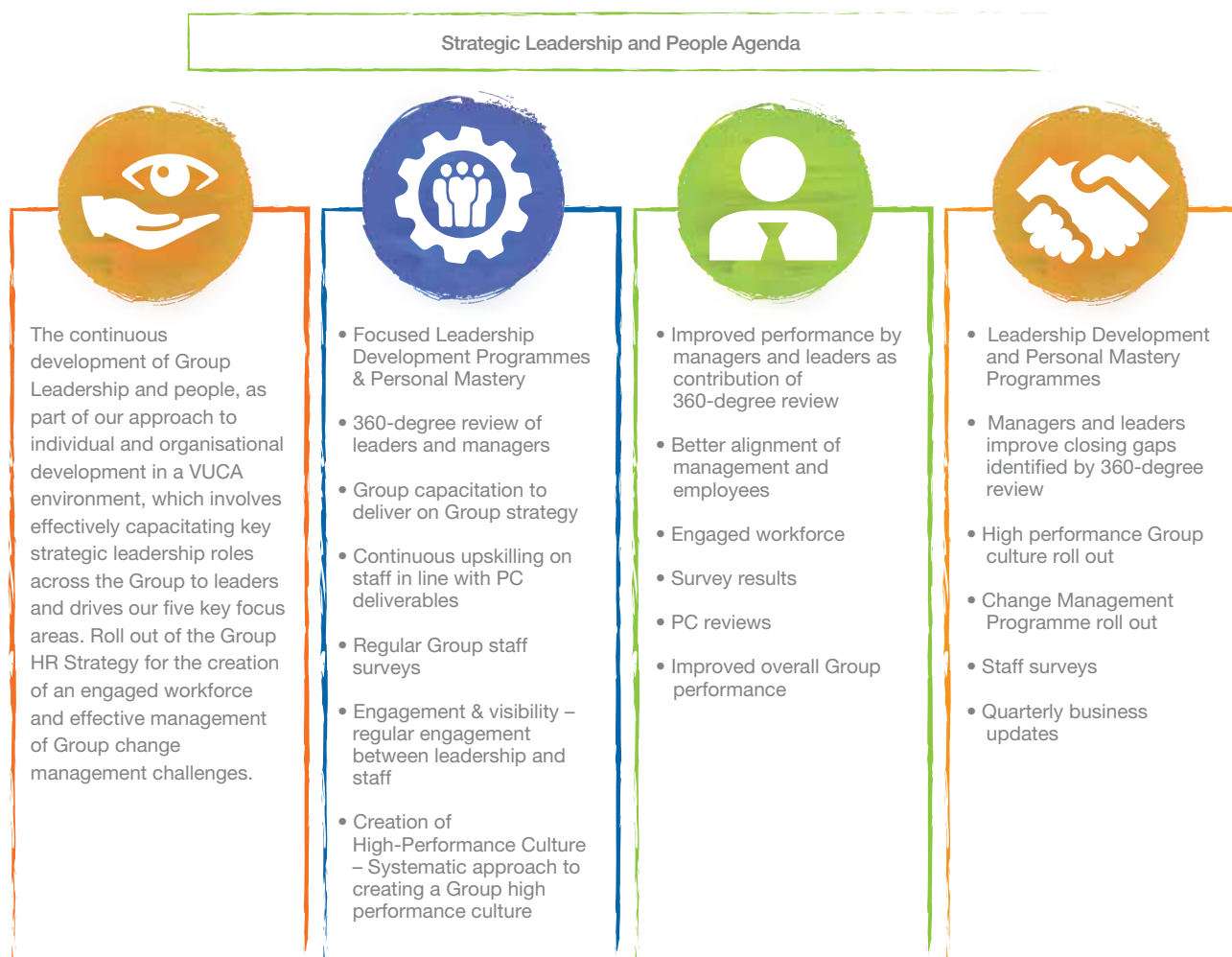
Secondment is managed through a signed agreement between the primary and host employers and this outlines the term of the secondment, cost recovery process and benefits that it will give to the seconded employee.

## Skills Development, Training and Youth Development

One of the key focus areas for the CEF Group is the Strategic Leadership and People Agenda to be executed over the next 5-year horizon. A critical group initiative responding directly to this key focus area is the strategic leadership and people talent development and retention initiative to support business growth and operations in a volatile, uncertain, complex and ambiguous operating environment with a demand to position the company to evolve and adapt to 4IR.

## HUMAN CAPITAL (continued)

**Diagram 4: An exposition of the key focus area to which Corporate Services Unit contributes in the attainment of group strategic objectives**



Source: CEF SOC, The Holding Company for the Group, Corporate Plan 2018/19

### Building a learning organisation – Shaping our Leaders and Managers

The journey towards the creation of a High Performance Organisation, commenced with building a common foundation of Leadership in order to develop a leadership pipeline required to drive the business of today and tomorrow. In the world of interconnectedness due to Artificial Intelligence and Digitalisation, CEF remains resolute in investing in staff development, accelerated learning of its leaders and managers to ensure its readiness to compete and succeed in the rapidly evolving business landscape. To succeed in a VUCA world, leaders must expend that energy in areas that have the highest payoff for their organisations — continuously developing and sustaining themselves, organisational vision and strategy, building high-performing teams, setting the internal and external conditions for success, preparing for the future. Doing so will allow them to aggressively pursue their goals through the volatility, uncertainty, complexity, and ambiguity of today's global business environment.

The CEF Group Leadership Competency Model' which defines the key competencies geared to achieve the emerging group strategy objectives will be finalised in the new financial year. All development and succession planning initiatives will be aimed at shaping the fit for purpose Leaders informed by the competencies outlined in the Group Leadership Competency model.



In an effort to create an agile environment, which enables consistent and streamlined Human Capital policies, systems, processes and procured and contribute to the development of “One CEF”, we (CEF) established a Talent Management Committee (TMC) during the 2018/19 as part of ensuring that talent development is prioritised. The long term plan is to have with the CEF Group two levels of Group TMC i.e. Executive Management and at Managerial level. These TMC governance structures will exist to ensure that there is integrated, objective and a systematic approach to the following talent management processes:



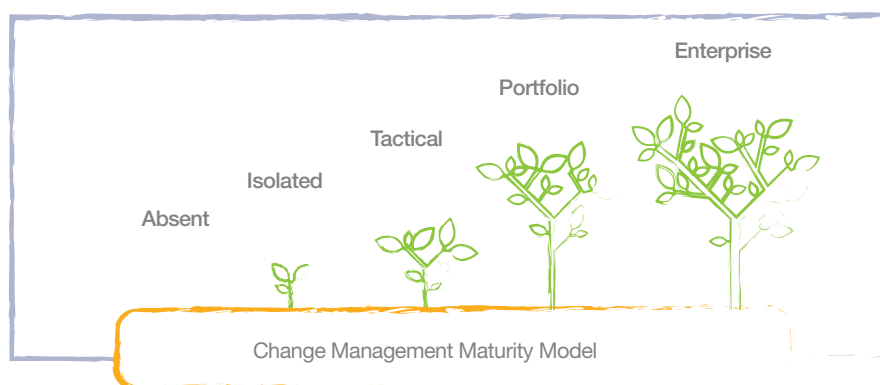
The success of this intervention towards creating a high performance organisation and “One CEF” will be to integrate all talent aspects including succession planning where highly competent employees “high fliers” and employees demonstrating potential (Hi-Po’s) will be groomed to transition into more critical, scarce and senior roles, swapping talent across the Group contributing to high retention of talent.



## HUMAN CAPITAL (continued)

The CEF Group of Companies is undertaking a journey to create a High Performance and Exponential Organisation guided by new growth trajectory dubbed “Vision 2040 +”. The CEF Group Change Management Road Map has been successfully reviewed and “placed in par” with best international and best practices and subsequently approved in 2018/19 for implementation.

- A Group Change Management working committee was established including representatives from CEF Subsidiaries. A number of meetings were held to embed the committee and its functionaries in the CEF Group governance environment. The Change Management and transformation strategy will be continuously improved with a view of ensuring the organisation transitions to a point of having an integrated enterprise-wide view of change as illustrated in the change management maturity model.



During the year under reporting 2018/19, we conducted a skills-audit project piloted at the Holding Company to assess the skills that exists within the business. This is to ensure that CEF Group maps and understand the organisational skills profile and that existing talent is positioned and geared towards attainment of performance objectives and targets. Where necessary, we aim to repurpose and reposition our talent to meet latest best talent practices and requirements in the Energy Sector.

A performance management systems acquisition process was approved by the Board during 2018/19 FY. System implementation kicked in CEF SOC in partnership with IT. This enabler will ensure efficiency and quicker decision making, as it will be built to integrate organisational performance and planning.

### Building a learning organisation – Investing in our Talent Pipeline to meet future talent needs

Out of the R19 271 845.04 the Group invested in training programmes, R4 294 253.68 million benefited 90 students within the Group through funding education programmes, which includes bursaries programmes. R5 232 270,43 spent on the various Talent Pipeline programmes including internships, Graduates in Training (GITs) programme, apprenticeship and employees younger than 36 years benefiting through Internal Study Assistance programme. This translates into 62% of the total Skills Development budget allocation spent on youth development programmes, with a significant expenditure portion spent at the PetroSA Centre of Excellence.





### Building a learning organisation – Develop, Upskills and Reskill

CEF Group skills development is focused on young people, who are key towards building a smart economy, by addressing economic development needs and developing a better future for the country. Skills shortages are a serious threat to economic growth and service delivery. A basket of services from bursaries, learnerships, Graduates in Training, skills development and placement programmes are developed to create an enabling environment for more labour absorbing economic opportunities. These interventions target young people between the ages 14 to 35 years to ensure that they gain valuable and relevant, school-to-work interventions that will improve their skills and employability reducing unemployment in the country. CEF Group sets out the following strategic priorities to continue to develop youth and build a talent pipeline within the group:

- Skills development initiatives that provide working and/or income generation for young people
- Develop interventions and coordinate existing programmes that create employment opportunities for young people in South Africa
- Develop targeted skills development programmes that address the required skills to grow the South African economy
- Promoting quality education and skills development
- Sustainable employment creation

CEF Group maintained its commitment to training and developing employees at all levels by investing R19.27 million on training programmes YTD 2018/19, as reflected in Table 4 below. Skills development and training benefited 1 192 employees, of which 425 were youth within the Group, including Talent pipeline (interns, apprenticeships, GiT), bursary holders, In-service training participants and employees below the age of 36 yrs. The Talent pipeline development related funding includes bursars, travel, salaries/ stipend etc. Employee training included CEF Management /Senior Leadership programme, which was successfully completed, with a graduation ceremony held in March 2019 to award delegates with certification.

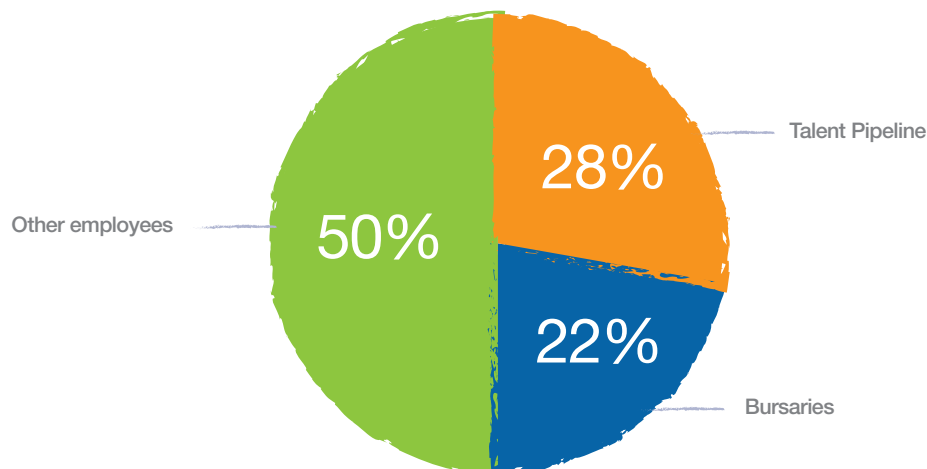


Diagram 4: CEF Group Skills Development for 2018/19 FY



## HUMAN CAPITAL (continued)

**Table 4: Skills Development Cost Dashboard 2018/19 FY**

| Category                      | Costs              | Costs Breakdown                                     |
|-------------------------------|--------------------|-----------------------------------------------------|
| Employee Training             | R6 581 312         | Employee related Training and Development costs     |
| Travel and Accommodation      | R1 296 278         | Training related travel and accommodation           |
| Study Assistance              | R1 867 730         | Employee study assistance                           |
| Bursaries                     | R4 294 254         | Bursary amount                                      |
| Graduate-in-Training          | R2 675 149         | GITs salary                                         |
| Internship                    | R438 242           | In-service student's salary                         |
| Apprenticeship                | R2 118 879         | Stipend paid                                        |
| Professional Association Fees | R930 374           | Employee's Professional Association Membership Fees |
| <b>Total Amount Paid</b>      | <b>R19 271 845</b> |                                                     |

### Employee Relations Climate

- A Group-wide Corporate Survey was launched on the 7th November 2018 as part of Reputation Management. The survey results focused on all key reputational drivers of the CEF Group. Overall, the findings pointed out that as a Group, interventions are required to improve the reputation both internally and externally. Plans are afoot to implement the recommendation of the survey.
- The Group Employee Relations climate remained fairly stable during the period under reporting and Employee Relations Forum (ERF) engagements are being conducted.
- The Short-Term Incentive Policy dispute between CEPWAWU and others v PetroSA has been set down for arbitration on 25 April 2019.
- At PetroSA, the Employee Relations Forum held Policy Review Workshops and the following policies were reviewed:
  - Terms and Conditions of Service Policy – changes into the policy were agreed to for implementations,
  - Remuneration Policy – changes agreed to and the policy will be on SAP Routing for final review, and
  - The legislated Parental, Adoption and Commissioning Parental Leave – the 10 days' provision to be implemented retrospectively from 01 January 2019.
- At AEMFC, one dispute raised by AMCU involving recognition of a minority union was referred to the CCMA and concluded by conducting a verification exercise of all union members in the Company.
- CEF SOC Ltd handled six employee relations' matters (Disciplinary, Grievances, CCMA and Labour Court referrals) which have all been finalised, except for the one Labour Court matter that was referred in March 2019.
- During the period under reporting, SFF and PetroSA saw a high number of dispute cases referred to the Bargaining Council. PetroSA management indicated that they were concerned that these cases arose from grievances not resolved to the satisfaction of employees. Majority of these cases are remuneration related.
- There are four pending Labour Court cases within the Group. Overall, the ER related caseload remains at a disproportionately high level and majority of the cases (36), as reflected in Table 5 below, are from PetroSA.

**Table 5: CEF Group Employee Relations Matters  
(Disciplinary, Grievances and CCMA/ Labour Court/ Bargaining Councils referrals).**

| ER Case Type            | Number    |
|-------------------------|-----------|
| Disciplinary            | 20        |
| Grievance               | 17        |
| CCMA/Bargaining Council | 24        |
| Labour Court referrals  | 4         |
| <b>Total</b>            | <b>60</b> |





Although the climate within the CEF Group is reported as fairly stable, matters that have been referred to either CCMA, Bargaining Council or Labour Court contribute to the tension between management and labour. The certificate of non-resolution of a dispute, that entitles employees at PetroSA to strike, further puts the organisation in difficulties, as a work stoppage cannot be afforded.

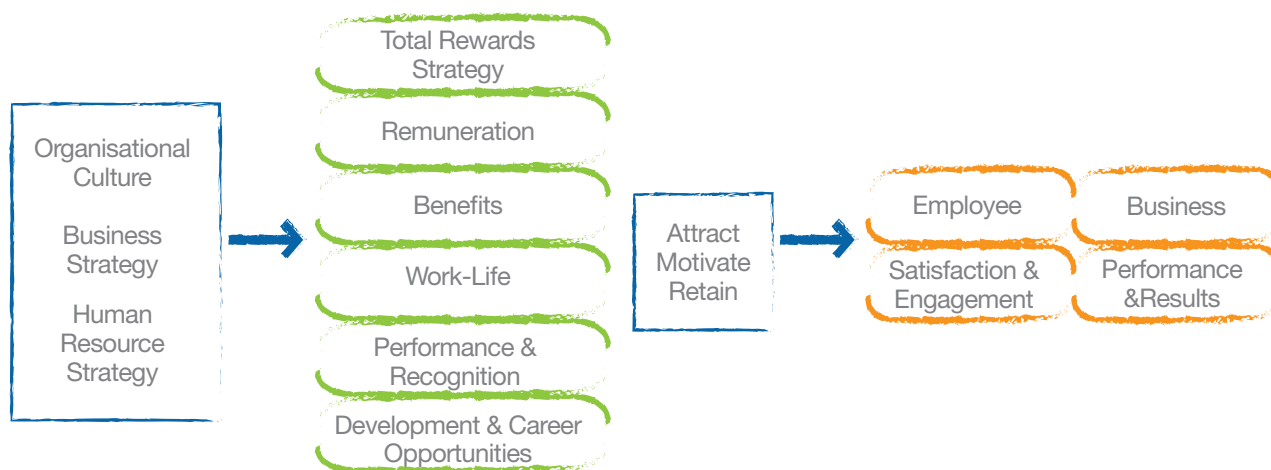
## Approach to Remuneration

CEF Group acknowledges that it can only achieve better performance and results through its talent. To realise this, the organisation must be in a position to attract, motivate and retain high calibre individuals who will drive its strategies successfully and give it the competitive advantage. In order to achieve this, CEF Remuneration Philosophy strives to create reward policies and strategies that are competitive, fair, transparent and equitable.

Our Reward Philosophy consists of a set of beliefs, which underpin the reward strategy of the organisation, govern reward management and provide a framework, which will ensure that remuneration principles and processes are fairly applied. This will be underpinned by:

- Affordability and Sustainability – the remuneration costs shall be contained within the company's financial limitations.
- Transparency - ensuring that the remuneration policies and strategies are conducted openly, in good faith, and with the requisite level of confidentiality.
- Competitive and market related – Total guaranteed remuneration of all roles will be positioned at the median of the industry and market benchmarks, and any differentiation of employees' salaries will be based on their market value, competence, level of performance and length of service.
- Total Rewards Approach – Reward components offered will include total guaranteed package, incentives, subject to applicable modifiers requirements being met, non- monetary recognition awards, career growth and development, allowances, variable pay, leave.

**The below model describes the CEF Total Rewards Philosophy:**



**Diagram 4: Total Reward Model**

## HUMAN CAPITAL (continued)

In order to address the above principles and objectives, and ensure that employees feel equitably rewarded for their efforts, CEF shall apply the following framework:

- The Group's market position is to pay at the market median i.e. the 50th percentile relative to the market.
- Target total earnings (total guaranteed package and variable pay) are benchmarked with the relevant competitive markets between median and upper quartile levels,
- The principle of "equal pay for work of equal value" is recognised and adhered to,
- Regular market benchmarking is done using an appropriate comparator group of competitor companies, through participation in relevant annual remuneration surveys to determine market
- The market median serves as the reference point and quality control measure on pay actions.

The CEF Group uses a Total Guaranteed Package (TGP) approach to remuneration. This allows flexibility for employees to structure packages according to personal needs within prevailing legislation and company policy.

All permanent employees within the Group are covered by health insurance, retirement, death and disability. Fixed Term contractors on two year or longer contracts are also offered similar benefits. The Group reserves the right to change the medical aid scheme in which it participates, or to discontinue participation therein altogether. In effort to improve our EVP the HR teams are continuously exploring options to extend the benefits to all employees, considering that the nature of employment will change in the Exponential organisation the Group is aspiring to be.

Employees are allowed to structure their remuneration packages as they deem fit, within company policy and tax legislation constraints, meaning that employees can be flexible with:

Car allowance: It will be the employees own prerogative to structure their respective salary packages with or without a car allowance. Retirement Fund Contributions: It is compulsory for all permanent employees and those in 3 years or longer fixed term contracts to contribute towards a company approved retirement scheme.

### Salary increases implemented in 2018/19 at CEF Group Entities

In an increasingly competitive market for limited skills, it is critical that we provide appropriate and market-related remuneration and other benefits to attract, retain and motivate the right calibre of employee. We determine our annual budget increases on the basis of forecast market movements, inflation indicators, company affordability and individual performance.

Each entity implemented different salary increase percentages to a maximum of 7.5%, approved by the boards. The below table illustrates the planned salary bill budgeted per entity and how salary increases were implemented per entity.

**Table 3: CEF Group Demographic profile vs. National EAP YTD Figures**

| Entity  | 2019 Salary Bill | 2018 Salary Bill | Approved Salary Increase Mandate | Application of Approved Increase %                                               |
|---------|------------------|------------------|----------------------------------|----------------------------------------------------------------------------------|
| CEF SOC | R103.2 million   | R95.2 million    | 7.5%                             | 5.3% based on April 2017 Consumer Price Index (CPI) plus 2.2% performance factor |
| SFF     | R122.9 million   | R127.9 million   | 7.5%                             | Bargaining unit received 7.5% increase across the board                          |
|         |                  |                  |                                  | Non-bargaining unit received 6.1% CPI plus a 1.4% performance factor             |
| AEMFC   | R160.3 million   | R121.5 million   | 7.5%                             | Bargaining unit received 7% increase across the board                            |
|         |                  |                  |                                  | Non-bargaining unit received 7% increase                                         |
| PetroSA | R1.14 billion    | R1.06 billion    | 6%                               | Bargaining unit received 6.8% increase across the board                          |
|         |                  |                  |                                  | Non-bargaining unit received 4.75% increase                                      |



The factors below were among those considered as a basis for determining the annual increases for the 2018/19 period:

1. CPI at End-April 2018, as informed by the Bureau of Economic Research at Stellenbosch University
2. The financial positions of the business and, thus, affordability;
3. Forecasted salary budgets for 2018/19
4. The applicable wage agreements in unionised entities
5. Salary market benchmark, as provided by South African remuneration consulting firms.

## Short-term Incentive Bonuses based on 2018/19 Performance Outcomes

Where incentives were paid, the company's performance was measured by predetermined and approved objectives in the business plan, and, at an individual employee level, it was done through measuring performance against individual key performance areas, which are linked to departmental/divisional objectives aligned with the overall Group objectives.

The audited performance of the CEF Group for the 2018/19 financial year was 63% while the CEF SOC's performance was 70%. The PetroSA Ghana impairment impacted the CEF SOC performance score thereby reducing it from 74% to 70%. Although CEF Group and CEF SOC had the same Key Performance Areas (KPA's), these had different weightings in each performance score card.

Due to financial constraints, PetroSA offered its employees - excluding certain executives - gratuity payments of R13 128.44 per employee instead of performance bonuses, as an incentive and to boost low staff morale. The organisation also undertook a shutdown project during the period under review and the Board approved a resolution to offer a shutdown incentive to all employees involved in the project.

**Table 7: Group remuneration report for all employees, including executives**

| Group Remuneration                         | 2018/19 (Figures in rand) | 2017/18 (Figures in rand) |
|--------------------------------------------|---------------------------|---------------------------|
| Guaranteed remuneration                    | 1.53 billion              | 1.4 billion               |
| Bonus                                      | 96 million                | 85 million                |
| Other Incentives (retention/sign on bonus) | 750 000                   | 469 659                   |
| <b>Total remuneration</b>                  | <b>1.63 billion</b>       | <b>1.49 billion</b>       |

The 2018/19 Group remuneration bill reflected in Table 7 above has increased for the year under reporting when compared to the previous FY. This was due to several Executive roles being filled across the Group although there were still a high number of incumbents in acting capacity. It must be noted that the Remuneration data in Table 7 above is inclusive of Executives Emoluments. PetroSA paid its employees gratuity amounts instead of performance bonuses and most of their executives did not benefit from this.

The CEF Group also placed filling of most of its support functions vacant roles on hold, especially at executive level, pending completion of the business operating model review. Table 7 total remuneration has included all earnings (leave provision and variable pay), as reflected in the AFS. A total of R96 million was paid in bonuses and gratuity amounts during the period under review across the Group for all employees.



## HUMAN CAPITAL (continued)

### Remuneration of Non-Executive Directors and Executive Management

The remuneration of non-executive directors is determined by the Minister of Energy, with the concurrence of the Minister of Finance as per the Central Energy Fund Act No 38 of 1977. The remuneration of the directors and the Group executives for the year under review is disclosed in Note 42 of the AFS. Non-executive directors receive a fixed rate per hour as engagement fees for CEF Group business-related meetings.

**Table 8: Group total remuneration of non-executive directors and executive management**

| Remuneration of Non-executive Directors and Group Executive Management | Remuneration         |                      | Bonus and Incentives |                   |
|------------------------------------------------------------------------|----------------------|----------------------|----------------------|-------------------|
|                                                                        | 2018/19              | 2017/18              | 2018/19              | 2017/18           |
| Non-executive directors                                                | 17.9 million         | 17.3 million         | N/A                  | N/A               |
| Executive members                                                      | 90 million           | 90.5 million         | 20.1million          | 15 million        |
| <b>Total remuneration</b>                                              | <b>107.9 million</b> | <b>107.7 million</b> | <b>20.1 million</b>  | <b>15 million</b> |



## CORPORATE SOCIAL INITIATIVES



At the heart of CEF Group's culture lies an uncompromising commitment to uplift and develop the South African society, particularly the previously disadvantaged communities. We recognize that we have a transformative and developmental agenda role to play in giving everyone in our country the opportunities to make the most of their talents and achieve a decent standard of living. For the period under review, the group has initiated and implemented a number of project in various communities across the country. A total of R 34.5 million was spent in support of the social initiatives which covers the following key focus areas; community development, education, environment, health and sustainable development.

Consideration was given to the extent to which projects will yield value to CEF Group in terms of:

- Broad based impact in previously disadvantaged communities
- Positive enhancement of the Groups' image and long-term reputation-building goals
- Increased awareness for CEF and its subsidiaries
- Improved community relations, specifically in geographical locations where the Group operates
- Positive contribution to CEF Group's B-BBEE scorecard
- Alignment to CEF Group corporate values

| CEF SOC LTD                                 |                                                                                                                                  |                            |                   |
|---------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|----------------------------|-------------------|
| INITIATIVE/PROJECT                          | DESCRIPTION                                                                                                                      | CATEGORY                   | BUDGET            |
| 2019 Albertina Sisulu Centenary Celebration | Provided sponsorship towards the refurbishment of a pre-school in Soweto                                                         | Socio-economic Development | R200 000          |
| School Shoes Campaign                       | Donated school shoes to needy learners across the country, particularly in impoverished rural provinces                          | Education                  | R540 907          |
| Bursaries                                   | Launched a bursary scheme for five needy learners in Grade 11 and 12 and five tertiary students pursuing studies in STEM careers | Education                  | R1 460 000        |
| <b>Total</b>                                |                                                                                                                                  |                            | <b>R2 200 907</b> |





## CORPORATE SOCIAL INITIATIVES (continued)

| PETROSA                       |                                                                                             |        |                     |
|-------------------------------|---------------------------------------------------------------------------------------------|--------|---------------------|
| INITIATIVE/PROJECT            | DESCRIPTION                                                                                 | AREA   | BUDGET              |
| Community Development Project | Launched the Asla clinic, which is the largest day clinic in the Southern Cape region       | Health | R24 000 000         |
| Community Development Project | Revamped health facilities at D'Almeida clinic                                              | Health | R3 900 000          |
| Community Development Project | Added a new Dental Unit at Alma Clinic to give the community access to improved dental care | Health | R3 000 000          |
| <b>Total</b>                  |                                                                                             |        | <b>R 30 900 000</b> |

| African Exploration Mining and Corporation (AEMFC) |                                                                                                                                    |                            |                   |
|----------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|----------------------------|-------------------|
| INITIATIVE/PROJECT                                 | DESCRIPTION                                                                                                                        | CATEGORY                   | BUDGET            |
| Women Empowerment Forum                            | Donation of 150 blankets                                                                                                           | Socio-economic Development | R56 850           |
| Phola CPF and SAPS 16 days activism event          | Donation of 200 toiletry packs for girls and women                                                                                 | Socio-economic Development | R 52 260          |
| Sibongindawo primary school                        | Donation of a printer, two laptops and microwaves                                                                                  | Socio-economic Development | R42 400           |
| Mpumalanga Dept. of Safety and Security            | Donation of two cars                                                                                                               | Socio-economic Development | R 380 700         |
| Twoline Community                                  | Donation of fire extinguishers, dust bins, refill of gas cylinders, installation of JoJo tanks and fences as well as house repairs | Socio-economic Development | R882 276          |
| <b>Total</b>                                       |                                                                                                                                    |                            | <b>R1 414 486</b> |







| Strategic Fuel Fund (SFF) |                                                                                                                         |                            |         |
|---------------------------|-------------------------------------------------------------------------------------------------------------------------|----------------------------|---------|
| PROJECT                   | DESCRIPTION                                                                                                             | AREA                       | BUDGET  |
| UCT Outreach Programme    | Sponsored the UCT Social Development Department with a fridge for storing perishables used for their outreach programme | Socio-economic Development | R15 000 |
| Total                     |                                                                                                                         |                            | R15 000 |





# Section 5

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Corporate governance is essential in ensuring the long-term viability of our business, promoting economic development of the communities where we operate, being accountable to all stakeholders and responsibly providing security of energy supply for the country.

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# CORPORATE GOVERNANCE





# CORPORATE GOVERNANCE

Corporate governance is defined in King IV, as the exercise of ethical and effective leadership by the governing body (the Board) towards the achievement of the following governance outcomes:

- Ethical culture
- Good performance
- Effective control
- Legitimacy

Corporate governance is essential to ensuring the long-term viability of our business, promoting economic development of the communities where we operate, being accountable to all stakeholders and responsibly providing security of energy supply for the country. The CEF Group employs a variety of policies and processes to uphold good corporate governance, to avoid corruption and promote transparency. This is underpinned by a majority independent Board of directors that provides oversight on entity affairs.

## Ethics and Integrity

Upholding the highest ethical standards of business conduct is critical in our role, as an SOE. A commitment to ethics and integrity is, therefore, a core value of our corporate culture. All employees, officers, directors, contractors and those working on our behalf are required to comply with all procedures, policies and applicable laws.

## Standards of Business Conduct

CEF has a Code of Ethics Policy to which directors, management, staff and contractors are required to adhere. The Board further subscribes to a Code of Conduct within the prescripts of the Companies Act.

## Internal Audits

In accordance with Section 51 of the PFMA, and Section 3.2 of National Treasury Regulations, the CEF Group has established, and maintains, an internal audit function that is governed by the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (IIA). The internal audit function is an independent assurance function that is functionally accountable to the Board Audit and Risk Committee and administratively to the CEO. The mandate is encapsulated in the terms of reference of Internal Audit, which is reviewed and approved annually by the Board.

In providing the required assurance on the CEF Group's governance, risk and control environment, CEF's internal audit services (IAS) focuses on partnering with management to add value. This is done by driving a systematic, disciplined evaluation approach and continuous improvement to the CEF Group's risk management, governance and internal control environment.

## Strategic Internal Audit Plan Alignment

The CEF IAS strategy is aligned with the CEF Group's strategic objectives, vision, mission strategic focus areas and critical risks. It takes the following management and control aspects into account:

- The CEF Group's corporate plan and Shareholder's Compact;
- The CEF Group's purpose as it relates to institutionalising a sound governance, risk and control environment;
- Human capital management strategy and employee culture;
- Factors that could prevent realisation of the Group's goals and objectives;
- Findings from previous internal and external audit reports;
- Results from control self-assessments, integrated assurance and other continuous control monitoring tools used by management; and
- Combined assurance plan.

In 2018, an external quality assurance review was performed by the Institute of Internal Auditors (IIA), reporting positive results and rating the internal audit function as "generally conformance" with the IIA Standards.

## Systems and Practices for Anti-Corruption

The Group is committed to the eradication of fraud, corruption, misconduct and irregularities. The Code of Ethics assists the Board, executive management, staff and contractors of the Group to make ethical decisions and engage in appropriate and lawful conduct. The subsidiary companies each have a Fraud Prevention Policy, which addresses fraud risk management from both proactive and reactive perspectives. The Group has contracted the services of an independent provider of a hotline service for the confidential reporting of fraud and other inappropriate behaviour.

## Transparency

Directors and management are required to complete and lodge detailed financial disclosures, which incorporate an annual declaration of their interests in contracts, as well as directorships in other companies in accordance with the provisions of the Companies Act and the PFMA.



### Board of Directors

In terms of Section 49 of the PFMA, the Board is the Accounting Authority of the Group. The Group has a unitary Board structure made up of a majority of non-executive directors, appointed by the Shareholder. The size of the Board is dictated by Section 1(4) of the CEF Act, as amended and the memorandum of incorporation (Moi). In line with good governance principles, the positions of Chairman and Chief Executive Officer are separately held to ensure a clear division of duties.

### The Board Retains Overall Accountability

The Board is accountable for the running of the Group and reserves decisions on matters that could have a material impact on the business. To that end, executive management is charged with the day-to-day running of the business, with the Board addressing a range of key issues to ensure that it retains the strategic direction of, and proper control over, the Group.

These issues include:

- Ensuring that policies and procedures are in place;
- Monitoring the performance of the Group against agreed objectives;
- Identifying key performance and risk areas;
- Providing effective leadership on an ethical foundation;
- Ensuring that there is an effective risk-based internal audit function;
- Defining levels of materiality;
- Reserving specific powers to itself and delegating other matters (with the necessary written authority) to the CEO;
- Ensuring that timelines are met for submission of reports in compliance with the PFMA and other applicable laws affecting the business, including submission of financial statements; and
- Ensuring that a Shareholder's Compact is concluded annually with the Shareholder, containing agreed performance indicators for the following year.

### Board Selection Process

The MOI of CEF SOC stipulates the minimum and maximum number of directors permitted to be appointed to the Board. The MOI's of CEF Group subsidiaries stipulate the minimum and maximum number of directors permitted to be appointed to the respective boards. The non-executive directors of the CEF SOC Board are appointed in terms of the CEF Act and reappointment is not automatic. The appointment of directors to the subsidiary boards is the responsibility of CEF and is subject to approval by the Minister of Energy, as per the provisions of the CEF Shareholder's Compact. The boards are required to meet at least once a quarter.

The procedure for the appointment of directors of entities is usually activated when:

- The term of appointment of a director expires;
- A casual vacancy on the Board is created by a resignation, removal or death of a director; and/or
- A further Board appointment is required.

CEF ensures that it takes cognisance of the skills, gender and race mix required on the Board, during the recruitment and selection process, to maintain a balanced and diversified Board capable of giving strategic direction to the entity in line with the agenda and strategy of the Shareholder and the CEF Group and in keeping with the national transformation and empowerment agenda. The performance of the boards as collectives, committees, the chairs and individual members is assessed annually.



## CORPORATE GOVERNANCE (continued)

### Communicating with Directors

Serving on an SOE, the directors are constantly briefed on the quarterly reporting process in adherence with the PFMA. This affords them the opportunity to assess performance, recommend interventions and engage the Shareholder on performance and progress. Each of the CEF Group entities concludes a Shareholder's Compact with the CEF, which includes corporate plans and authority levels approved at Group level.

### Compensation of Board of Directors

CEF SOC remunerates its directors in terms of the CEF Act. The fees of the non-executive directors are determined by the Minister of Energy through Ministerial Directive and approved by the Minister of Finance from time to time. In terms of the CEF Act, employees in the full-time employ of the state shall not, for services rendered as a director, be paid any remuneration in addition to his/her salary, nor shall he/she be paid travel and subsistence allowances at a rate other than that applicable by virtue of such service.

### Board Committees

The Board has established several committees to assist it in the discharge of its duties. All committees operate under Board-approved terms of reference, which may be updated from time to time to align with the latest developments in corporate governance. Each committee operates within these defined terms of reference and is chaired by a non-executive director or an independent member. Our subsidiary boards of directors provide independent oversight of group entities' affairs.



| Board Committee Structure                  | Strategic Responsibility                                                                                                                                                                                                                                                                                                                                                                                                          |
|--------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Board Audit and Risk Committee             | Responsible for discharging its duties relating to the safeguarding of Group assets, the operation of adequate systems, control processes and the preparation of accurate integrated reporting and financial statements in compliance with all applicable legal, regulatory and reporting requirements and standards as well as reputational risk, as listed and defined in the Group's Enterprise-wide Risk Management Framework |
| Social and Ethics/Human Resource Committee | Responsible for providing leadership and taking responsibility for the CEF Group's transformation, social economic development, human capital development and sustainability, including the management of non-financial issues, within the broader Group strategic framework                                                                                                                                                      |
| Governance and Nominations Committee       | Responsible for monitoring the quality and integrity of corporate governance practices of the CEF Group and general oversight of corporate policies and procedures, involving corporate governance and compliance with significant legal, ethical and regulatory requirements; and for Board development and nomination                                                                                                           |





## Materiality and Significance Framework

A materiality and significance framework has been developed for reporting losses through criminal conduct and irregular, fruitless and wasteful expenditure, as well as for significant transactions envisaged per Section 54(2) of the PFMA that require Ministerial approval. The framework was formally approved by the Board.

## Board Leadership Structure

To give effect to good governance, CEF Board members' duties are designed to enhance the CEF Group performance as it navigates the Group Strategy. The CEF Board and its subsidiary leadership structures provide the Group with the independent perspective and diverse experience necessary for it to excel during its strategic transformation.

### Key Board Attributes

- |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                         |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"><li>• Significant leadership experience in legal, project management, corporate governance, policy formulation, trading, oil and gas, renewables, corporate finance, and refinery operations</li><li>• Substantial experience in some of the directors in working for global entities and leading large and complex businesses</li><li>• Strong independence</li><li>• Detailed Board induction process</li><li>• Strategic support and ongoing board development with leading independent institutions</li></ul> | <ul style="list-style-type: none"><li>• 80% independence</li><li>• Well-balanced Board tenure</li></ul> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|

The detailed report on committees, meeting dates, appointments and resignations is contained in the Group directors' report in the annual report.





Executive Management Structures

Fundamental to the success of the CEF Group is effective strategic direction setting by senior management and operational efficiency in day-to-day business activities, coupled with the implementation of continual improvement throughout the organisation. Our leadership model is premised on the Group values and advocates strong leadership, visible and active support, and demonstrated commitment. The Group CEO is appointed by the CEF Board and has authority to lead the day-to-day operations of the business.

Exco is constituted to assist the CEO to execute his responsibilities, to guide and control the overall direction of the company’s business and to act as a medium for communication and coordination among business units, companies and the Board. Exco members are accountable to the Group CEO for the execution of their respective responsibilities and the Group CEO is accountable to the Board for the execution of their responsibilities. The subsidiary CEOs are appointed by their respective boards, which, in turn, are supported by their executive management committees. Supporting the executive teams are active Group management governance forums designed to exploit Group synergies and ensure alignment to improve Group performance.





Supporting this structure is the quarterly activity of business performance dialogues, where the Group's business results are analysed and effective solutions found for addressing performance gaps.

| Management Committee                   | Strategic Responsibility                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| CEO's Forum                            | This is the principal structure to give effect to integrated execution of strategy across the group. The forum is chaired by the CEF Group CEO, with the CEOs of each subsidiary making up its membership. Key CEF executives are invited to the forum, including the CFO, Group General Manager: Corporate Services, Group Head of Risk and Compliance, Group Corporate Planner and General Manager: EPD                                                                                                                                                                                 |
| Group Legal, Risk and Compliance Forum | This forum informs the state of practice across the Group for dealing with legal, risk-management and compliance matters, pursues the mandate of streamlining and improving governance and oversight across the Group for GRC purposes, and streamline the risk management, compliance and fraud management policies within the Group                                                                                                                                                                                                                                                     |
| Group Finance Leadership Forum         | The purpose of the forum is to lead the CEF Group to achieve a uniformly high standard of practice in corporate financial management, provide financial leadership, drive standardisation of systems and processes, drive the transition to a high-performance financial organisation, and drive integrated financial planning and reporting for the Group.                                                                                                                                                                                                                               |
| Group Technical Working Forum          | The forum provides technical support to the Project Appraisal and Monitoring Committee (PAMC), reviews projects before they are tabled at the PAMC and gives assurance that all projects with a significant technical component are adequately evaluated, as such projects can commit significant amounts of capital, and often for lengthy periods of time                                                                                                                                                                                                                               |
| Group Human Resources Forum            | <p>This forum, which consists of human capital business partners across the CEF Group, seeks to achieve a common base of practice and elevate the baseline on human capital management. It:</p> <ul style="list-style-type: none"> <li>• Formulates a collaborative human-capital agenda that will support group operations in a cohesive, relevant manner;</li> <li>• Aligns the human-capital mandate in the CEF Group through coordination of efforts;</li> <li>• Identifies and manages areas of convergence;</li> <li>• Eliminates duplication of policies and processes.</li> </ul> |







# Section 6

“

Over the next few years, the Group will be making strategic investments to put it back into the growth trajectory.

”



# OPERATIONAL PERFORMANCE



# OPERATIONAL PERFORMANCE



AFRICAN EXPLORATION  
MINING AND FINANCE  
CORPORATION SOC LTD

## AEMFC

### 1. Overview

The company has delivered a satisfactory performance with a profit before taxes at R134 million in the current financial year. These results were matched by increased volumes by 28.6% from the previous year. Sales Revenue was higher than the previous year by 38.5% and thus showing strong results.

The company continues to grow from strength to strength, as can be seen from the growth in its financial position and further delivery on the mandate as a State-Owned Entity of ensuring the security of energy supply for the country, including supporting the minerals beneficiation strategy.

### Financial Performance

Revenue for the year has increased to R635 million, a 38.4% increase from the previous year driven mainly by increased volumes to Eskom. Profit before taxes (R134 million) and net cash flows from operations (R131 million) are ahead of budget, whilst return on capital employed was also ahead of budget at 16.4%.

The asset base has increased by 36.7% from the prior year to exceed R1 billion, largely because of own equipment acquisition in the current year, as part of the growth strategy to aid in curtailing costs associated with machine rentals coupled with improved productivity and machine availability.

Our sound and consistent financial performance, despite the challenges during the year, would not have been possible without the support of our stakeholders, especially our employees, contractors and suppliers, our main client Eskom and the AEMFC and shareholder CEF Boards.

## 2. Material Projects

### 2.1 Vlakfontein Mine Extension

The Vlakfontein Mine continues to produce for supply to Eskom at a steady state on the back of a supply contract, with volumes increasing steadily on an annual basis. The current operations have produced satisfactory results but can be further improved.

The Vlakfontein Extension is progressing well and is poised to produce additional coal volumes in the forthcoming financial year whilst increasing local employment at the mine. The current year saw an investment in the required infrastructure and the attainment of the required regulatory approvals to commence production in the North Block area of the Vlakfontein Mine. ESKOM contract negotiations are at an advanced stage for coal supply, with a draft contract in place.

ESKOM is expected to complete its quality tests, with the Coal Supply Agreement expected to be concluded in the first quarter of the forthcoming financial year.

### 2.2 Klippoortjie Mine

This area has received the requisite regulatory approvals, particularly the Integrated Water Use Licence. The acquisition of surface rights or access remains a challenge, although negotiations were at an advanced stage by the end of the financial year. It is expected that this open cast mine will be commissioned in the third quarter of the forthcoming financial year.

### 2.3 T Project

The company is also spending all its efforts in securing an Eskom or similar contract for this mine in time for the commissioning, which is expected to be in the 2020/2021 financial year. To this end, AEMFC has submitted a proposal in the current year to Eskom for the supply of coal and these negotiations are progressing well. Management continues to negotiate to secure the required funding and ultimate commissioning of the mine.

### 2.4 Acquisitions

AEMFC's growth strategy also includes targeting mineral resources assets, which become available in the market as a vehicle to achieve the desired growth to support the country's security of supply for energy and, further, to support the country's beneficiation strategy.

### 2.5 Other projects

The company also has a number of prospecting rights and mineral rights in various provinces, mainly Mpumalanga, North West, Limpopo and the Northern Cape. These mainly consist of energy related minerals and in support of the State's Minerals Beneficiation Strategy. In addition, these exploration and mineral rights throughout the country and in various energy producing and beneficiable mineral resources are strategically selected to provide a diversification of both mineral type and customer appeal. The pipeline of the exploration assets provides a platform for the company's growth and sustainability.

## 3. Shareholder alignment

The company is firmly aligned with the country's National Development Plan, which seeks to eliminate poverty and reduce inequality by the year 2030. AEMFC is maximising its local procurement, contributing towards education and skills development through apprenticeships and the offering of education bursaries in various engineering disciplines.

Social projects in the current year included the handover of housing to 25 families from the Two-Line farming community, which was borne out of a concerted effort to uplift local communities within the greater Ogies area. Further, there is a committed drive to employ local youth and consequently reduce the social ills that are brought about by unemployment.





#### 4. Other key developments

##### 4.1. Investments for company growth

The new investments acquired in the previous year in Mzimkhulu and Chilwa have delivered coal to ESKOM satisfactorily in the current year and continue to perform well and have turned profitable.

##### 5. Safety

AEMFC maintains a zero tolerance towards unsafe safety practices and the company offers no compromise. The quality of life and limb of our employees and their families is most valuable to us. For this reason, our legal and in house policies are not negotiable. This principle has ensured that in the year under review, despite minor incidents, our safety record remains commendable. We continue to invest in safety awareness and education in order to remain one of the safest operations in the mineral resources industry. In line with this, AEMFC has reached a 5 000 shifts milestone since inception, with no fatalities to date and no Lost Time Injuries since 2015.

We continue to encourage the dedication of our employees in conducting operations with the utmost vigilance, to avoid incidents and accidents. The company however remains concerned about damage and theft of property, which has been experienced in the current year, demanding extra vigilance and security.

##### 6. Our people

The company strives to improve the livelihood of all employees assisted by the delivery of solid operational performance, which otherwise would not be possible. The company further wishes to express its gratitude to all AEMFC employees for their on going commitment.

##### 7. Local Communities

AEMFC, in line with the provisions of the Mineral and Petroleum Resources Act, abides to the commitments the company made in the Social and Labour Plan. To this end, the company has delivered on local community upliftment and support through various ways beyond the employment of the youth and women employees. The company has delivered social infrastructure, supported education through local pre school and school contributions, tertiary bursaries and learnerships and the support of nearby farming communities with essential basic services.



iGas

The South African Gas Development Company (SOC) Ltd, also known as iGas (SOC) Ltd, is one of the major

subsidiaries within the CEF Group of Companies. The formation of iGas received cabinet approval on 14 June 2000. The mandate of iGas is derived from the Ministerial Directive to CEF, dated 2 October 2000, "iGas will act as the official State agency for the development of the hydrocarbon gas industry in Southern Africa.". As per the directive, iGas may from time to time and in accordance with sound business principles enter into joint ventures and should not rely upon state funding other than the resources of CEF.

iGas has achieved this through joint venture participation with private and other public sector companies and project finance for its 25% share in the ROMPCO Mozambique to Secunda (MSP) gas transmission pipeline from private sector banking and CEF. These loans have since been repaid via dividend income from ROMPCO.

Since the commissioning of the ROMPCO MSP in 2004, the pipeline has undergone three capacity upgrades in 2010, 2014 and 2016, increasing the contracted throughput from 100 MGJ/a to the current almost 200 MGJ/a.

In addition to its participation in the development and expansion of cross-border pipelines to import gas to South Africa, and in support of the relevant key elements, and requirements, for contributing to the development of the national infrastructure, iGas has, since its inception participated in the development of projects for LNG import and the diversification of the South African energy mix.

##### Economic and Regulatory Framework

iGas' investment in the ROMPCO pipeline is regulated under the National Energy Regulator Act. This Act overarches the Gas Act 2001 and the Gas Regulation Act in terms of the tariff that ROMPCO charges for the transportation of gas. The process of amending the Gas Act of 2004 has commenced, with iGas having made its comments to the draft Gas Amendment Bill (GAB). NEDLAC was previously consulted on the GAB in 2013 and issued its report to the Department of Mineral Resources and Energy. However, as a result of the 2015 Ministerial Determination for Gas to Power (GTP), the department found it prudent to re-consult with NEDLAC, but only on the new provisions of the GAB. The new provisions largely relate to a licensing framework for regasification infrastructure and mandating the Minister of Energy to make determinations regarding the required infrastructure.

## OPERATIONAL PERFORMANCE

Following the consultation process in 2018, NEDLAC has since issued its report to the department, as an addendum to its 2013 report and the department is currently preparing the GAB to be tabled in Cabinet for onward transmission to Parliament.

As regards policy development, iGas is working with the Department of Mineral Resources and Energy to develop the Gas Master Plan for South Africa.

### Financial Performance

In the 2018/19 financial year, iGas targeted a dividend of R250 million from its ROMPCO investment. However, the achieved dividend was R495.5 million, primarily due to the deferral of large capital spends to the 2019/20 financial year, supported by iGas Management. The dividend from ROMPCO and the interest from accumulated funds provides the company with the ability to finance its development work and investments going forward. iGas is still at a development stage in its projects and hence the accumulated funds. The nature of activities in iGas' strategic planning requires major capital to be deployed in order to achieve the planned objectives\*.



### Non-Financial Performance

The detail below is a summary of the company's performance against targets.

#### Material projects under study

##### Acquisitions

In executing its mandate, iGas is considering possible joint ventures and acquisitions in gas and gas infrastructure with current market players, subject to iGas carrying out the necessary investigation, assessment and due diligence of acquisitions. In this regard, iGas engaged several market participants to gain an overview of potential targets. The company embarked on a tender process to appoint Mergers and Acquisitions consultants. The consultants have since been appointed and iGas will progress the activity towards a Final Investment Decision (FID) in the 2019/20 financial year.

### LNG import options

Over the past decade and a half, various options have been studied by different parties to import LNG (Liquefied Natural Gas) to South Africa. However, all of these have been premised on large-scale imports to supply new build Combined Cycle Gas Turbine (CCGT) power stations operating at mid-merit profiles. To date, none of these have materialised. iGas therefore embarked on an LNG Concept Study to assess the commercial viability of various options and configurations to import LNG to supply the existing Open Cycle Gas Turbine (OCGT) power stations. This will enable iGas to make informed project selection and investment decisions to ensure an optimal strategy for importing LNG to South Africa. The study has a CEF Group and related SOC's outlook and is essential to iGas, CEF, DME, Eskom and the country, as it will map out how to deliver LNG to the existing power plants in the near term, pertinent now, given Eskom's current plant availability constraints, with the ability to extend the supply to future gas fired power plants.

iGas also developed principles for a Joint Development Agreement with Transnet and drafted the agreement for the parties to evaluate jointly the importation of LNG into Richards Bay.

### Gas to Power Program

Following the agreements concluded under the CEF Banner in 2018/19 with Eskom, iGas participated the joint Gas Working Group with Eskom. Options to repurpose existing coal plants were modelled and presented to the Steering Committee. Thereafter, with Eskom undergoing a strategy review and possible restructuring, Eskom requested that the next steps be deferred until the outcome of its review process.

Following the principles of the LNG Concept Study, iGas has engaged with Engie to supply the Dedisa OCGT power station in the Coega Industrial Development Zone (IDZ). This project will be further developed via a Feasibility Study in the 2019/20 financial year and move towards a Final Investment Decision (FID) in the 2020/21 financial year.

### Gas Infrastructure Development

iGas provides the technical lead for Operation Phakisa's Phased Gas Pipeline Network. This is a network of gas transmission pipelines from the Namibian border on the west, around the coast of South Africa up to the Mozambican border with inland corridors covering the shale gas area; Richards Bay to Gauteng; and the Rompco corridor from Komatipoort to Secunda. The CSIR was appointed as the environmental practitioner for the Strategic Environmental Assessment (SEA) and although the study was targeted for completion in 2018, project delays and late approval of additional corridors for SEA saw the target for completion being revised to end 2019.



## PASA

Mini profile of the subsidiary Petroleum Agency SA promotes exploration for onshore and offshore oil and gas resources and their optimal development on behalf of government.

The Agency regulates exploration and production activities, and acts as the custodian of the national petroleum exploration and production database.

In light of the Agency's mandate, it plays a pivotal role in attracting investment in South Africa and ensuring the long-term sustainability of the industry in a responsible manner.

The success of the industry will have a positive impact on the future economic growth of the country through significant investment and the creation of jobs.

### Economic and Regulatory framework

The most noteworthy change to the environment during the period under review is the decision to develop separate oil and gas legislation. A separate oil and gas bill is being drafted. The delay in finalising the Bill has contributed to the low investment exploration environment. The finalisation of the separate oil and gas legislation will provide the much-needed regulatory certainty for final investment decisions. However, it is envisaged that recent discovery by Total will stimulate an increased interest in oil and gas exploration in South Africa

### Financial performance

The financial performance for the Agency for 2018/2019 has been satisfactory. The Agency secured an MTEF allocation from National Treasury via the Department of Mineral Resources and Energy to fund its operations. The Department has also reprioritised funds to the Agency for shale gas research and skills development. The revenue generation was lower than forecasted.

In alignment with national initiatives, the Agency continues to drive costs containment measures. These efforts have contributed to good financial results.

### Non-financial performance

Operationally, the 2018/2019 financial year was successful. The Agency realised significant progress on its strategic objectives. For the year under review, the Agency achieved the following critical milestones:

- The continued improvement of its world-class national data centre for oil and gas exploration and production data
- The hosting of a second Transformation Colloquium that demonstrated the Agency's commitment to ensuring that its objectives of transforming the oil and gas industry are being addressed seriously

- Significant progress in the resource evaluation of the large geological basins in the country

### Material projects under study

#### Extended Continental Shelf claim project

South Africa is on the verge of claiming an additional zone to its existing territory, called the Extended Continental Shelf (ECS). The ECS is that portion of the continental shelf beyond 200 nautical miles from shore. If the claim proves successful, it will open up new territory for research and exploration.

South Africa made two submissions to the United Nations in May 2009. The first submission relates to the continental shelf surrounding the South African mainland, whilst the second submission relates to the region of the Prince Edwards Islands. The claims amount to approximately 1.87 million square kilometres, ranking amongst the 10th largest claims in the world and, if endorsed by the United Nations, will more than double South Africa's maritime territory.

The project has many benefits for South Africa. These include the potential for mineral resources including oil and gas, manganese nodules and crusts possibly enriched with precious metals, exploiting the pharmaceutical and medical benefits of microbes associated with the inhospitable ultra-deep ocean floor and toxic hot water geysers. Many of these benefits are not immediately quantifiable with current knowledge and technology, but through the success of the project, access to these could be assured for the coming generations of South Africans. Additionally, the project has the potential to contribute to the realisation of the vision of the National Development Plan and supports the New Growth Plan. Currently, the project entered its final and arguably the most critical phase i.e. the defence of the claim.

### Shale gas

The National Development Plan (NDP) and Integrated Resource Plan (IRP) call for indigenous hydrocarbons, both conventional and unconventional, and independent power production, to play an increasing role in the energy mix of South Africa.

The National Development Plan particularly states government's vision is to "Enable exploratory drilling to identify economically recoverable coal seam and shale gas reserves, while environmental investigations will continue to ascertain whether sustainable exploitation of these resources is possible. If gas reserves are proven and environmental concerns alleviated, then development of these resources and gas-to-power projects should be fast-tracked.". The IRP envisages prominence of gas in the energy mix by 2030.



## OPERATIONAL PERFORMANCE (continued)

In collaboration with the Department of Mineral Resources and Energy, the Agency continues to contribute to the vision through exploration by acquiring new data.



# PetroSA

PetroSA

The Petroleum Oil and Gas Corporation of South Africa (SOC) Limited (PetroSA) is the national oil company of South Africa and is registered as a commercial entity under South

African law. PetroSA is a subsidiary of the Central Energy Fund (CEF), which is wholly owned by the State and reports to the Department of Mineral Resources and Energy.

The company holds a portfolio of assets that spans the petroleum value chain, with all operations run according to world-class safety and environmental standards. PetroSA was formed in 2002 upon the merger of Soekor E and P (Pty) Limited, Mossgas (Pty) Limited and parts of the Strategic Fuel Fund, another subsidiary of CEF.

### • The core business activities of PetroSA are:

- The exploration and production of oil and natural gas
- The participation in, and acquisition of, local as well as international upstream petroleum ventures
- The production of synthetic fuels from offshore gas at one of the world's largest Gas-to-Liquid (GTL) refineries in Mossel Bay, South Africa
- The development of domestic refining and liquid fuels logistical infrastructure
- The marketing and trading of oil and petrochemicals
- The operation of the FA-EM, South Coast gas fields as well as the Oribi and Oryx oil fields. The producing gas fields provide feedstock to the Mossel Bay GTL refinery.
- The production at GTL refinery of ultra-clean, low-sulphur, low-aromatic synthetic fuels and high-value products converted from natural methane-rich gas and condensate using a unique GTL Fischer-Tropsch technology.

Key commodities produced include unleaded petrol, kerosene (paraffin), diesel, propane, liquid oxygen and nitrogen, distillates, eco-fuels and alcohols. Its world-class synthetic fuels and petrochemicals are marketed internationally.

## Financial Performance

- The Group posted a net loss of R2.082 billion (2017/18: R392 million loss) for the 2018/19 financial year.
- Although the group EBITDA was R639 million compared to R443 million the previous year, the Group operating loss was R1.276 billion (2017/18: R800 million) due to Impairment charges.
- Before impairment, the loss was R126 million (2017/18: R540 million operating loss). An impairment charge of R2.014 billion in the year on onshore and offshore production assets occurred largely due to an increase in the rand value of the dollar-based cost of provision for abandonment emanating from the weakness of the rand against the dollar (23% weaker).
- This charge was partially offset by an impairment reversal of R1.3 billion relating to Ghana assets on consolidation.
- Gross revenue increased by 17% from R10.4 billion the previous year to R12.1 billion this year and was the result of higher product prices driven by the increase of the price of crude oil worldwide, as well as the weakening of the rand against the major currencies.
- Investment income for the 2018/19 year was R377 million and on par with the previous year of R382 million. Cash reserves of the group remained the same as the previous year at R3 billion (including cash restricted for the issuing of letters of credit), with only PetroSA (SA) ending the year with a slightly lower cash balance (R2.2 billion at 31/3/19 vs. R 2.6 billion at 31/3/2018).
- Lower finance costs of R493 million were recorded for the year compared to R546 million in 2017/18.

## Financial Position

The Group's financial position is an area for concern even though total group assets increased to R18.5 billion (2017/18: R15.4 billion) as the group net asset value decreased to R498 million (2017/18: R2.077 billion); the result of losses in the parent company.

An emergency plan, built into the company corporate plan, seeks to address this issue and is fully supported by the Board and management of the Group parent company CEF. Whilst a variety of options are under consideration, including a review of our partnership strategy, our ability to fund any expansionary projects is stunted by insufficient cash available for investment purposes.

Total interest bearing debt of R1.864 billion at 31 March 2019 reflects an increase from R1.542 billion in 2017/18; the result entirely of the weakening of the rand.

Property, plant and equipment increased by only R1.8 billion, which is mainly PetroSA Ghana related. At 31 March 2019, the carrying value of the onshore and offshore production assets were evaluated against the recoverable amount, taking into consideration economic conditions, operating budgets and available hydrocarbon reserves.



As a result, a net impairment amount of R1.190 billion was charged to the P&L and was made up of reversal of the previous Ghana impairment (R827 million).

R2.014 million relates to the local GTL assets and resulted from a combination of the increased abandonment provision and lower crude. The balance of R3 million relates to other assets.

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The PetroSA Group's balance sheet has a current gearing of 79% at 31 March 2019, presented as a ratio of gross interest bearing debt to equity (2018: 43%). Gearing has increased mainly due to the larger debt in rand terms, after the rand lost 23% of its value against the dollar. The Group is ungeared when presented as a ratio of net debt (comprising gross debt net of cash and cash equivalents) to equity. The optimal funding structure for the Group has been considered, with a targeted long-term gearing ratio of 30% to 40%, in line with the Group's long-term strategy and growth initiatives.

## Non-Financial Performance

### GTL-Refinery

Indigenous production was negatively affected by equipment failure and lower landed gas quality caused by a decline in gas and condensate from the carbon-rich FA/EM wells. Repairs to latent defects were required during the statutory shutdown, which resulted in a delay of 20 days for official start-up, this further contributed to the overall production performance.

At 4.475 MMbbls, the total indigenous and non-indigenous production for the year was 39% below the budget of 7.298 MMbbls.

### TS&L

The 2018/2019 financial year was a challenging year for PetroSA. Operating in a highly competitive market, the company aspired to achieve a product mix to help it to occupy a strong market position. Actual sales for the year under review were in line with the budget. This was mainly due to increased sales to the wholesale market through new customer acquisitions and sales to other state-owned enterprises (SOEs).

### HSEQ

The Health, Safety, Environment and Quality (HSEQ) index for the year under review is 3.25, compared with 2.90 in the last year. This represents a 12% year-on-year improvement. This demonstrates that PetroSA that has taken seriously the challenge to improve its safety record, by strengthening internal processes and systems to achieve Zero Harm to its people and property.

## Sustainability and growth projects

### Enhanced Condensate Processing (ECP) project

With the depletion of gas feedstock to the Gas-To-Liquid refinery (GTLR), PetroSA continues to explore alternatives to sustain operations at the refinery. The Enhanced Condensate Processing (ECP) project presents a viable solution for when gas feedstock is no longer available.

The feasibility study for the ECP Project was completed in June 2017. Following successful reviews in March 2018 by the economic peer review and the Strategy and Risk Sub-Committee, the PetroSA board approved the project to proceed to front-end engineering and design (FEED), subject to approvals by the shareholder CEF SOC Limited (CEF), and ministerial approvals. There has been no further progress on the status of the project while it awaits ministerial approval before it can proceed to FEED.

### 31 000 Bpd project

The 2018-22 PetroSA budget identified the increase of condensate to 31 000 barrels per day (Bpd) as a low investment option to foster growth and profitability until the long-term solution is implemented. The objective of this project is to remove the bottleneck at the current GTLR to increase total condensate processing.

It is anticipated that the project will be implemented in phases to realise early value from the changes that can be implemented within the short period. Phase 1, which comprises changing the services of existing columns and installing new equipment, increases the total condensate processing to 26 kbbls/day. Phase 2 removes the bottleneck of the DHT, to increase the total condensate processing to 31 kbbls/day.

The profitability improvements of both phases were marginal. The project has been placed on hold, pending the incorporation into the business case of other initiatives to address demurrage risk and economies of scale associated with increased shipping.

### Conversion of Voorbaai alcohol tank to receive diesel

PetroSA's monthly diesel imports dictated the need to increase the diesel storage capacity by an additional 20 000 m3 working volume. The conversion of alcohol tanks to diesel storage will increase the total diesel storage at Voorbaai to 40 000 m3. This will improve importing economical parcel size. The project is currently in Front End Engineering and Design (FEED).

### Reformate reduction initiatives

Given that imported reformate is required to achieve the octane specification of petrol, an increase in the throughput, especially of lighter grades of imported condensate, will result in higher reformate consumption.

## OPERATIONAL PERFORMANCE (continued)

Two key initiatives have been underway in 2018/19 to reduce the overall reformat requirement. The required refinery changes are mostly limited to pipework modifications, which will optimise the use of existing equipment.

Changes required currently will be on the de-isopentaniser (DIP) and the platformer unit. These changes will also enable an economical increase in the throughput of the petrol-producing units of about 15%.

### Feedstock supply to the Gas-To-Liquid Refinery

After Project Ikhwezi (F-O) was completed and the Oribi/Oryx fields were consequently shut down, the South Coast fields supplying the Gas-to-Liquid Refinery (GTLR) are FA, E-M, SCG and F-O. The F-O Field made the largest contribution to the refinery, varying between 22 MMscf/d [million standard cubic feet per day] and 55 MMscf/d. This was followed by E-M Field, which varied between 25 MMscf/d and 35 MMscf/d.

### E-BK Project

The E-BK field is a condensate-rich gas accumulation located approximately 135 kilometres offshore Mossel Bay within the central part of the Bredasdorp Basin. The objective of the project is to extend the life of the GTL plant.

The E-BK project has completed the technical component of the feasibility phase. As resolved by the PetroSA EXCO, the project needs to secure a partner to fund and execute the development before entering the next phase (FEED). A number of data rooms were held to enable interested parties to obtain clarification and review data in more detail. To date, PetroSA has not been able to secure a partner to fund and execute the E-BK project.

On 23 January 2019, the Petroleum Agency of South Africa granted PetroSA a production right covering the E-BK gas discovery.

### PetroSA Ghana Limited: Ghana

PetroSA Ghana participates in three areas offshore Ghana: the Greater Jubilee Unitised Area (Jubilee, Mahogany and Teak Fields), the West Cape Three Points Block and the Deepwater Tano Block (DWT).

### Deepwater Tano (DWT) TEN fields

As at 30 September 2018, estimated 2P reserves for the Tweneboa, Enyenra and Ntomme (TEN) fields were 236.5 MMbbls of oil and 344 Bscf [billions of standard cubic feet] of gas.

Total oil production for the year under review was 23.6 MMbbls, of which the net oil entitlement to PetroSA Ghana was 0.9 MMbbls, before royalty and redetermination adjustments. During the same period, the total associated gas production was 344 Bscf, of which net gas to PetroSA was 13.1 Bscf.

At the end of the 2018/2019 financial year, 12 wells were on stream in the TEN fields. The associated gas produced is used to generate power on the floating production storage and offloading unit (FPSO). The remainder of the gas is either reinjected or flared or substituted for Jubilee gas, if Jubilee is unable to provide the gas.

The Ghanaian government approved a one-year extension until April 2018 for the Wawa Appraisal Partnership to conduct further subsurface and field development studies, after which a report will be submitted.

### West Coast

Several joint venture partners exited blocks on the west coast because of ongoing uncertainty surrounding amendments to the Mineral and Petroleum Resources Development Act and the finalisation of the Act. PetroSA opted to continue in these offshore West Coast blocks on a 100% equity basis, subject to receiving all requisite approvals, to gain access to the high-reward exploration opportunities. This represents an estimated potential of up to 1.2 billion barrels of oil. Reputable partners with deep-water exploration experience will be sought, to fund and execute the high-risk exploration work programme associated with high reward potential. This will provide PetroSA the opportunity to participate in multiple exploration programmes at minimal or no cost to the company.

Discussions continue with CEF SOC Limited (CEF) and the Department of Mineral Resources and Energy (DMRE) to expedite an approval from the Minister of Energy to conclude the 2016 farmout deals on the West Coast, under Section 54 of the Public Finance Management Act (PFMA).

### South Coast

The Framework Agreement executed on 4 September 2017 between PetroSA, CEF and Rosgeo (Rosgeo), during the BRICS Summit in China, paved the way for the conclusion of various definitive agreements. These include a farmout agreement (FOA), a joint operating agreement (JOA) and a gas sales agreement (GSA) between PetroSA and Rosgeo to give effect to a farmout transaction. At the end of the period under review, the two parties had agreed on numerous points, which are currently under management review before being finalised.

Since 2017, PetroSA and Rosgeo have conducted numerous engagements attempting to finalise the legal agreements to validate the farmout deal. However, the shareholder support in finalising the deal has not been forthcoming. As a result, there has been no progress in the conclusion of the deal with Rosgeo. With the delay in the deal's conclusion, and with only ~24 months remaining to the expiry of the exploration right, it may already be impossible to execute Rosgeo's proposed six-well drill work programme.





The plan for the next period is to reach agreement on the remaining issues, to achieve final drafts of the FOA, JOA and GSA. Once negotiations on these legal agreements have been concluded, both parties will be able to commence their respective approval processes. PetroSA requires a Section 54 ministerial approval for the transaction under the PFMA, followed by a Section 11 approval from the Petroleum Agency to assign PetroSA's equity interest to Rosgeo.

### Mossel Bay Gas-to-Wax project

Since 2002, PetroSA's technology joint venture company, GTL.F1, has been involved in research and development (R&D) and commercialisation efforts focused on the Low Temperature Fischer-Tropsch (LTFT) technology. The LTFT technology was developed for both local and international markets and designed for diesel, wax and lubricant base oil production from natural gas, coal or biomass. PetroSA's proposed indigenous and imported gas feedstock scenarios align well the long-term efforts that the Technology Development Department has been undertaking within GTL.F1.

PetroSA is currently exploring the possibility of combining its own GTL.F1 technology with another competing LTFT technology. The idea is to develop a composite, which encompasses the best aspects from both technologies, in an endeavour to become the third large-scale provider of the LTFT technology in the world. Technical assessment of the GTL.F1 and the other technology has shown its potential compatibility for use in the Gas-to-Wax project in Mossel Bay.

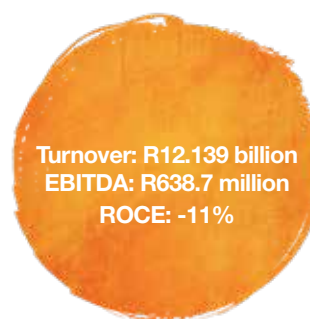
The Gas-to-Wax project is part of the Key Focus Area: Sustainability in PetroSA's corporate plan. The project has the capacity to provide a long-term future for the Mossel Bay GTLR facility, by improving gas feedstock affordability. A high gas affordability unlocks exploration and also the development of PetroSA's indigenous gas opportunities, which would otherwise not have been explored due to the low gas affordability of the current Mossel Bay GTLR operation. Any gas conversion process, which produces high-value products such as wax, expands the range of feasible gas feedstocks that can be processed. This will include commercially traded gas sources such as LNG and CNG.

The proposed Gas-to-Wax concept is based on a 1 Train Gas Loop operation, using about 100 MMSCFD of gas as feedstock for the production of 200 kt pa of high value waxes. In addition, the PetroSA Gas-to-Wax GTL complex will also produce up to 1 000 bpd of chemical-grade naphtha and 3 000 bpd of distillates. All the wax produced will be conveyed by rail to the port of Coega, Port Elizabeth, for export.

The Gas-to-Wax project will maximise the use of the existing Mossel Bay GTL facility.

The facility has most of the process units required for processing gas, and has all the required offsites, utilities and logistics infrastructure. This will significantly reduce the required CAPEX, when compared to a similar greenfields LTFT project, albeit that a new LTFT reactor system, as well as new product upgrading and wax logistics facilities, will have to be installed.

Economic analysis of the project shows a substantial improvement in break-even gas price affordability. This means that, in the future, PetroSA will be positioned to afford gas from the recent Total offshore discoveries in Block 11B/12B south of Mossel Bay, as well as potential gas supply from PetroSA's Block 9/11 opportunities.



SFF Association is a strategic oil reserves agency of the Republic of South Africa. SFF owns three crude oil storage facilities across the country and only one is still operational, the facility in Saldanha Bay. The Saldanha Bay crude oil storage terminal capacity is 45 million barrels and is the biggest facility by capacity in the southern hemisphere. The facility is used to store government owned reserves of crude oil and any excess storage capacity is leased out to international crude oil trading entities.

### Economic and Regulatory framework

The primary legislations regulating the core activities of SFF are the National Energy Act 34 of 2008 ("Energy Act"), Central Energy Fund Act 38 of 1977 ("CEF Act"), and the Petroleum Pipelines Act 60 of 2003 ("NERSA Act").

The activities of SFF, insofar as they relate to the storage of strategic stocks, are regulated by s17(1) of the Energy Act. The Energy Act empowers the Minister of Mineral and Energy to direct SFF to maintain strategic reserves of crude oil in accordance with the published government policy or strategies. The utilisation of proceeds that SFF receives from the sale of crude oil is regulated by s3 of the CEF Act. The maximum tariff that SFF can charge the market for leasing the excess crude oil storage capacity in Saldanha Bay is regulated by the NERSA Act and the setting of the maximum tariff by the Authority is a condition of SFF's license to operate the crude oil storage facility.

## OPERATIONAL PERFORMANCE (continued)

In addition to these primary legislations, the management of financial affairs of SFF as a subsidiary of a state-owned entity is subjected to the prescripts of the Public Finance Management Act 1 of 1999 ("PFMA"). Other legislations are the National Environment Management Act 107 of 1998 ("NEMA"), National Water Act 36 of 1998 ("Water Act"), Companies Act 71 of 2008, Income Tax Act 58 of 1962, amongst others.

### Financial Performance

The overall operating financial performance of SFF during the reporting period viewed against last year's comparable period is considerably less, as the operating environment in this financial year was much tougher owing to the backward dated oil storage market structure. Revenue generated in this reporting period was R246.8 million, compared to R634.7 million in the previous financial year, a 61% drop. With net operating costs at R439 million, SFF reported a net operating profit of R577.6 million.

Income from cash balances went up by R80 million, compared to prior comparable period and totalled R411.9 million. Interest costs were R31.7 million during the reporting period and net cash generated from operating activities was R305 million. The closing cash balance for SFF for the period ending 31 March 2019 was R8.4 billion. SFF solvency ratio is 2.0 and its liquidity ratio is 1.67.

### Non-financial Performance

During the year under review SFF, there were no work-related fatalities. There was however, a single disabling injury and a reportable environmental incident when approximately 300 litres of crude oil leaked from one of SFF crude oil transfer pipelines. Both these incidents, environmental spill and the disabling injury were however below the set operational targets.

SFF achieved all its transformation targets of workplace diversification through preferential recruitment of female and also preferential commercial terms for black owned entities conducting business with SFF.

SFF continues to engage with all key stakeholders on a quarterly basis and feedback from the market on its product offering and customer service in general is positive. SFF, through its Corporate Social Investment program, provided support to both non-governmental organisations and institute of high learning during the reporting period.

| Strategic Goal                                                                                                                                         | No. of KPI | KPIs Achieved |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|------------|---------------|
| To advance transformation imperatives of the government                                                                                                | 2          | 2             |
| Being prepared for energy supply disruptions                                                                                                           | 2          | 1             |
| Being Independent from State Financial Support                                                                                                         | 4          | 2             |
| Be a valuable corporate citizen that meets Stakeholder needs                                                                                           | 3          | 3             |
| Developing business processes that are value adding, promote sustainability, minimise business risk and rooted on good corporate governance principles | 5          | 4             |
| <b>Overall</b>                                                                                                                                         | <b>16</b>  | <b>12</b>     |

### Project under study

In search for tomorrow's business, SFF embarked on a market study for storage of petroleum products in the profitable Durban-Johannesburg petroleum product supply corridor. These studies are still at an embryonic stage and additional information is still required to get to final investment decision. During the financial year, SFF, on behalf of the Department of Mineral Resources and Energy, initiated discussions with Nile Petroleum, a South-Sudan national oil company, to conclude a series of agreements. The discussions were ongoing as at 31 March 2019.

Turnover: R246.8 million  
EBITDA: -R152 million  
ROCE: 8%



## CEF SOC

### Overview

CEF SOC Ltd ("CEF"), is a state owned company mandated by the Central Energy Fund Act of 1977 (The CEF Act) and acts

as the holding company of subsidiaries through which it conducts its business and together constitute the CEF Group of companies. The CEF Act mandates the company to support security of energy supply throughout the value chain comprising exploration, production and supply of coal, gas, liquid fuels and other primary energy sources. CEF also has a renewable energy division and a liquids fuels storage/infrastructure business. Further, CEF contributes to the national energy agenda; through the Department of Mineral Resources and Energy (DMRE) in an advisory and/or facilitation role. CEF also administers the Equalization Fund for the DMRE.

### Economic and Regulatory Framework

CEF continues to support the DMRE in the finalisation of policies. The Biofuels Regulatory Framework went to Cabinet for consideration during Q4 but was referred back for resubmission.

The IRP is expected to be finalised and gazetted by Q1 of FY2019/2020. The Biofuels Regulatory Framework and the updated IRP are expected to be finalised by Q1 of FY2019/2020. Because the regulatory framework is still under development, the CEF biofuels projects are somewhat delayed.

On a similar note, more development is still needed for the IRP revision; hence, the renewable energies investment experience made somewhat slow progress at the end of 2018/19 FY.

### Financial Performance

For the year ended 31 March 2019, CEF generated a loss of R1.3 billion compared to the R363 million loss reported in the prior year. The loss is due to the impairment of the investment in PetroSA, this was due to PetroSA carrying losses over the years which are starting to erode the initial capital investment. Before the PetroSA impairment CEF would have generated a profit of R306 million.

CEF is also continuing with conceptual phase discussions on downstream retail M&A, Downstream Brownfield refinery M&A, Downstream Greenfields M&A, and the establishment of legal entity of CEF to ring fence ACWA Redstone stake, before actual construction.

### Overall business performance

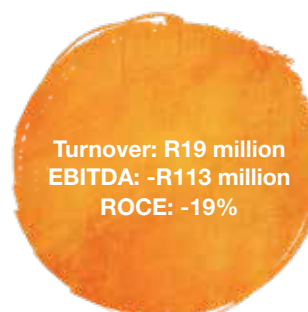
The CEF SOC 2018/2019 scorecard comprise of 6 KPAs which are subdivided into 10 KPIs, which are further subdivided into 19 measures. To support the objectives of accountability and timeous delivery, each measure has a number of strategic initiatives allocated to it. The summary performance of CEF SOC is depicted in the table below.

On an aggregated basis, the achieved score is 3.5 out of 5. for the 2018/2019 financial year.

| Key Performance Area                                | FYE Status         |
|-----------------------------------------------------|--------------------|
| Commercial Viability (50%)                          | Partially Achieved |
| Energy Poverty alleviation and transformation (15%) | Partially Achieved |
| Governance (10%)                                    | Achieved           |
| Operational Excellence (15%)                        | Partially Achieved |
| Human Capital (5%)                                  | Achieved           |
| Stakeholder Management (5%)                         | Achieved           |

### 3. Material Projects under consideration / in progress

- CEF is participating in the ACWA Solar Reserve Redstone 100MW Solar Power Plant project, as a minority shareholder. CEF has a 15% shareholding in ACWA, which is still a significant proportion of the available capital for CEF SOC. The project has progressed well during Q4 in terms of structuring before construction. To this end, CEF has carried out the prudent decision of activating one of its dormant subsidiaries to be the holding company for the CEF stake. This way the construction and other risks of the ACWA project are ring fenced outside CEF SOC. This project has progressed well, in spite of some external constraints, and is at a stage just before execution.
- CEF concluded the 2018/9 FY by exploring the market for a business system for corporate performance management. The envisaged system will have aspects that cover risk management, stakeholder management, general business performance management and integration, and cascading of elements. Procurement of this corporate system is in progress and is expected to be concluded later in 2019/20.







# Section 7

“

For the period ended 31 March 2019, CEF Group through its operations delivered a remarkable cash flow performance of R1.6 billion, attributable to the higher investment income generated, reduction in operating expenses and improved working capital management.

”



# GROUP CFO'S REPORT



## GROUP CFO'S REPORT FOR THE YEAR ENDED 31 MARCH 2019



**Mr L Makhuba**

The financial statements reflect the collective action of the CEF Group employees from 1 April 2018 to 31 March 2019. These financial statements are prepared in accordance with International Financial Reporting Standards. The CFO report is meant to supplement the financial statements that are on page 147 to 244. The CFO report will highlight the material items that have had the impact on the 2018/19 financial year.

CEF is a Schedule 2 public entity in terms of the Public Finance Management Act. Schedule 2 entities are quasi-commercial entities because they do not receive funding allocation from the fiscus to fund their operations. Therefore, the entities are expected to be self-sufficient. For this reason, CEF is expected to earn a profit from its operations to fund its commercial activities and developmental mandate.

### Financial Performance Highlights



**Revenue increased by**  
13% to R13.2 billion



**EBITDA decreased by**  
29% to R626 million



**Cash increased by**  
10% to R18.9 billion



**Capital investment increased by**  
285% to R1.1 billion

For the period ended 31 March 2019, the CEF Group still managed to generate R1.6 billion cash from operations. The cash from operations emanates from higher investment income, reduction in operating expenses and improved working capital management. Despite the operational challenges and deteriorating net profit over the recent years, the Group has managed to continue generating positive cash earnings from its operations with EBITDA remaining above R600 million over the years.





## CEF Group investment portfolio

| Asset class          | Capital allocation |             |
|----------------------|--------------------|-------------|
|                      | Amount in R'000    | %           |
| Cash                 | 18,924,575         | 50%         |
| Operating assets     | 14,612,671         | 38%         |
| Associates           | 1,048,689          | 3%          |
| Non-operating assets | 3,406,050          | 9%          |
| <b>Total assets</b>  | <b>37,991,985</b>  | <b>100%</b> |

As at 31 March 2019 the Group held assets of R38 billion comprised of the following:

- 50% of the assets is cash. Cash is expected to generate a return equivalent to the money market return.
- 38% of the assets are operating assets with the bulk invested in the oil and gas cluster and the remainder in coal mining. The oil and gas operating business segment is comprised of PetroSA GTL refinery and trading, Oil blocks in Ghana and crude oil terminals. The oil and gas cluster is confronted with daunting challenges emanating from dwindling gas reserves. The returns generated from this cluster are sub optimal.
- 3% of the assets are invested in associate companies with the bulk invested in the gas infrastructure. The investment in the gas infrastructure is comprised of the shareholding at ROMPCO and currently generating a return above the cost of capital.
- The non-operating assets constitute 9% of the total Group assets. Non-operating assets are mainly comprised of the line fill and exploration costs. Currently, these assets are not generating any income and are unlikely to generate income in the foreseeable future; therefore, this will suppress the Group returns.

The Group returns are currently below the cost of capital as the majority of the assets are in cash. The returns are further exacerbated by the sub optimal performance of the oil and gas cluster.

The Group returns emanating from operating assets and investment in associates will further be categorised by performance of each operating business segment. The majority of the operating assets are invested in the business segments which are considered to be sub-investment grade. The bulk of the portfolio should be in the prime-investment grade and the star.

|                  |                                                            |                                                                   |
|------------------|------------------------------------------------------------|-------------------------------------------------------------------|
| Low revenue high | <b>Sub-investment grade</b><br>Petroleum (PetroSA and SFF) | <b>Prime-investments</b>                                          |
|                  | <b>Question mark</b><br>Renewable Energy                   | <b>Star</b><br>Energy mining(AEMFC) and Gas infrastructure (iGas) |
|                  | Low                                                        | High                                                              |

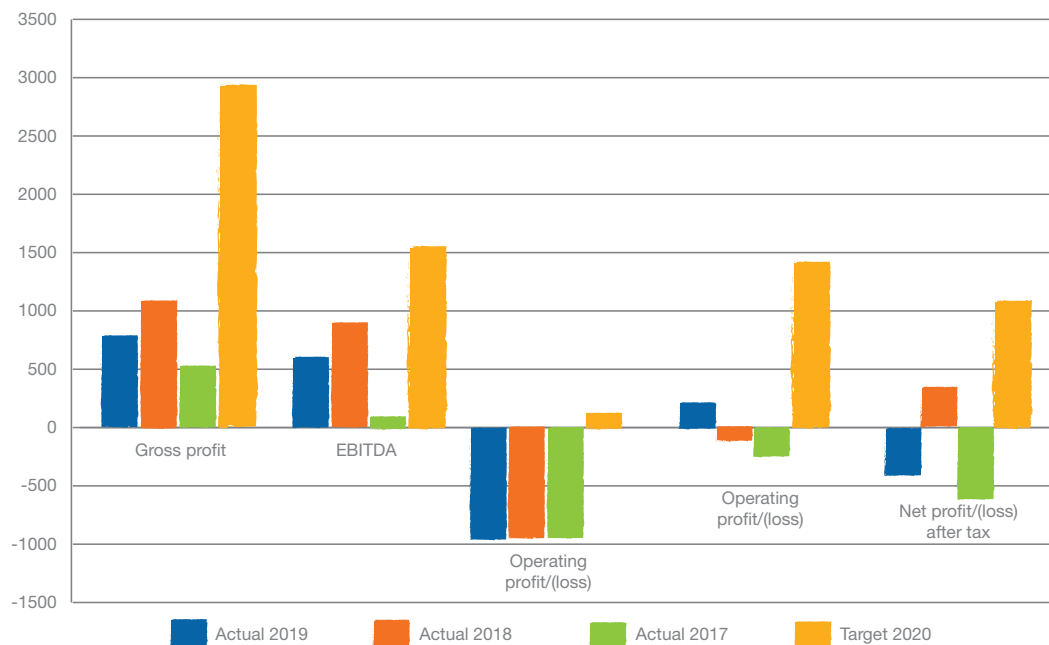
Return on capital employed

## GROUP CFO'S REPORT (continued)

### Key drivers for Financial Performance

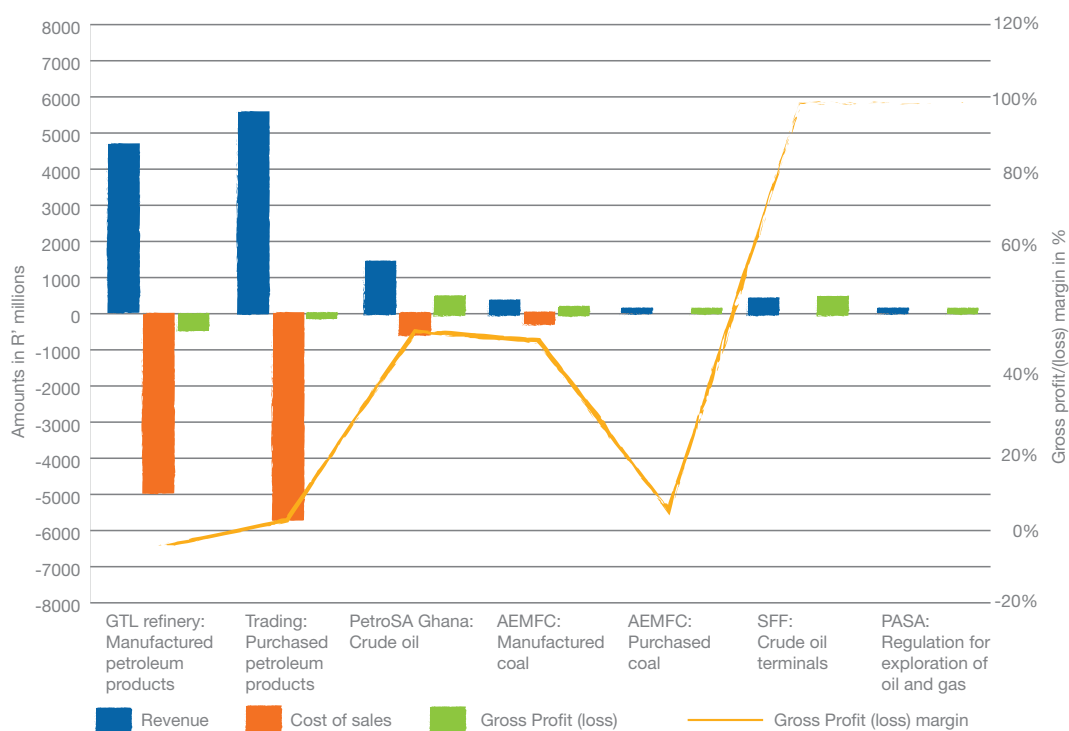
To drive the financial sustainability of the Group, the CEF Group has identified the following key drivers: Profitability, liquidity and solvency.

Profitability indicators in R' millions



Despite the remarkable cash flow performance delivered, the CEF Group reported a net loss of R471 million (2018: Net profit of R354 million) mainly attributable to the low gross profit margin, impairment of production assets and increase in the deferred tax liability.

Gross profit by business segment in R' millions



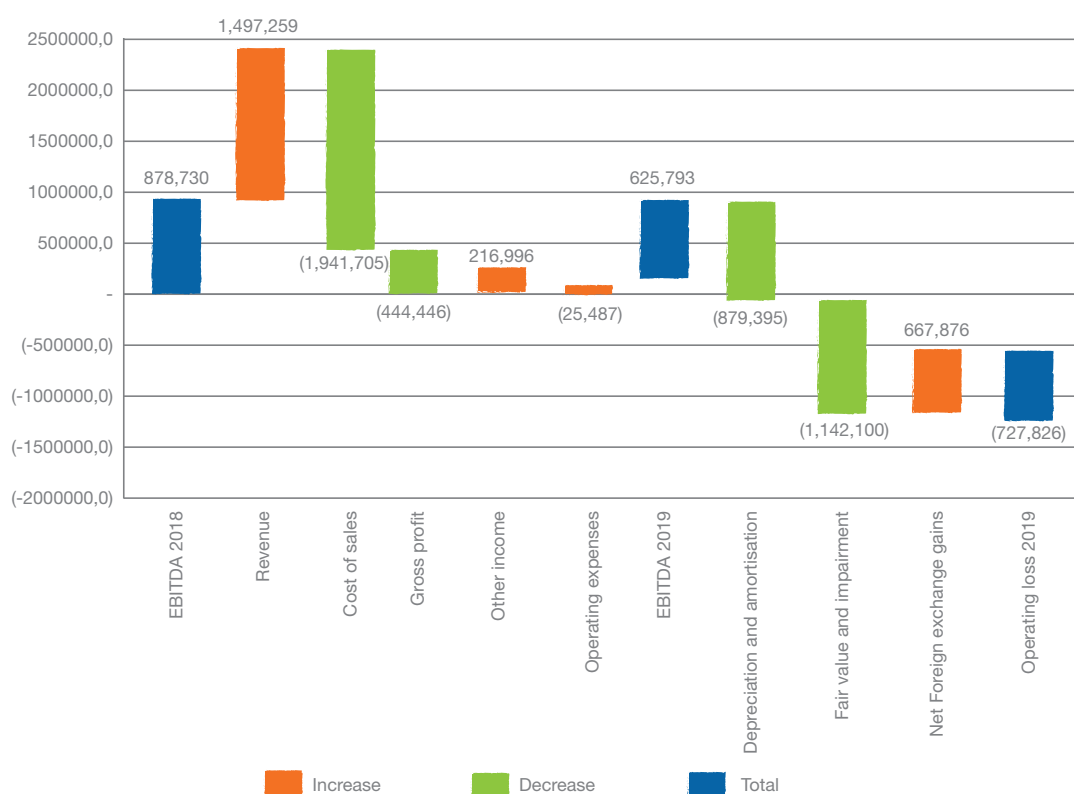


The gross profit margin decreased from 10% (R1.1 billion) to 7% (R865 million). The decline in the gross profit is largely attributable to the low production at the GTL refinery, Vlaktefontein coal mine and low utilisation rate of the crude oil storage terminals.

The low production volumes were due to the lower availability of the plant due to maintenance and suspension of production due to non-availability of affordable feedstock and labour unrest. Further to the aforementioned, the utilisation rate for the crude oil terminals was low due to the market being in backwardation. The low production volumes at the GTL refinery was supplemented by the sourcing of the finished products; however, the margins for finished products are lower than the indigenous production.

Despite the increase in the average oil price, sales volumes and weaker exchange rate; the Group was unable to generate a profit.

**EBITDA to Operating profit/ (loss) in R'000**



#### • EBITDA

The Group generated EBITDA of R626 million (margin 5%) compared to R879 million (margin: 8%) generated in the prior year. The decrease of 29% is due to the decline in gross profit; increase in operating expenses.

#### • Operating profit/(Loss)

Although the Group generated EBITDA of R626 million; the Group reported an operating loss of R728 million (margin: -6%) due to the impairment of production and exploration assets. The impairment of production assets was due to the increase in the rehabilitation provision primarily driven by the weakening of the rand against the US dollar and the write off of major service costs for the GTL refinery. The impairment of exploration assets was due to the write off of exploration rights for Petro SA oil block.

Had the Group not earned the unrealised foreign exchange gains the operating loss would have been higher than prior year by 43%.



## GROUP CFO'S REPORT (continued)

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### • **Macro-economic factors affecting our financial performance**

#### **Crude Oil prices**

The average crude oil price per barrel improved from US\$57.5 in the prior year to US\$70.8 in the current year. The average crude oil price per barrel increased due to supply constraints due to OPEC production curtailments. The crude oil price volatility has a significant impact in the following businesses:

- Petroleum products business- the oil price forms part of the key variables that influence the selling price of the product and cost price for sourcing feedstock and finished products.
- Crude oil storage business- the oil price forms part of the key factors that affect the demand for crude oil storage space. The lower price of crude oil encourages drives to store products at the storage facility with the intention to sell the products when prices increase.

#### **Exchange rates**

The average rand/US dollar exchange rate weakened from R13.00 in the prior year to R13.75 in the current year. The rand /US dollar volatility was mainly impacted by the market sentiments, which are driven by perceived risks as result of the political rhetoric and perceived policy changes. The rand/US dollar volatility has a significant impact in the following:

- Petroleum products business- the rand/US dollar exchange rate forms part of the key variables that influence the selling price of the product and cost price for sourcing feedstock and finished products.
- Foreign operations and investments on translation of the reported performance to rand.

#### **Profit/(loss) before tax**

Despite the Group generating an operating loss of R728 million, it has reported a net profit before tax of R309 million versus a net loss before tax of R133 million reported in the prior year. The improvement in net profit before tax is largely due to the increase in investment income of R159 million and decrease in finance costs of R39 million.

### • **Investment income**

The investment income increased from R1.4 billion to R1.6 billion in the current year. The investment income is comprised of interest income of R1.2 billion (2018: R1.1 billion) and share of profits from associates of R416 million (2018: R356 million). The interest income increased by 9% due to the year on year increase in the cash balance. The investment income was further increased by the higher share of profit from Mzimkhulu Mining.

### • **Finance costs**

The Group's finance costs decreased by 7% from R574 million, reported in the prior year, to R535 million in the current year. The lower finance costs are due to the decrease in notional interest. The notional interest decreased due to revaluation of the rehabilitation provision. The notional interest on the rehabilitation provision constitutes 71% of the Group's finance costs and the remainder is attributable to external debt funding. The finance costs excluding notional interest is R157 million (2018: R134 million).

#### **Net profit/(loss) after tax**

The net profit after tax declined from a net profit of R354 million reported in the prior year to a net loss of R471 million. The significant decline in the net profit is largely attributable to the increase in the income tax expense. The income tax expense increased by 230% from a tax credit of R487 million in the prior year to the taxation expense of R780 million in the current year. The increase in the income tax expense is mainly due to the increase in the deferred tax liability as a result of the reversal of impairment of PetroSA Ghana assets in the current year.

## Liquidity

The Group has sufficient cash resources to fund its short term debt and working capital requirements through cash generated from operations, banking facilities and retained cash. The cash position for the Group continues to improve year on year; this is achieved through cost containment, low debt financing and improved cash conversion cycle.

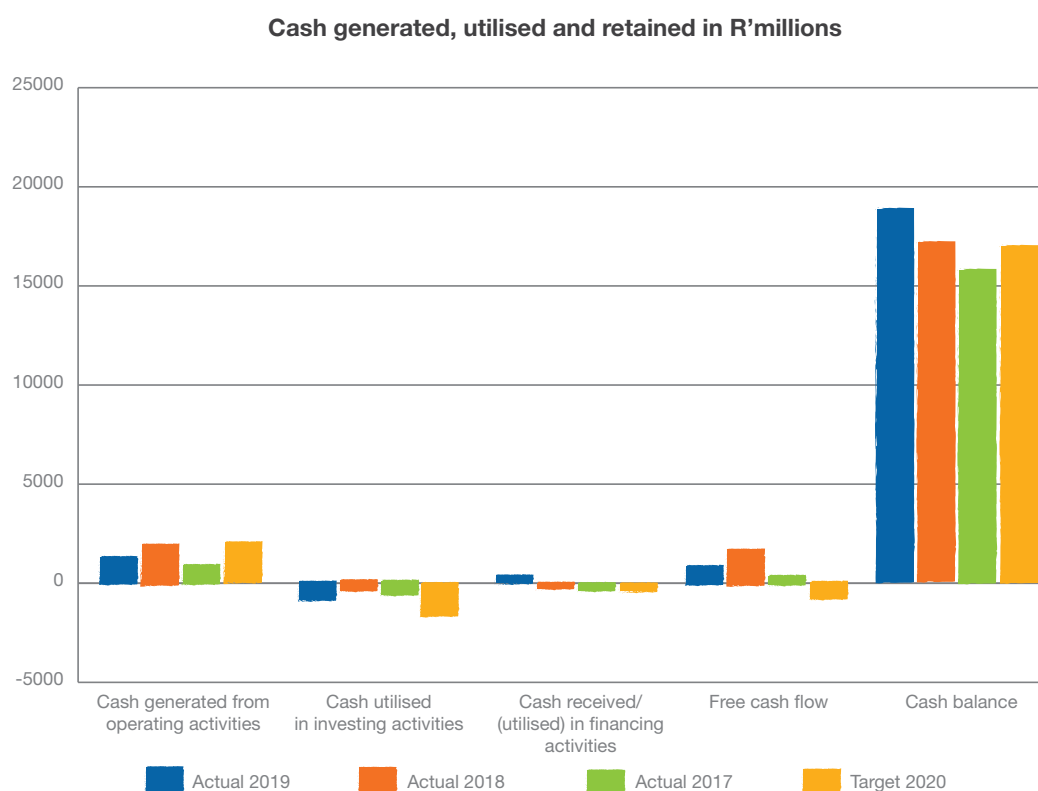


### Group cash generation, utilisation and financing

The cash for the Group increased by 10% from R17.2 billion in the prior year to R18.9 billion in the current year mainly due to cash flows generated from operations and effects of the exchange rate movement on the opening cash balance.

The free cash flows for the Group declined by 58% from R2 billion in the prior year to R840 million in the current year due to the significant capital investment of R1.1 billion made in the current year. The investments of R1.1 billion are largely attributable to the expenditure incurred towards the major servicing of the GTL refinery and developments at PetroSA Ghana.

Below is a graph depicting the cash flow for the Group



- Cash Generated from Operating Activities**

The net cash from operating activities has decreased from R2.5 billion to R1.6 billion. The decrease in the cash from operating activities is due to the decrease in gross profit. The other items such as finance costs, investment income and tax paid have had negligible impact on the cash from operating activities.

- Cash utilised in Investing Activities**

During the year the Group invested R1.1 billion (2018: R286 million) towards sustenance and growth. The Group invested R724 million towards sustenance of the GTL refinery and Vlakkfontein coal mine and R338 million was invested towards exploration activities and development of PetroSA Ghana oil blocks and Vlakkfontein mine extensions.

- Cash Flows from Financing Activities**

The capital spending is currently funded through cash generated from operations, retained cash and external interest bearing debt. During the year the Group entered into finance lease for R125 million, the changes in the Reserve based lending facility is due and the finance lease is due to the weakening of the reporting currency.

## GROUP CFO'S REPORT (continued)

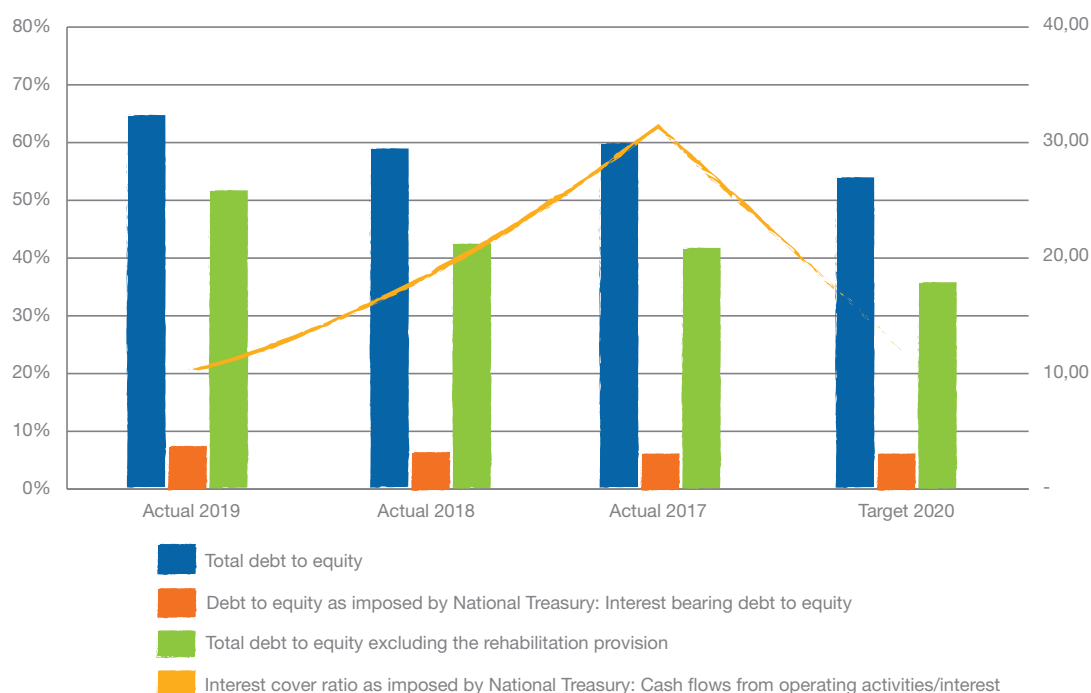
The external interest bearing debt for the Group is comprised of the following:

| Figures in R'000                                    | Actual 2019      | Actual 2018      |
|-----------------------------------------------------|------------------|------------------|
| Petro SA Ghana finance lease                        | 949,127          | 812,583          |
| Vlakfontein coal mine finance lease                 | 140,261          | -                |
| Reserve based lending facility                      | 968,271          | 769,256          |
| Total external debt funding interest bearing        | 2,057,659        | 1,581,839        |
| Short-term                                          | 89,617           | 39,684           |
| Long-term                                           | 1,968,042        | 1,542,155        |
| <b>Total external debt funding interest bearing</b> | <b>2,057,659</b> | <b>1,581,839</b> |

The Group complies with all the financial covenants of its external borrowings.

### Solvency

Key indicators for solvency



As at 31 March 2019, the gearing ratio for the Group is 93% equity and 7% interest bearing debt. The gearing ratio is within the ceiling imposed by National Treasury of 60% equity and 40% interest bearing debt. Total debt to total equity is 65%:35% due to the high balance for the rehabilitation provision, excluding the rehabilitation provision its 52%:48%.

The cash interest cover ratio for the Group is 10.5 times. The interest cover ratio is within the target ratio imposed by National Treasury of above 2 times.

The Group currently holds minimal external debt funding therefore has headroom to grow its investments portfolio by accessing external funding and deploying its cash resources to sustenance, growth and diversification projects.





## Financial Governance

The Group is committed to sound financial governance through compliance to the PFMA and by preventing irregular expenditure and fruitless and wasteful expenditure. There has been a decrease in both Irregular and fruitless and wasteful expenditure reported in the current year.

The Group incurred irregular expenditure of R20 million during the year compared to R17 million in the prior year and the cumulative balance of irregular expenditure is R456.5 million compared to the R2.6 billion reported in the 2017/18 financial year, the decrease was mainly due to the condonation of the R2.2 billion incurred at PetroSA, details are included in note 48 of the financial statements in section 2 of this report. The irregular expenditure incurred in the current year relates to expenditure in contravention of the procurement regulations.

Fruitless and wasteful expenditure for the current year is R4.2 million compared to the R15.6 million reported in the prior year and the cumulative balance is R19 million compared to the R15.9 million reported in the prior year. The fruitless and wasteful expenditure incurred in the current year relates to the consulting fees incurred in vain and penalties and interest on the payments to SARS.

As part of corrective measures, we will continue investigating and taking appropriate action to recover any losses and address areas where weaknesses in our systems have been identified. The Group has also established Loss control functions/committees across its subsidiaries to deal with preventing Irregular, fruitless and wasteful expenditure, conducting investigations, recovering losses suffered by the Group related to such expenditure as well as ensuring that there is consequence management.

## Key challenges affecting the CEF Group

### Profitability

Despite the remarkable cashflow performance; the Group profitability is severely challenged because the return on capital employed of -1% is below the cost of capital of 14%. The suboptimal performance is due to the declining gas reserves at PetroSA and slow rollout of diversification projects. Over the recent years, the gross profit has been declining due to the decline in production volume and increase in cost of sales as result of utilising condensate as result of dwindling gas reserves.

### Strategic Crude Oil

SFF, together with CEF SOC, has lodged an application in the Western Cape High Court to set aside the disposals of the strategic crude oil stock on the grounds that these disposals were unlawful, invalid and unconstitutional. Should the Court rule in favour of CEF/SFF, SFF will have to repay all proceeds from the transactions, and all storage income received from the buyers for storing these barrels from the date of transfer, including all interest earned and other associated costs. The estimated total amount repayable at 31 March 2019 is R4.7 billion (2018: R3.7 billion) based on the prevailing foreign exchange rate between the rand and US Dollar. Should the Court rule that the transaction is valid, according to Paragraph 3A(c) of the CEF Act no 38 of 1977, the proceeds from the sale of crude oil received by SFF Association, shall be payable into the Equalisation Fund provided a determination by the Minister of Energy with the concurrence of the Minister of Finance has been received.

### Funding of the Decommissioning Liability Provision

In terms of the Financial Provision Regulations promulgated under the National Environmental Management Act 107 of 1998, the Group is required to have the rehabilitation liability fully funded by February 2024. At year-end, the Group had an obligation to provide for the rehabilitation and abandonment of its offshore and onshore facilities valued at R10.9 billion, which are currently not fully funded, as there is a shortfall of approximately R7.4 billion. The Group has to work with various stakeholders to ensure the Regulations do not have an adverse impact on the liquidity of the Group when they come into effect.

## GROUP CFO'S REPORT (continued)

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### Outlook

In order to improve the financial performance of the group, the Group has embarked on a strategy review process which is focused at improving the financial sustainability of the Group, particularly PetroSA. The strategy is focused on strengthening our position in energy storage, sustenance of the refinery, divestment from non-core assets, improving the market share in the gas market and coal market, and lastly to diversify the portfolio by investing in new sources of energy. Further to improving the margins and diversifying revenue, the group will focus on improving its execution rate for sustenance, growth and diversification initiatives.

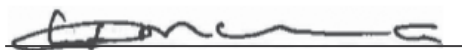
### Conclusion

Social commentators and analyst complain about the role of state owned entities and some even say there are drain to the fiscus. We believe that the complaints are due to wrong measurement instruments being used to assess the performance of the state owned entities. The measurement instruments that are being used are only focused on measuring the commercial mandate and such instruments results in the performance of the state entities being misunderstood and misinterpreted. The instruments that are used need to measure the commercial mandate, developmental mandate and social mandate; however, currently there is no such measurement instrument that is able to measure all three components of the mandate of state owned entities.

Given the lack of such measurement instrument, those who run the state owned entities are likely to mix the sequencing of the commercial, developmental and social mandate. When the sequencing is mixed up, it is impossible to have a financially sustainable state owned entities. When the entities are not financially sustainable, it becomes difficult if not impossible for state owned entities to contribute meaningfully to the developmental state and also contribute to changing the material conditions of the impoverished communities. In our order for the state owned entities to improve their financial position, the entities need to focus first on commercial/financial sustainability, then developmental mandate and lastly social mandate.

### Thanks and acknowledgements

My gratitude goes to the finance team, which made sure we produce annual financial statements that meet the requirements of our stakeholders. Without the commitment of the finance team and the support of the subsidiaries, these financial statements would not have been possible. Lastly, I would like to thank the CEF Board. Led by Mr Mompoti, and CEF EXCO, led by Mr Makhanya, for providing strategic direction and insightful input on how CEF can be transformed from being a struggling state owned entity to a powerful state owned entity that is able to fulfil its mandate of ensuring that South African has adequate energy at affordable price.



**Mr L Makhuba CA (SA)**  
**Group Chief Finance Officer**





## PART 2



# Section 8



# FINANCIAL STATEMENTS



## GENERAL INFORMATION

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|                                                    |                                                                                                                              |
|----------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|
| <b>Country of incorporation and domicile</b>       | South Africa                                                                                                                 |
| <b>Nature of business and principal activities</b> | The financing and promotion of the acquisition of, research into and exploitation of energy-related products and technology. |
| <b>Directors</b>                                   | Mr N Mompoti (Interim Chairperson)<br>Mr MJ Besnaar<br>Mr T Maqubela<br>Ms G Leketi (Alternate)<br>Mr L Makhuba              |
| <b>Registered office</b>                           | Block C, Upper Grayston Office Park<br>152 Ann Crescent<br>Strathavon<br>Sandton<br>2199                                     |
| <b>Business address</b>                            | Block C, Upper Grayston Office Park<br>152 Ann Crescent<br>Strathavon<br>Sandton<br>2199                                     |
| <b>Postal address</b>                              | P O Box 786141<br>Sandton<br>2146<br><a href="http://www.cefgroup.co.za">http://www.cefgroup.co.za</a>                       |
| <b>Ultimate holding company</b>                    | South Africa Government through Department of Mineral Resources and Energy                                                   |
| <b>Bankers</b>                                     | ABSA Bank Limited                                                                                                            |
| <b>External Auditors</b>                           | Auditor-General of South Africa                                                                                              |
| <b>Company Secretary</b>                           | Mr A Haffejee                                                                                                                |





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## DIRECTORS' RESPONSIBILITIES AND APPROVAL

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The Board is required in terms of the Companies Act, 71 of 2008 and the Public Finance Management, Act 1 of 1999 to maintain adequate accounting records and is 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:

- provide an opinion on the consolidated and separate financial statements.
- report findings regarding reported performance information against predetermined objectives for the selected key performance areas (KPA's) as presented in the annual performance report.
- report findings regarding instances of non-compliance with specific legislation in terms of selected subject matters as applicable.
- report deficiencies in internal control.

The Consolidated Annual Financial Statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies and supported by reasonable and prudent judgments and estimates.

The Board acknowledges 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 Board to meet these responsibilities, they set 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 Board is 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.

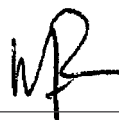
The Board has reviewed the Group's cash flow forecast for the year to 31 March 2020 and, in the light of this review and the current financial position, they are satisfied that the Group has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the Group's Consolidated Annual Financial Statements. The Consolidated Financial Statements have been examined by the Group's external auditors and their report is presented on page 119 to 123.

The Consolidated Annual Financial Statements set out on page 147 to 244, which have been prepared on the going concern basis, were approved by the Board on 30 August 2019 and were signed on its behalf by:



**Mr N Mompoti (Interim Chairperson)**  
30 August 2019



**Mr MJ Besnaar (Independent Non- Executive)**  
30 August 2019



# REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON CEF SOC LIMITED AND ITS SUBSIDIARIES

## Report on the audit of the consolidated financial statements

### Opinion

1. I have audited the consolidated financial statements of the CEF SOC Limited and its subsidiaries (the group) set out on pages 147 to 244, which comprise the consolidated statement of financial position as at 31 March 2019, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, as well as the notes to the consolidated financial statements, including a summary of significant accounting policies.
2. In my opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the group as at 31 March 2019 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS), and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act).

### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated financial statements section of this auditor's report.
4. I am independent of the group in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code), parts 1 and 3 of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## Emphasis of matter

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

### Impairment of property, plant and equipment

7. As disclosed in note 3 to the consolidated financial statements, the group had an impairment loss of R692 096 000 (2018: R239 762 000) on property, plant and equipment.

### Investments in associates

8. With reference to note 7 to the consolidated financial statements, the investment in African Royal Minerals (Pty) Ltd (ARM) to the value of R161 167 000 (2018: R0) was not equity accounted due to a lack of financial information. There is a disagreement regarding the memorandum of incorporation (Mol) and the shareholders are still engaging on the matter.

### Uncertainty relating to the future outcome of litigation

9. With reference to note 38 to the consolidated financial statements, the group has lodged an application to the court to set aside the disposal of the strategic crude oil stock on the grounds that these disposals were unlawful, invalid and unconstitutional. The ultimate outcome of the matter cannot be determined and no provision for any liability that may result was made in the consolidated financial statements.

### Contingencies - guarantees

10. With reference to note 38 of the consolidated financial statements, the group has provided various guarantees to the value of R683 863 000 (2018: R682 974 000) mainly for the rehabilitation of mining leases.

### Restatement of corresponding figures

11. As disclosed in note 39 to the consolidated financial statements, the corresponding figures for 31 March 2018 were restated as a result of an error in the financial statements of the group at, and for the year ended, 31 March 2019.

### Events after the reporting date

12. With reference to note 46 to the consolidated financial statements, a memorandum of understanding (MoU) has been concluded between the governments of South Africa and South Sudan to jointly participate in South Sudan's oil and gas sector resulting in Strategic Fuel Fund Association NPC (SFF) concluding an exploration and production sharing agreement with the Republic of South Sudan. The exploration and production sharing agreement has been approved for costs totalling \$48 million (translated to R695 million as at 31 March 2019) over a period of 6 years.



# REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON

## CEF SOC LIMITED AND ITS SUBSIDIARIES (continued)

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### Other matters

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

#### Unaudited supplementary information

14. The supplementary information set out on pages 245 to 255 does not form part of the consolidated financial statements and is presented as additional information. I have not audited this information and, accordingly, I do not express an opinion on thereon.

#### Funding of decommissioning provision

15. With reference to paragraph 13 of the directors' report, PetroSA has an obligation to rehabilitate and abandon its offshore and onshore operations valued at R9.8 billion, with cash set aside of R2.4 billion and therefore the provision is currently under-funded by approximately R7.4 billion. In terms of the financial provision regulations which were promulgated under the National Environmental Management Act, 1998 (Act No. 107 of 1998) NEMA, PetroSA is required to have the rehabilitation liability fully funded by 19 February 2024.

### Responsibilities of the accounting authority for the consolidated financial statements

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

### Auditor-general's responsibilities for the audit of the consolidated financial statements

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

### Report on the audit of the annual performance report

#### Introduction and scope

20. 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 material findings on the reported performance information against predetermined objectives for selected key performance areas (KPA's) presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
21. My procedures address the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.



# REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON CEF SOC LIMITED AND ITS SUBSIDIARIES (continued)

## Report on the audit of the annual performance report (continued)

22. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected KPAs presented in the annual performance report of the public entity for the year ended 31 March 2019:

| Objectives                                                  | Pages in the annual performance report |
|-------------------------------------------------------------|----------------------------------------|
| Objective 1 – Commercial viability                          | 131                                    |
| Objective 2 – Energy poverty alleviation and transformation | 132                                    |

23. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

24. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected KPAs.

## Other matter

25. I draw attention to the matters below.

### Unaudited supplementary information

26. The scores column supporting the achievement as set out on pages 133 to 138 does not form part of the report on the performance against KPAs and is presented as additional information and accordingly, I do not express any form of assurance conclusion thereon.

### Adjustment of material misstatements

27. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 2: Energy poverty alleviation and transformation. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

## Report on the audit of compliance with legislation

### Introduction and scope

28. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the public entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

29. The material findings on compliance with specific matters in key legislations are as follows:

### Annual financial statements

30. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 55(1)(b) of the PFMA. Material misstatements of non-current assets for investment in associates and subsidiaries as well as commitments relating to CEF SOC Limited were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

### Strategic planning and performance management

31. An annual shareholder's compact was not concluded in consultation with the executive authority as required by treasury regulation 29.2.1.

### Expenditure management

32. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R8 426 000 as disclosed in note 37 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA. The majority of the irregular expenditure was caused by non-compliance with the supply chain management policy and regulations.

# REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON CEF SOC LIMITED AND ITS SUBSIDIARIES (continued)

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## Report on the audit of compliance with legislation (continued)

### Consequence management

33. I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular as well as fruitless and wasteful expenditure, as required by section 51(1)(e)(iii) of the PFMA. This was due to the public entity not implementing consequence management procedures in a timely manner for the further follow-up of such expenditure.

### Other information

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

### Internal control deficiencies

37. I considered internal control relevant to my audit of the consolidated financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.
38. The accounting authority did not exercise adequate oversight responsibility regarding compliance with laws and regulations and related internal controls which resulted in instances of non-compliance with the PFMA and treasury regulations.
39. Senior management did not prepare accurate annual financial statements and a performance report that were supported and evidenced by reliable evidence. The annual financial statements were subject to material amendments resulting from the audit.

*Auditor - General*

Johannesburg

29 August 2019



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*





## ANNEXURE – AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT

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

### Financial statements

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

### Communication with those charged with governance

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

# REPORT OF THE BOARD AUDIT AND RISK COMMITTEE

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This report is provided by the Board, Audit and Risk Committee appointed in respect of the 2019 financial year for the CEF Group.

## 1. Charter

The roles and responsibilities for the Audit Committee and Risk Committee (Collectively - the Committee) are split to improve and focus attention on risk management activities separately. The members of the two committees are the same members and the committee meetings takes place on the same dates.

The Committee is guided by a detailed charter that is reviewed and approved by the Board on an annual basis. The Committee has regulated their affairs in compliance with this charter and has discharged all their responsibilities as contained therein.

## 2. Purpose

The Committee's purpose and responsibilities arise from the Companies Act 71 of 2008 Section 94(7), The Public Audit Act 25 of 2004, Public Finance Management Act of 1999; Section 76 (4)(d) and Treasury Regulations 27.1. In performing its responsibilities, the committee has reviewed the following:

- the effectiveness of the internal control systems; the effectiveness of the internal audit function;
- the risk areas of operations to be covered in the scope of the internal and external audits;
- the adequacy, reliability and accuracy of financial information provided to management and other users of such information;
- the accounting and auditing concerns identified as a result of the internal or external audits; compliance with applicable legal and regulatory provisions;
- the activities of the internal audit function, including its annual work program, coordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations; and
- the independence and objectivity of the external auditors.

## 3. Membership

The Committee members were appointed by the Board and comprise of at least three non-executive members. The committees consist of the members listed hereunder and should meet on a minimum of two occasions per annum as per the approved Charter. During the financial year 7 meetings were held.

| Name of member              | Number of meetings attended |
|-----------------------------|-----------------------------|
| Mr MJ Besnaar (Chairperson) | 7                           |
| Adv L Mtunzi                | 7                           |
| Mr N Mompoti                | 5                           |

## 4. External audit

The Committee, in consultation with executive management, agreed to the engagement letter, terms, nature and scope of the external audit plan as presented by the Auditor-General of South Africa. The audit committee has reviewed the Auditor-General of South Africa's Strategic Audit Plan for the 2018/19 financial year and have approved the fees. The audit committee has satisfied itself that the Auditor-General of South Africa exercised their duties in an independent and objective manner.

# REPORT OF THE BOARD AUDIT AND RISK COMMITTEE

(continued)



## 5. Corporate governance

We are of the opinion that the Group continues to strive towards complying with sound principles of corporate governance. As per our discussions with management, management confirms that the content and quality of quarterly reports prepared and issued by the Interim Group Chief Executive Officer during the year under review were properly formulated and have complied with the PFMA in this regard.

## 6. Internal Audit

The Committee considered and approved the internal audit charter and approved the annual work plan for the internal audit function. The internal audit function is responsible for reviewing and providing assurance on the adequacy and effectiveness of the internal control environment across operations. The Chief Audit Executive is responsible for reporting the findings of the internal audit work against the agreed audit plan to the Committee on a quarterly basis.

The Chief Audit Executive has direct access to the committee, primarily through its Chairperson. The Committee is also responsible for the assessment of the performance of the internal audit function.

The internal audit function is independent and has the necessary resources, budget, standing and authority within the organisation to enable it to discharge its functions. The Chief Audit Executive reports functionally to the chairperson of the Audit committee and the chairperson must concur with the appointment and dismissal of the Chief Audit Executive.

The Committee is satisfied that the internal audit function is operating effectively, and that it has addressed the risks pertinent to the Group in its audits and accordingly believe that Internal Audit has contributed to the improvement of internal controls within the Group.

## 7. Financial statements

The Committee reviewed the Annual Financial Statements and is satisfied that they fairly present the consolidated and separate results of operations, cash flows, and the financial position of CEF Group and comply, in all material respects, with the relevant provisions of the Companies Act, International Financial Reporting Standards (IFRS) and Interpretations of IFRS as issued by the International Accounting Standards Board.

The Committee also considered the solvency and liquidity tests undertaken for specific transactions and distributions and considered and made recommendations to the Board on the interim and final dividends paid to shareholders.

The committee has also reviewed the AGSA's management report and management's response thereto including the significant adjustments resulting from the audit. The Committee concurs and accepts the annual financial statements, and is of the opinion that the audited financial statements be accepted and read together with the report of the AGSA. Following the review of the annual financial statements, the Committee recommends board approval thereof.

## 8. Accounting practices and Internal control effectiveness

The Committee is satisfied that a system of internal controls has been put in place and that these controls have functioned effectively during the period under review. The Committee considers the system of internal controls appropriate in all material respects to:

- reduce risks to an acceptable level;
- meet the business objectives;
- ensure assets are adequately safeguarded; and
- ensure that transactions undertaken are recorded in the accounting records.

It was noted that no other significant or material non-compliance with prescribed policies and procedures has been reported except as reported in the audit report. Accordingly, we can report that the system of internal controls for the period under review was efficient and effective.

# REPORT OF THE BOARD AUDIT AND RISK COMMITTEE

(continued)

## 9. Risk management

The Board assigned the oversight of the risk management function to the Board Audit and Risk Committee (The BARC). The Group implemented a risk management strategy which includes the fraud prevention plan and combined assurance plan. The BARC monitored the significant risks faced by the Group through reviewing risk reporting and participation in the risk assessment workshop. We are satisfied that significant risks were managed to an acceptable level. Refer to the Integrated Annual Report for detailed report on the risk assessment.

## 10. Significant matters considered by the committee

The following is a description of the key matters considered by the Audit Committee.

| Key Issues                                  | Judgements in Financial Reporting                                                                                                                                                                                                                                                                                                                                                                                                                    | Audit Committee Review                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Conclusions                                                                                                                                                                                                                                                       |
|---------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Fair, balanced and understandable reporting | <ul style="list-style-type: none"><li>In preparing the Consolidated Annual Financial Statements in terms of IFRS, the Group's management is required to make certain estimates and assumptions that may materially affect reported amounts of assets and liabilities at the date of the Consolidated Annual Financial Statements and the reported amounts of revenues and expenses during the reported period and the related disclosures.</li></ul> | <ul style="list-style-type: none"><li>The Committee considered reports received from management and the internal auditors quarterly highlighting significant accounting issues and judgements and obtained assurance from management that disclosures in CEF's financial statements were fair, balanced and understandable.</li><li>Established via reports from management, internal and external audit that there were no indications of material fraud relating to financial reporting matters.</li><li>Assessed disclosure controls and procedures.</li><li>Considered matters of accounting, tax and disclosure issues raised by the external auditors.</li><li>Requested that management report on and evidence the basis on which representations to the external auditors were made.</li></ul> | <ul style="list-style-type: none"><li>Having assessed all of the available information and the assurances provided by management, the Committee concluded that the processes underlying the preparation of CEF's financial statements were appropriate.</li></ul> |



# REPORT OF THE BOARD AUDIT AND RISK COMMITTEE

(continued)



## 10. Significant matters considered by the committee (continued)

| Key Issues                                              | Judgements in Financial Reporting                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Audit Committee Review                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Conclusions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|---------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Impairment and recoverability of assets carrying values | <ul style="list-style-type: none"> <li>Judgements and assumptions are applied by management in calculating the recoverable amount of the Cash Generating Units ("CGUs") and determining the ongoing appropriateness of the CGUs being used for the purpose of impairment testing.</li> <li>These include assumptions such as discount rates.</li> <li>Judgements are also required in assessing the recoverability of loans and overdue receivables and in deciding whether a provision is required.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                   | <ul style="list-style-type: none"> <li>The Committee reviewed the discount rates for impairment testing as part of its annual process and examined the assumptions.</li> <li>Key impairment assessments reviewed by the Committee include: <ul style="list-style-type: none"> <li>Mossel Bay GTL refinery impairment R 572 million</li> <li>Ghana blocks impairment reversal (R1.282 billion)</li> <li>Increase in decommissioning provision R1.401 billion</li> </ul> </li> </ul>                                                                                                                                                                                                         | <ul style="list-style-type: none"> <li>The committee is satisfied with the judgements and assumptions used in the calculation of impairments.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Accounting for provisions                               | <ul style="list-style-type: none"> <li><b>Post-retirement benefit obligations</b> - Valuation of the post-retirement benefit obligation provision requires the use of assumptions in relation to uncertain future factors i.e. inflation rates, discount rates, salary increases and mortality rates. Judgement is also required in the measurement of the fair value of certain pension assets.</li> <li><b>Rehabilitation provisions</b> – Provisions are recognised for the full future restoration and rehabilitation of production facilities to the end of its economic lives. The majority of these activities will occur in the long- term and the requirements that will have to be met in future might be uncertain. Judgement is required in estimating future cost and cash outflows, discount rates, settlement dates, technology and legal requirements.</li> </ul> | <ul style="list-style-type: none"> <li>The Committee received an update on the status of funding, investment and governance of pensions and other retirement benefits provided to current and former employees of the Group. In addition, the Committee examined the assumptions used by management as part of its annual reporting process.</li> <li>The Committee received briefings on the Group's rehabilitation provisions and asset retirement obligations, environmental remediation strategies, including the key assumptions used, the governance framework applied (covering accountabilities and controls), discount rates and the movement in provisions over time.</li> </ul> | <ul style="list-style-type: none"> <li>The Committee reviewed the net post- retirement benefit assets. The valuations are performed by independent third parties.</li> <li>The Committee reviewed the rehabilitation provisions for compliance with legislation and consistent application of the accounting policy.</li> <li>The Committee requested that an external review be performed to confirm the completeness of the rehabilitation provision.</li> <li>The Committee took into account the reviews and re-computations undertaken by the external auditors which supported the accounting for all significant provisions.</li> </ul> |

# REPORT OF THE BOARD AUDIT AND RISK COMMITTEE

(continued)

## 10. Significant matters considered by the committee (continued)

The following is a description of the key matters considered by the Audit Committee.

| Key Issues                  | Judgements in Financial Reporting                                                                                                                                                                                                                                                                                                                                                             | Audit Committee Review                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Conclusions                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Accounting for income taxes | <ul style="list-style-type: none"> <li>Computation of the Group's income tax expense and liability, provisions for potential tax liabilities, and recognition of deferred tax assets in terms of the Group's taxation policy.</li> <li>Recognition of deferred tax assets in respect of accumulated tax losses are underpinned by management judgement.</li> </ul>                            | <ul style="list-style-type: none"> <li>The Committee reviewed the judgements exercised on tax provisions as part of its annual review of key provisions.</li> <li>In relation to the recognition of the deferred tax assets, the Committee challenged management's expectations for future taxable profits and in considering management's position, the Committee took into account the work and views of external audit.</li> <li>The Committee required management to manage taxes transparently and with due regard to commercial and reputational risks.</li> <li>The Committee considered management's assessment of the Company's tax exposures and the appropriateness.</li> </ul> | <ul style="list-style-type: none"> <li>The Committee reviewed the tax numbers and disclosures in the financial statements the tax policy, approach to tax management and status of compliance.</li> </ul>                                                                                                                                                                                                                                                                      |
| Going concern assessment    | <ul style="list-style-type: none"> <li>The conclusion by the Board to prepare the consolidated annual financial statements on a going concern basis requires management judgement on issues which includes uncertain future forecasts of net cash inflows, net debt and financing facilities available to the company.</li> <li>The assessment was done for a period of 12 months.</li> </ul> | <ul style="list-style-type: none"> <li>The Committee critically assessed the liquidity of the Group using the latest forecasted projection of future cash flows.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | <ul style="list-style-type: none"> <li>After examining the forecast along with the Group's ability to generate capital and raise funding in current market conditions, the Committee concluded that the Group's liquidity and capital position remained appropriate, and that the going concern basis of accounting was agreed.</li> <li>Accordingly, the Committee recommended to the Board the adoption by the Company of the going concern basis of preparation.</li> </ul> |

# REPORT OF THE BOARD AUDIT AND RISK COMMITTEE

(continued)

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## 11. Conclusion

We therefore recommend that the Board approve the Consolidated Annual Financial Statements for 2018/2019.

## 12. Appreciation

The committee expresses its sincere appreciation to the Shareholder, Directors, Interim Group Chief Executive Officer, Management, Internal Audit and the Auditor-General of South Africa.

On behalf of the Board Audit and Risk Committee

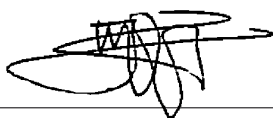
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**Mr MJ Besnaar CA (SA)**  
Chairman Board Audit and Risk Committee  
28 August 2019

## STATEMENT FROM COMPANY SECRETARY

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In my capacity as CEF Secretary, I hereby confirm in terms of section 88 (2)(e) of the Companies Act, except where otherwise mentioned in the Consolidated Annual Financial Statements, for the year ended 31 March 2019, that the Group has lodged with the Companies and Intellectual Property Commission (CIPC) all such returns as are required of the Group in terms of the Companies Act of South Africa of 2008 and that all such returns are to the best of my knowledge and belief, correct and up to date.



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**Mr A Haffejee**  
Group Secretary  
30 August 2019



# GROUP REPORT ON PERFORMANCE AGAINST OBJECTIVES



Detailed performance scores, including comments regarding variances, for each activity for Group are included in individual quarterly reports.

| KPA                               | KPI                             | Measure                                   | Weight | Target (FY18/19)                                                                                                      | Score | Actual Achievement                                                                                                                                                                                                                                                                                                                                                                                             |
|-----------------------------------|---------------------------------|-------------------------------------------|--------|-----------------------------------------------------------------------------------------------------------------------|-------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Commercial Viability (50%)</b> | <b>Financial Sustainability</b> | Profitability (ROA) – New Business        | 20.0%  | FEL1 and FEL2. Screening for growth opportunities                                                                     | 4     | <p>NDA and EOI concluded. Scope of Work for due diligence is in progress.</p> <p>Merger/Acquisition: NDA and EOI concluded, the due diligence process will commence in the new financial year.</p> <p>Engagement with Saudi Aramco initiated (via. DMRE). MOC drafted and issued to Saudi Aramco thereafter the Conceptual Phase will commence.</p>                                                            |
|                                   |                                 | Profitability (ROA) – Current Business    | 20.0%  | <p>Gross Profit Margin: 11%</p> <p>Cost reduction-OPEX: 159% of Gross profit.</p> <p>Portfolio Management: 8% ROI</p> | 2.5   | <p>Gross Profit Margin: 7%</p> <p>Cost reduction-OPEX: 262% of Gross profit incl foreign exchange gains and 339% excl foreign exchange gains.</p> <p>Portfolio Management: 9% ROI</p>                                                                                                                                                                                                                          |
|                                   |                                 | Liquidity (Operating cash flow ratio)     | 5.0%   | 0,14 Operating Cash flow ratio                                                                                        | 3.5   | The Group reported the operating cash flow ratio of 0.17:1 which is above target due to higher investment income received (dividends and interest).                                                                                                                                                                                                                                                            |
|                                   |                                 | Financial leverage (Debt to Equity ratio) | 5.0%   | 60% Equity and 40% Debt                                                                                               | 4     | <p>Maintain a gearing ratio below 40% debt: 60% equity</p> <p>Gearing ratio as required by National Treasury:</p> <p>Interest Bearing Debt to Equity and Reserves (Gearing) = 7% interest bearing debt: 93% total equity.</p> <p>The ratios are above target as the majority of the debt held by the Group relates to finance leases, rehabilitation provision, deferred tax and trade and other payables.</p> |

## GROUP REPORT ON PERFORMANCE AGAINST OBJECTIVES

(continued)

| KPA                                                             | KPI                   | Measure                               | Weight | Target (FY18/19)                                                                                  | Score | Actual Achievement                                                                                                                                                                                                                                                                                                       |
|-----------------------------------------------------------------|-----------------------|---------------------------------------|--------|---------------------------------------------------------------------------------------------------|-------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Energy<br>Poverty<br>alleviation and<br>transformation<br>(15%) | Strategic<br>Projects | Developmental<br>and Social<br>Impact | 10.0%  | Finalise handover/<br>support plan for<br>implementation of the<br>solar water heater<br>project. | 4     | CEF and DMRE have signed a<br>Joint Implementation Agreement<br>in which CEF is providing<br>support in the form of human<br>resources and monetary support<br>to the value of R200 m.                                                                                                                                   |
|                                                                 | Transformation        | Supplier<br>development               | 2.0%   | 60% Level 2 LFC<br>equivalent                                                                     | 2     | The Group target of was not met<br>as different entities were at<br>different levels. <ul style="list-style-type: none"> <li>• SFF is currently going<br/>through a verification</li> <li>• CEF is currently going<br/>through a verification</li> <li>• AEMFC is on level 8</li> <li>• PetroSA is on level 6</li> </ul> |
|                                                                 |                       | Developmental<br>and Social<br>Impact | 3.0%   | 60% Shareholder<br>Satisfaction index                                                             | 1     | The CEF Group has been playing<br>a proactive role in supporting and<br>supporting the DMRE with IRP,<br>MRP, MPRDA and Bio-fuels<br>programmes.                                                                                                                                                                         |



# GROUP REPORT ON PERFORMANCE AGAINST OBJECTIVES

(continued)

| KPA                     | KPI                                            | Measure                | Weight | Target (FY18/19)                                                                                   | Score | Actual Achievement                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|-------------------------|------------------------------------------------|------------------------|--------|----------------------------------------------------------------------------------------------------|-------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Governance (10%)</b> | <b>Efficient and effective decision making</b> | Improved oversight     | 2.5%   | Development of a holistic Group Operating Model and Structures                                     | 3     | The Group operating model has been developed. Work regarding the implementation thereof is still continuing into 2019/20.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|                         | <b>Combined assurance</b>                      | Audit Opinion          | 2.5%   | Unqualified audit opinion                                                                          | 3     | An unqualified audit opinion outcome has been received.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|                         |                                                | Group Governance Index | 2.5%   | Finalise revised Governance Framework (Ethical conduct, Board assessments) and Roadmap development | 3.5   | This is included as part of the Group operating model The Group operating model has been developed. Work regarding the implementation thereof is still continuing into 2019/20.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|                         |                                                | ERM                    | 2.5%   | Achieve basic level – 40%                                                                          | 4     | <p>5 of the 6 entities achieved a maturity level above 40% each.</p> <p>SFF which fell below 40% actually achieved 38%.</p> <p>The Group average maturity level is 45.3%.</p> <p>Key initiatives identified by all entities to achieve the maturity result for 2018/2019 are:</p> <ul style="list-style-type: none"> <li>• Review and develop Group Risk Management framework;</li> <li>• Review and develop business continuity frameworks and plans;</li> <li>• Implement risk management software 'CURA' for the Group;</li> <li>• Develop compliance plans,</li> <li>• Review strategic, projects and operational risks;</li> <li>• Implement and monitor Performance risk indicators;</li> <li>• Conduct Training and awareness, Share risk trends across the Group.</li> </ul> |

## GROUP REPORT ON PERFORMANCE AGAINST OBJECTIVES

(continued)

| KPA                          | KPI                | Measure                                 | Weight | Target (FY18/19)                                                                                                                                                   | Score | Actual Achievement                                                                                                                                                                                                                                                                             |
|------------------------------|--------------------|-----------------------------------------|--------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Operational Excellence (15%) | Plant availability | Utilisation rate                        | 5.0%   | Achieve a utilization rate of 75%.<br><br>Put up plans for improvement in the new financial year.                                                                  | 2     | Logistical challenges during 2018/19 FY, led to lower utilisation than expected <ul style="list-style-type: none"> <li>PetroSA (41%)</li> <li>SFF (22%)</li> </ul>                                                                                                                             |
|                              |                    | Sales Volume                            | 5.0%   | 1. Stabilise 17 000 bpd production<br><br>2. 2MT of Coal<br><br>3. Commercial Market Business 5% margin.<br><br>4. Finalise contractual arrangements with Chevron. | 2     | <ul style="list-style-type: none"> <li>PetroSA volumes were 4m bbls for the year which is lower than the target</li> <li>AEMFC achieved volumes of 2.08 MT.</li> <li>The commercial market margin is 0.7%.</li> <li>The contract with Chevron has been renewed on a 3 months basis.</li> </ul> |
|                              | SHEQ Index         | Disability Injury Frequency Rate (DIFR) | 5.0%   | <0.40 Safety incidental                                                                                                                                            | 2     | Zero safety incidents at AEMFC and SFF. 7 safety incidents at PetroSA.                                                                                                                                                                                                                         |
|                              |                    | Fatalities                              |        | 0 fatalities                                                                                                                                                       | 3     | Zero fatalities for the CEF Group.                                                                                                                                                                                                                                                             |
|                              |                    | Environmental Incidents                 |        | 2 reportable incidents                                                                                                                                             | 4     | Two reportable incidents at PetroSA.                                                                                                                                                                                                                                                           |
|                              |                    |                                         |        |                                                                                                                                                                    |       |                                                                                                                                                                                                                                                                                                |





# GROUP REPORT ON PERFORMANCE AGAINST OBJECTIVES

(continued)

| KPA                | KPI                      | Measure   | Weight | Target (FY18/19)                                                                                                                      | Score | Actual Achievement                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|--------------------|--------------------------|-----------|--------|---------------------------------------------------------------------------------------------------------------------------------------|-------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Human Capital (5%) | High performance culture | HPO Index | 5.0%   | <p>Articulate the Group EVP Initiatives.</p> <p>Implement 40% of Integrated Talent Management aligned to the new operating model.</p> | 3.5   | <p>Shared Services Feasibility Study completed.</p> <p>Group HR Strategy developed and socialised within the organisation.</p> <p>Change Management Roadmap completed.</p> <p>EVP related initiatives were achieved:</p> <ul style="list-style-type: none"> <li>• Policy Harmonisation;</li> <li>• Employee Wellness Service Provider appointment;</li> <li>• Increased spend on Training and Development opportunities;</li> <li>• Group Employee Value Proposition Business case has been completed and being socialised with various stakeholders;</li> <li>• Leadership Competency Framework completed and progressed for approval;</li> <li>• A 12 months Wits University Leadership Development Program was successfully completed;</li> <li>and</li> <li>• Increased spend on Training and Development opportunities (employees, Graduates in Training, Artisans and external Bursaries).</li> </ul> |

## GROUP REPORT ON PERFORMANCE AGAINST OBJECTIVES

(continued)

| KPA                         | KPI        | Measure                              | Weight | Target (FY18/19)                                                                                                                       | Score | Actual Achievement                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-----------------------------|------------|--------------------------------------|--------|----------------------------------------------------------------------------------------------------------------------------------------|-------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Stakeholder Management (5%) | Reputation | Brand Equity (Prominence Index)      | 2.5%   | Secure approval of Brand Strategy based on the NOM and develop approved roll out roadmap.                                              | 3     | A Brand strategy has been developed.<br><br>The Corporate Survey was conducted and gaps discussed at EXCO, with feedback to board and subsidiaries.                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|                             |            | Stakeholder and Communications Index | 2.5%   | 100% implementation of Stakeholder Plan for Short term projects.<br><br>30% implementation of Stakeholder Plan for long term Projects. | 3.5   | Stakeholder engagements were conducted and gaps analysed.<br><br>Engagements covered the key initiatives and projects below: <ul style="list-style-type: none"><li>• Diversify energy mix is done with EPD through ACWA Redstone;</li><li>• New Refinery Capacity for Clean Fuels done with CEF and Saudi Aramco;</li><li>• Solar Water Heaters is done with CEF Gas Master Plan implemented with iGAS;</li><li>• Finding gas from Mozambique is done through iGAS Commission with iGAS and PetroSA;</li><li>• Eskom with coal is done through AEMFC; and</li><li>• Back to school campaign</li></ul> |
| Total weighted score        |            |                                      |        |                                                                                                                                        | 3.17  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Ceiling (5)                 |            |                                      |        |                                                                                                                                        |       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Above Target (4)            |            |                                      |        |                                                                                                                                        |       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Achieved (3)                |            |                                      |        |                                                                                                                                        |       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Partially completed (2)     |            |                                      |        |                                                                                                                                        |       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Not Achieved (1)            |            |                                      |        |                                                                                                                                        |       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Not Assessed (0)            |            |                                      |        |                                                                                                                                        |       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |



# DIRECTOR'S REPORT

## 1. Introduction

The Board has pleasure in submitting their report on the Consolidated Annual Financial Statement for the Group for the year ended 31 March 2019.

## 2. Nature of business

### Our business

The principal activities of CEF are:

- the acquisition of coal, the exploitation of coal deposits, the manufacture of liquid fuels, oil and other products from coal, the marketing of the said products and any matter connected with the said acquisition, exploitation, manufacture and marketing;
- the acquisition, generation, manufacture, marketing or distribution of any other forms of energy and research connected therewith;
- any other object for which the CEF may be applied, and which has been designated or approved by the Minister of Energy with the concurrence of the Minister of Finance.

### CEF administers the Central Energy Fund and the Equalization Fund on behalf of the Department of Mineral Resources and Energy

These funds are regulated by Ministerial Directives issued by the Minister of Energy, in some cases in concurrence with the Minister of Finance as laid down by the Central Energy Fund Act. The holding company provides treasury, administrative and accounting services to the Funds.

## 3. Shareholder's compact

The Group is controlled by the Department of Mineral Resources and Energy. All shares are held by the State and are not transferable. This shareholding is in terms of the Central Energy Fund Act. Before the start of every reporting period, the Group concludes a Shareholder's Compact that facilitates an agreement of performance deliverables for approval by the Shareholder representatives.

## 4. Board of directors

The composition of the Board at 31 March 2019, summary curricula vitae of each director, key activities and decisions of the Board and its committees and performance evaluation are set out in the governance section of the Integrated Report. The remuneration and fees paid to directors are set out in note 42 to the Consolidated Annual Financial Statements.

**Directorate** – The Board members of the Group during the year and to date of this report are as follows:

| Directors                          | Designation   | Changes                                |
|------------------------------------|---------------|----------------------------------------|
| Mr L Makasi (Previous Chairperson) | Non-Executive | Terminated on 15 March 2019            |
| Mr G Moagi                         | Executive     | Term ended on 09 December 2018         |
| Adv L Mtunzi                       | Non-Executive | Term ended on 09 December 2018         |
| Ms M Molohe                        | Non-Executive | Term ended on 09 December 2018         |
| Mr N Mompoti (Interim Chairperson) | Non-Executive | Interim chairperson from 15 March 2019 |
| Mr MJ Besnaar                      | Non-Executive |                                        |
| Ms G Leketi                        | Non-Executive |                                        |
| Mr T Maqubela                      | Non-Executive |                                        |
| Mr L Makhuba                       | Executive     |                                        |

## DIRECTOR'S REPORT (continued)

### 4. Board of directors (continued)

| Name of Director | 26-Apr-18 | 10-May-18 | 30-May-18 | 17-Jul-18 | 28-Aug-18 | 25-Sep-18 | 15-Oct-18 | 30-Oct-18 | 12-Dec-18 | 31-Jan-19 | 28-Feb-19 | 19-Mar-19 |
|------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|                  | SB        | B         | B         | SB        | B         | SB        | SB        | B         | B         | B         | B         | B         |
| Mr L Makasi      | A         | Y         | Y         | Y         | Y         | Y         | Y         | Y         | Y         | Y         | A         | N/A       |
| Mr G Moagi       | Y         | Y         | Y         | Y         | Y         | A         | Y         | N         | N         | N/A       | N         | N/A       |
| Adv L Mtunzi     | Y         | Y         | Y         | Y         | Y         | Y         | A         | Y         | N         | N/A       | N         | N/A       |
| Ms M Molope      | Y         | Y         | Y         | Y         | Y         | Y         | Y         | Y         | N         | N/A       | N         | N/A       |
| Mr N Mompoti     | Y         | Y         | Y         | Y         | Y         | Y         | Y         | Y         | Y         | Y         | Y         | Y         |
| Mr MJ Besnaar    | Y         | Y         | Y         | Y         | Y         | A         | Y         | Y         | Y         | Y         | Y         | Y         |
| Ms G Leketi      | Y         | Y         | A         | A         | A         | N         | N         | Y         | N         | Y         | Y         | Y         |
| Mr T Maqubela    | A         | Y         | Y         | Y         | Y         | Y         | A         | Y         | Y         | A         | Y         | Y         |
| Mr L Makhuba     | Y         | Y         | Y         | Y         | Y         | Y         | A         | N         | N         | Y         | Y         | Y         |

B – Board

AGM – Annual general meetings

SB – Special meeting

Y – Attended meeting

N – Did not attend meeting

A – Apology

N/A – Not a member at date of the meeting.

NB. The challenges faced by the Group at mainly PetroSA and SFF including the need for a revised strategy are reasons for the special Board meetings.

**Board Audit and Risk committee** – The committees consist of the following members:

| Name          | Changes                     |
|---------------|-----------------------------|
| Mr MJ Besnaar | Non-Executive (Chairperson) |
| Mr N Mompoti  | Non-Executive               |
| Adv L Mtunzi  | Non-Executive               |

| Name of Director | 20-Apr-18 | 25-Apr-18 | 29-May-18 | 30-Jul-18 | 21-Aug-18 | 29-Oct-18 | 30-Jan-19 |
|------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Mr MJ Besnaar    | Y         | Y         | Y         | Y         | Y         | Y         | Y         |
| Mr N Mompoti     | Y         | Y         | Y         | Y         | Y         | Y         | A         |
| Adv L Mtunzi     | Y         | Y         | Y         | Y         | Y         | Y         | Y         |

The Committee meets at least twice per annum. The Chief Audit Executive of the Internal Audit Function, the external auditors and such members of management as are deemed necessary also attend these meetings. The Committee is responsible for the internal controls and risk management of the Group delegated by the Board. In order to meet their requirements, they review the findings of both internal and external auditors. In addition, they review important accounting issues, material pending litigation if applicable, the Group insurance, risk management and disclosure requirements in the Consolidated Annual Financial Statements.

The responsibilities of the sub-committee of the Board are set out in the report of the Board audit and risk committee which forms part of the Consolidated Annual Financial Statements.





## 4. Board of directors (continued)

**Board Human Resource committee** – The Board Human Resource committee consists of the following members:

| Name                                |               | Changes                        |
|-------------------------------------|---------------|--------------------------------|
| Adv L Mtunzi (Previous Chairperson) | Non-executive | Term ended on 09 December 2018 |
| Mr N Mompoti                        | Non-executive |                                |
| Ms G Leketi                         | Non-executive |                                |

The Board has delegated its function of ensuring that employees are fairly rewarded in accordance with their contributions to the Group's performance to Board Human Resources committee.

|                                     | 20-Jul-18 | 07-Sep-18 | 09-Nov-18 |
|-------------------------------------|-----------|-----------|-----------|
| <b>Name of Director</b>             |           |           |           |
| Adv L Mtunzi (Previous Chairperson) | Y         | Y         | Y         |
| Mr N Mompoti                        | Y         | Y         | A         |
| Ms G Leketi                         | A         | A         | Y         |

**Social and Ethics committee** – The committee consists of the following members:

| Name                               |               | Changes                        |
|------------------------------------|---------------|--------------------------------|
| Ms M Molope (Previous Chairperson) | Non-Executive | Term ended on 09 December 2018 |
| Adv L Mtunzi                       | Non-Executive | Term ended on 09 December 2018 |
| Mr M Moagi                         | Executive     | Term ended on 09 December 2018 |
| Mr L Makhuba                       | Executive     |                                |

**Governance and Nominations committee** – The committees consist of the following members:

| Name                               |               | Changes                        |
|------------------------------------|---------------|--------------------------------|
| Mr L Makasi (Previous Chairperson) | Non-Executive | Terminated on 15 March 2019    |
| Mr M Moagi                         | Executive     | Term ended on 09 December 2018 |
| Adv L Mtunzi                       | Non-Executive | Term ended on 09 December 2018 |
| Mr MJ Besnaar                      | Non-Executive |                                |
| Ms M Molope                        | Non-Executive | Term ended on 09 December 2018 |

## DIRECTOR'S REPORT (continued)

### 5. Performance for the year

#### Financial Summary

Below is a summary of the Group financial performance seen through key ratios that reflect performance at high level:

| Consolidated R'000             | 2019       | 2018       |
|--------------------------------|------------|------------|
| Revenue                        | 13 150 205 | 11 652 946 |
| EBITDA                         | 625 793    | 878 730    |
| EBITDA margin %                | 5          | 8          |
| Net asset value                | 13 117 576 | 13 589 453 |
| Return on capital employed %   | -1         | 1          |
| Return on equity (ROE) %       | -4         | 3          |
| Cash generated from operations | 276 360    | 1 377 333  |

Despite the operational challenges and deteriorating net profit over the recent years, the Group has managed to continue generating positive cash earnings from its operations of R1.6 billion and EBITDA of R626 million. The Group generated EBITDA of R626 million (margin 5%) compared to R879 million (margin: 8%) generated in the prior year. The decrease of 29% is due to the decline in gross profit.

Revenue has increased by 13% compared to prior years, however there was a decline in the margins, Return on Capital Employed and well as Return on Equity.

The cash flows from operating activities decreased by 79.9% from R1.4 billion in the prior year to R276 million the adverse impact from changes in working capital.

#### Non-financial Summary

The primary mandate of the Group is essentially security of supply, and significant progress was made in this regard through the delivery of the natural and manufactured capital given its operating leverage.

#### Group Operational Performance

The holding company CEF SOC Ltd continued to lead the Group in developing the emerging group strategy. The objective of the new group strategy is to reposition the CEF Group as a commercial sustainable entity while supporting the DMRE in ensuring security of supply during the energy transition to a clean energy future.

There are further delays in CEF's investment in the 100 MW Concentrating Solar Power Project, the ACWA Redstone Project, as the consortium has changed the technology for the Project. The consortium will approach the DMRE to request for an extension of the financial close deadline from 30 April 2019 to 30 June 2019.

CEF supports PetroSA in developing and implementing the PetroSA Emergency Plan. The constitution of the PetroSA Emergency Plan Steering Committee awaits approval by both the PetroSA and CEF Boards of Directors so that the work can continue in earnest.

The impact of a rising crude oil price to SFF is that the Oil Traders are discouraged from buying crude oil to store at SFF and as a result cumulative revenue for the year is 43% below target. SFF continues to incur maintenance costs while receiving no revenue from the storage and maintenance of the strategic stock that was sold in 2017 while the legal adjudication processes on the ownership of the stock is still underway. The refurbishment of the Milnerton facility is behind schedule while there are signs that aging of critical equipment at the Saldanha terminal is beginning to be a threat to SFF's ability to conduct operations effectively. SFF is implementing a plan to mitigate this risk which includes finding local fabrication companies to design and supply critical process equipment for the instances where the OEMs that are no longer in operation.

The rising oil prices also saw PetroSA not being able to source economically viable imported feedstock. Thus production from imported feedstock was 61% below budget at the GTLR. Due to reduced indigenous gas production coupled with non-availability of the Gasloop, PetroSA production from indigenous feedstock was also 10% below budget.



### 5. Performance for the year (continued)

The PetroSA production was 45% below target during Q4 with an average annual performance that is 39% below target. There were three (3) reportable environmental incidents and one (1) Lost Time Injuries (LTIs) for Q4 at PetroSA.

During the year tangible activities took place in implementing the memorandum of agreement between iGAS and DMRE for the development of the country's Gas Master Plan. The capacitation of iGAS to start playing a role on the management and operations of ROMPCO have been very slow due to the moratorium on recruitment that was imposed on the Group by the CEF Board in mid-2018, the moratorium is not yet lifted at the end of the year.

In addition to its licensing and monitoring of compliance for gas and oil exploration and production, PASA continued its participation in the development of the Oil and Gas Bill, following the withdrawal of the amendment of the MPRDA and a decision by the Department of Mineral Resources that oil and gas legislation will now be separate from mineral legislation as is the case in the MPRDA. PASA also held strategic stakeholder workshops to address concerns on the impact of shale gas exploration.

The Vlakfontein Mine continues to produce for supply to Eskom at a steady state on the back of a supply contract with volumes increasing steadily on an annual basis. The current operations have produced satisfactory results but can be further improved.

The Vlakfontein Extension is progressing well and is poised to produce additional coal volumes in the forthcoming financial year whilst increasing local employment at the mine. The current year saw an investment in the required infrastructure and the attainment of the required regulatory approvals to commence production in the North Block area of the Vlakfontein Mine. ESKOM contract negotiations are at an advanced stage for coal supply with a draft contract in place. ESKOM is expected to complete their quality tests, with the Coal Supply Agreement expected to be concluded in the first quarter of the forthcoming financial year.

#### Looking ahead to 2019/2020

In order to improve the financial performance of the group, the Group has embarked on a strategy review process which is focused at improving the financial sustainability of the Group, particularly PetroSA. The strategy is focused on strengthening our position in energy storage, sustenance of the refinery, divestment from non-core assets, improving the market share in the gas market and coal market, and lastly to diversify the portfolio by investing in new sources of energy. Further to improving the margins and diversifying revenue, the group will focus on improving its execution rate for sustenance, growth and diversification initiatives.

### 6. Accounting policies

The accounting policies applied in the preparation of the Annual Consolidated Financial Statements for the year ended 31 March 2019 are in accordance with IFRS and are consistent with those applied in the prior year. Judgments and estimates made by management in the application of IFRS that have a significant impact on the Consolidated Annual Financial Statements are disclosed in the accompanying notes.

### 7. Share capital

There has been no change in the authorised or issued share capital of the Company during the year.

### 8. Dividend Distribution

#### Dividend Policy

Dividend distributions to the Shareholder are governed by the requirements of Section 46 the Companies Act. The key considerations in determining a declaration of dividends are:

- Shareholder approval after the Board resolution for a dividend distribution;
  - The commitments as per the strategic objectives for investments and feasibility study expenditures in fulfilling the shareholder mandate; and
  - The Group will reasonably satisfy the solvency and liquidity test immediately after completing the proposed distribution.
- The declaration of dividends is reviewed annually, subject to the approval by the Shareholder representative in the AGM or through a Section 54 approval.

## DIRECTOR'S REPORT (continued)

### 8. Dividend Distribution (continued)

#### Dividend in Specie

In the prior year the investment in PASA was classified as non-current assets held for distribution. The CEF Board of directors declared the investment as a dividend in specie to the State (represented by DMRE). In the current year, the Board resolution to declare the dividend has lapsed in terms of s46(3) of the Companies Act of 2008, as it has been more than 120 business days since the resolution was passed. PASA has therefore been consolidated in the current financial year.

### 9. Investments

The Group comprises a mix of investments, from simple financial asset, joint ventures, joint operations, associates and subsidiaries. The details are contained notes to the Consolidated Annual Financial Statements.

### 10. Impairments and reversal of impairments – property, plant and equipment

Due to the depleting gas reserves feeding the Mossel Bay GTL refinery and fluctuating oil prices, an impairment assessment was conducted as required by IAS 36, resulting in both an impairment and impairment reversal (refer to note 3 of the financial statements). In light of the current commodity prices, the West Cape Three Points block and Deepwater Tano block held by PetroSA Ghana Limited were assessed for impairment, resulting in an impairment reversal. The decommissioning provision (refer to note 23) increased significantly owing to the weakened Rand against the USD. This resulted in a change in estimate, and had a negative impact on the performance. These significant items can be summarized as follows:

|                                                    | 2019<br>R'million | 2018<br>R'million |
|----------------------------------------------------|-------------------|-------------------|
| Mossel Bay GTL refinery impairment                 | 527               | 399               |
| Ghana blocks                                       | (1 282)           | 1 521             |
| Increase /(Reduction) in decommissioning provision | 1 401             | (1 680)           |
|                                                    | <b>691</b>        | <b>240</b>        |

### 11. Capital expenditure and commitments

Details regarding capital expenditure and commitments are reflected in the Cash flow from investing activities and note 40 of the Consolidated Annual Financial Statements.

### 12. Post-retirement benefit obligations

#### Benefit funds

The Group provides various post-retirement medical benefits to its retired employees, their dependents and medically unfit employees. The post-retirement medical benefit obligation is approximately R160 million (2018: R177 million).

The total defined benefit funds are partially funded, the unfunded present value of the obligation of R62 million (2018: R177 million) and the funded portion of R93 million (2018: R106 million).

### 13. Funding

#### Capital structure

The capital structure of the Group consists of equity invested by the shareholder, retained earnings and debt funding. At year end our equity amounted to R13.1 billion, with debt borrowings of R 2.057 billion made up of a reserved based loan and finance lease liability.





## 13. Funding (continued)

| Consolidated R'000                                                    | 2019      | 2018      |
|-----------------------------------------------------------------------|-----------|-----------|
| External Borrowings (Existing)                                        | 2 057 659 | 1 582 754 |
| Gearing ratio                                                         | 55%       | 65%       |
| Gearing ratio % (Interest bearing debt/Equity and Reserves) as per NT | 7%        | 6%        |

### Funding of the decommissioning liability provision

At year-end the Group had an obligation to provide for the rehabilitation and decommissioning of its offshore and onshore facilities valued at R10.7 billion made up of the following:

|                                                    | 2019<br>R'000     | 2018<br>R'000    |
|----------------------------------------------------|-------------------|------------------|
| PetroSA Group                                      | 10 159 770        | 8 305 181        |
| Strategic Fuel Fund                                | 517 126           | 486 305          |
| African Exploration and Mining Finance Corporation | 23 194            | 20 262           |
|                                                    | <b>10 700 090</b> | <b>8 811 748</b> |

The Group will fund this liability by a combination of funds set aside as well as from its accumulated profits.

### PetroSA Group

At year-end PetroSA had an obligation to provide for the rehabilitation and decommissioning of its offshore and onshore facilities valued at R9.8 billion. PetroSA has set aside R2.4 billion for this and there is currently, a shortfall of approximately R7.4 billion. In terms of the financial provision regulations which were promulgated under the National Environmental Management Act 107 of 1998(NEMA), PetroSA is required to review, assess and adjust its financial provision and associated plans in accordance with these regulations before 19 February 2024, by which time the financial provision funds will need to be available. The provision calculation is based on comprehensive technical work conducted by an international decommissioning contractor and thereafter reviewed by an independent specialist.

PetroSA is working with all key stakeholders to ensure compliance with the requirements of the financial provision regulations before 19 February 2024. To this extent, the Group has committed to assist PetroSA, through various support and oversight mechanisms, to close the funding gap. In addition, PetroSA is working closely with the regulator (the Petroleum Agency of South Africa) to ensure that it discharges its responsibilities as required under the NEMA financial provision regulations. Other key stakeholders involved include the Departments of Energy, National Treasury, Mineral Resources and Environmental Affairs.

No funds have been set aside for the funding of international provisions valued at R347 million. In terms of the signed petroleum agreements, this will commence once 50% of the estimated reserves have been produced from the relevant fields. PetroSA has set aside funds towards the cost of decommissioning.

These funds are not available for the general purposes of the Group and comprise of the following investments: the group and comprise of the following investments:

|                                    | 2019<br>R'million | 2018<br>R'million |
|------------------------------------|-------------------|-------------------|
| Cash deposits                      | 477               | 477               |
| Cash in PetroSA Rehabilitation NPC | 1 751             | 1 711             |
| Financial guarantee                | 180               | 180               |
|                                    | <b>2 408</b>      | <b>2 368</b>      |

## DIRECTOR'S REPORT (continued)

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### 14. Events after reporting date

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

### 15. Going concern

The Board is confident that the going concern assumption is appropriate in the preparation of the Group Consolidated Annual Financial Statements for the year ended 31 March 2019. While difficult economic conditions persist, the Board and management continuously review the operational and financial risks of the Group and ensure that appropriate initiatives, strategies and controls are in place to mitigate the risks and their impact on business.

Group profitability is severely challenged due to the declining gas reserves at PetroSA. However, the Group has developed a strategy focused on changing its trajectory. The key issue in the strategy is sustainability of PetroSA, which is focused on converting the refinery feedstock from gas to condensate. Processing condensate will prolong the life of the refinery, but the margins are thin. Therefore, the Group needs to reduce its operational costs to be profitable. As part of the turnaround plan, the Group will also reduce its operational costs by leveraging assets within the Group.

### 16. Litigations

The Group has lodged an application in the Western Cape High Court to set aside the disposals of the strategic crude oil stock on the grounds that these disposals were unlawful, invalid and unconstitutional. Should the Court rule in favour of CEF / SFF, SFF will have to repay all proceeds from the transactions, as well as all storage income received from the buyers for storing these barrels from the date of transfer, including all interest earned and other associated costs. The estimated total amount repayable as at 31 March 2019 is R4.7 billion based on the prevailing foreign exchange rate between South African Rand and US Dollar.

Should the Court rule that the transaction is valid, according to paragraph 3A(c) of the CEF Act no 38 of 1977, the proceeds from the sale of crude oil received by SFF Association, shall be payable into the Equalization Fund provided a determination by the Minister of Energy with the concurrence of the Minister of Finance has been received.

Other than the matter mentioned above, the Group is currently not involved in any claims or lawsuits, which individually or in aggregate, are expected to have a material adverse effect on the business or its assets. Refer to note 38 of the Consolidated Annual Financial Statements for the list of contingencies.

### 17. Compliance and legislation

The Group is subject to a number of laws and regulations from enabling legislation to those that affect our revenue, expenses, assets and liabilities that requires monitoring and reporting by those charged with governance. Below are significant laws that have been identified to warrant a summary for reporting purposes.

Based on enquiry of management and the external auditors, except for the above and to the best knowledge and belief of the directors, the Group has complied in all material respects with all other legislation and regulations applicable during the reporting period.

#### **Public Finance Management Act (PFMA) compliance**

The Group have not complied with certain aspects of the procurement processes as require by the PFMA, National Treasury and Instruction Notes. This has resulted in irregular expenditure as disclosed in the annual financial statements.

The independent auditors have identified instances of non-compliance relating to the consequence management, the Group has established a loss control function to assess and recommend on how those instances should be dealt with, either through disciplinary process or investigation.



## 17. Compliance and legislation (continued)

The Group has implemented and maintained sound governance structures and processes to ensure compliance with the provisions of the PFMA. PFMA compliance is one of the key legislation that the Group manages and monitors. This monitoring function is achieved through the following:

- An approved process on the delegation of authority, procurement and procedures;
- Automated and manual systems and processes;
- A shareholder approved materiality framework that has been established at Group-level and cascaded throughout the Group companies.

The PFMA impose obligations on the Board and the Board for subsidiaries relating to the prevention, identification and reporting of fruitless and wasteful expenditure; irregular expenditure; expenditure that does not comply with operational policies; losses of state resources through criminal conduct and the collection of all revenue. The independent auditors have identified instances of non-compliance relating to the consequence management, the Group has established a loss control function to assess and recommend on how those instances should be dealt with, either through disciplinary process or investigation.

The Board has a materiality framework, which was approved by the Shareholder Representative. The Shareholder has approved that the materiality Group limit for reporting in terms of sections 55(2)(b)(i), (ii) and (iii) of the PFMA is R663.214 million per transaction.

### Approval levels in terms of section 54

All amounts are based on Audited financial statement at 31 March 2017.

| Figures<br>R' 000                                                                  | Group    | PetroSA  | CEF      | PASA     | AE       | I-Gas    | SFF      | OPC      | CCE      | ETA      |
|------------------------------------------------------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Public Entity's board approval levels                                              | <663 214 | <343 169 | –        | <4 210   | <11 028  | <64 480  | <197 073 | <642     | <1 001   | <13      |
| CEF Board to approve                                                               | <663 214 | >343 169 | <663 214 | >4 210   | >11 028  | >64 480  | >197 073 | >642     | >1 001   | >13      |
| Obtain DMRE approval and inform National Treasury via the top-most holding company | <663 214 | <663 214 | <663 214 | <663 214 | <663 214 | <663 214 | <663 214 | <663 214 | <663 214 | <663 214 |

### Irregular expenditure and fruitless and wasteful expenditure

For the list of the transgressions and management actions, refer to note 47 and 48 of the Consolidation Annual Financial Statements.

## 18. Auditors

The Auditor General of South Africa continued in office as auditors for the Group and its subsidiaries for 2019. At the AGM, the shareholder will be requested to re-appoint the Auditor General of South Africa as the independent external auditors of the Group and to confirm Mr Dumisani Cebekhulua is the designated lead Business Executive for the 2019/20 financial year.

## 19. Annual general meeting

The annual general meeting will be held in terms of section 61 of the Companies Act 71 of 2008.

## DIRECTOR'S REPORT (continued)

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### 20. Company secretary

The Group secretary is Mr A Haffejee.

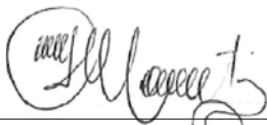
**Postal address:** PO Box 786141,  
Sandton,  
2146

**Business address:** Block C, Upper Grayston Office Park,  
152 Ann Crescent,  
Strathavon,  
Sandton  
2199


### 21. Acknowledgments

Thanks and appreciation are extended to our shareholder, staff, suppliers and consumers for their continued support of the Group.

The Consolidated Annual Financial Statements set out on pages 147 and 244 which have been prepared on the going concern basis; were approved by the Board on 30 August 2019; and were signed on its behalf by:



**Mr N Mompoti (Interim Chairperson)**  
Johannesburg  
30 August 2019



**Mr MJ Besnaar CA (SA) (BARC Chairperson)**  
Johannesburg  
30 August 2019





# STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2019

| Figures in Rand thousand                                                    | Note(s) | 2019              | 2018<br>Restated* | 2017<br>Restated* |
|-----------------------------------------------------------------------------|---------|-------------------|-------------------|-------------------|
| <b>Assets</b>                                                               |         |                   |                   |                   |
| <b>Non-Current Assets</b>                                                   |         |                   |                   |                   |
| Property, plant and equipment                                               | 3       | 9 230 865         | 7 354 542         | 9 672 496         |
| Intangible assets                                                           | 4       | 1 439 303         | 1 623 770         | 1 644 394         |
| Investments in subsidiaries                                                 | 5       | –                 | –                 | –                 |
| Investments in joint ventures                                               | 6       | –                 | –                 | –                 |
| Investments in associates                                                   | 7       | 982 305           | 886 094           | 909 106           |
| Loans to group companies                                                    | 8       | 40 111            | 36 326            | 32 829            |
| Trade and other receivables                                                 | 14      | 200 601           | 67 234            | 44 249            |
| Other financial assets                                                      | 9       | 168 997           | 165 099           | 183 572           |
| Deferred taxes                                                              | 10      | 614 115           | 573 331           | 334 771           |
| Prepayments                                                                 | 11      | 622               | 140 726           | 830               |
| Strategic Stock                                                             | 12      | 1 084 900         | 996 482           | 868 830           |
|                                                                             |         | <b>13 761 819</b> | <b>11 843 604</b> | <b>13 691 077</b> |
| <b>Current Assets</b>                                                       |         |                   |                   |                   |
| Inventories                                                                 | 13      | 2 273 743         | 1 763 431         | 1 880 923         |
| Loans to group companies                                                    | 8       | 11 515            | 10 249            | –                 |
| Trade and other receivables                                                 | 14      | 2 897 529         | 1 993 578         | 2 053 156         |
| Prepayments                                                                 | 11      | 98 113            | 92 093            | 103 820           |
| Current tax receivable                                                      |         | 9 933             | 12 928            | 14 931            |
| Cash and cash equivalents                                                   | 15      | 18 924 575        | 17 186 008        | 15 694 838        |
|                                                                             |         | <b>24 215 408</b> | <b>21 058 287</b> | <b>19 747 668</b> |
| Non-current assets held for sale/distribution and assets of disposal groups | 16      | 14 758            | 34 333            | 88 639            |
| <b>Total Assets</b>                                                         |         | <b>37 991 985</b> | <b>32 936 224</b> | <b>33 527 384</b> |
| <b>Equity and Liabilities</b>                                               |         |                   |                   |                   |
| <b>Equity</b>                                                               |         |                   |                   |                   |
| Share capital                                                               | 17      | –                 | –                 | –                 |
| Reserves                                                                    |         | 863 216           | (2 949 346)       | (3 012 046)       |
| Retained income                                                             |         | 12 261 076        | 16 539 979        | 16 457 531        |
| Attributable to Equity Holders of Parent                                    |         | 13 124 292        | 13 590 633        | 13 445 485        |
| Non-controlling interest                                                    |         | (6 716)           | (1 180)           | (1 024)           |
|                                                                             |         | <b>13 117 576</b> | <b>13 589 453</b> | <b>13 444 461</b> |

# STATEMENT OF FINANCIAL POSITION (continued)

AS AT 31 MARCH 2019

| Figures in Rand thousand            | Note(s) | 2019              | 2018<br>Restated* | 2017<br>Restated* |
|-------------------------------------|---------|-------------------|-------------------|-------------------|
| <b>Liabilities</b>                  |         |                   |                   |                   |
| <b>Non-Current Liabilities</b>      |         |                   |                   |                   |
| Other financial liabilities         | 20      | 968 271           | 770 171           | 866 846           |
| Finance lease liabilities           | 21      | 999 771           | 772 899           | –                 |
| Retirement benefit obligation       | 22      | 160 056           | 177 033           | 136 274           |
| Deferred taxes                      | 10      | 2 137 137         | 1 427 980         | 1 888 793         |
| Provisions                          | 23      | 10 687 772        | 8 799 368         | 10 065 994        |
| Other non-current liabilities       | 24      | 68 128            | 66 328            | 79 863            |
|                                     |         | <b>15 021 135</b> | <b>12 013 779</b> | <b>13 037 770</b> |
| <b>Current Liabilities</b>          |         |                   |                   |                   |
| Trade and other payables            | 25      | 9 554 367         | 6 841 296         | 6 800 165         |
| Other financial liabilities         | 20      | 88 210            | 76 860            | 88 943            |
| Finance lease liabilities           | 21      | 89 617            | 39 684            | –                 |
| Current tax payable                 |         | 3 564             | 29 441            | –                 |
| Provisions                          | 23      | 117 516           | 97 766            | 137 130           |
| Dividend payable                    | 27      | –                 | 229 460           | –                 |
|                                     |         | <b>9 853 274</b>  | <b>7 314 507</b>  | <b>7 026 238</b>  |
| Liabilities of disposal groups      | 16      | –                 | 18 485            | 18 915            |
| <b>Total Liabilities</b>            |         | <b>24 874 409</b> | <b>19 346 771</b> | <b>20 082 923</b> |
| <b>Total Equity and Liabilities</b> |         | <b>37 991 985</b> | <b>32 936 224</b> | <b>33 527 384</b> |



# STATEMENT OF PROFIT OR LOSS

AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

| Figures in Rand thousand                                       | Note(s) | 2019             | 2018<br>Restated* |
|----------------------------------------------------------------|---------|------------------|-------------------|
| Revenue                                                        | 27      | 13 150 205       | 11 652 946        |
| Cost of sales                                                  | 28      | (12 285 694)     | (10 516 391)      |
| <b>Gross profit</b>                                            |         | <b>864 511</b>   | <b>1 136 555</b>  |
| Other operating income                                         | 29      | 1 341 654        | 478 074           |
| Other operating expenses                                       |         | (2 933 991)      | (2 587 845)       |
| <b>Operating loss</b>                                          | 30      | <b>(727 826)</b> | <b>(973 216)</b>  |
| Investment income                                              | 31      | 1 156 643        | 1 057 608         |
| Finance costs                                                  | 32      | (535 004)        | (573 637)         |
| Income from equity accounted investments                       |         | 415 612          | 356 060           |
| <b>Profit (loss) before taxation</b>                           |         | <b>309 425</b>   | <b>(133 185)</b>  |
| Taxation                                                       | 33      | (780 018)        | 487 053           |
| <b>(Loss) profit for the year</b>                              |         | <b>(470 593)</b> | <b>353 868</b>    |
| <b>Other comprehensive income:</b>                             |         |                  |                   |
| <b>Items that will not be reclassified to profit or loss:</b>  |         |                  |                   |
| Remeasurements on net defined benefit liability/asset          |         | 23 979           | (24 714)          |
| <b>Items that may be reclassified to profit or loss:</b>       |         |                  |                   |
| Exchange differences on translating foreign operations         |         | 495 072          | (263 571)         |
| Gains on cash flow hedges not subject to basis adjustments     |         | -                | 31                |
| <b>Total items that may be reclassified to profit or loss</b>  |         | <b>495 072</b>   | <b>(263 540)</b>  |
| <b>Other comprehensive income for the year net of taxation</b> | 34      | <b>519 051</b>   | <b>(288 254)</b>  |
| <b>Total comprehensive income (loss) for the year</b>          |         | <b>48 458</b>    | <b>65 614</b>     |
| <b>(Loss) profit attributable to:</b>                          |         |                  |                   |
| Owners of the parent                                           |         | (470 455)        | 354 010           |
| Non-controlling interest                                       |         | (138)            | (142)             |
|                                                                |         | <b>(470 593)</b> | <b>353 868</b>    |
| <b>Total comprehensive income (loss) attributable to:</b>      |         |                  |                   |
| Owners of the parent                                           |         | 48 596           | 65 756            |
| Non-controlling interest                                       |         | (138)            | (142)             |
|                                                                |         | <b>48 458</b>    | <b>65 614</b>     |

# STATEMENT OF CHANGES IN EQUITY

AS AT 31 MARCH 2019

| Figures in Rand thousand                                                                                | Foreign<br>currency<br>translation<br>reserve | Hedging<br>reserve<br>(Share of<br>associate) |
|---------------------------------------------------------------------------------------------------------|-----------------------------------------------|-----------------------------------------------|
| Opening balance as previously reported                                                                  | 631 715                                       | (31)                                          |
| Adjustments                                                                                             |                                               |                                               |
| Prior year adjustments                                                                                  | –                                             | –                                             |
| <b>Restated* Balance at 01 April 2017 as restated</b>                                                   | <b>631 715</b>                                | <b>(31)</b>                                   |
| Profit for the year                                                                                     | –                                             | –                                             |
| Other comprehensive income                                                                              | (263 571)                                     | 31                                            |
| <b>Total comprehensive income for the year</b>                                                          | <b>(263 571)</b>                              | <b>31</b>                                     |
| Remeasurement of transfers                                                                              | –                                             | –                                             |
| Adjustments on retained earnings due to equity accounting of an associate<br>(different reporting date) | –                                             | –                                             |
| Other adjustments on Retained Earnings                                                                  | –                                             | –                                             |
| Dividends                                                                                               | –                                             | –                                             |
| <b>Total contributions by and distributions to owners of company recognised<br/>directly in equity</b>  | <b>–</b>                                      | <b>–</b>                                      |
| Opening balance as previously reported                                                                  | 368 144                                       | –                                             |
| Adjustments                                                                                             |                                               |                                               |
| Prior year adjustments                                                                                  | –                                             | –                                             |
| <b>Balance at 01 April 2018</b>                                                                         | <b>368 144</b>                                | <b>–</b>                                      |
| Loss for the year                                                                                       | –                                             | –                                             |
| Other comprehensive income                                                                              | 495 072                                       | –                                             |
| <b>Total comprehensive Loss for the year</b>                                                            | <b>495 072</b>                                | <b>–</b>                                      |
| Change in accounting policy-new IFRSs adoption                                                          | –                                             | –                                             |
| Remeasurements                                                                                          | –                                             | –                                             |
| Transfer to retained income                                                                             | –                                             | –                                             |
| Adjustments on retained earnings due to equity accounting of an associate<br>(different reporting date) | –                                             | –                                             |
| Other adjustments on retained earnings                                                                  | –                                             | –                                             |
| Dividends                                                                                               | –                                             | –                                             |
| <b>Total contributions by and distributions to owners of company recognised<br/>directly in equity</b>  | <b>–</b>                                      | <b>–</b>                                      |
| <b>Balance at 31 March 2019</b>                                                                         | <b>863 216</b>                                | <b>–</b>                                      |
| Note(s)                                                                                                 | 18and34                                       | 34                                            |

\* The translation deficit represents the cumulative position of translation gains and losses arising from the conversion of the net assets of the foreign subsidiary companies, and also the long term loan to a subsidiary company, to the reporting currency.

Included in retained earnings is a balance of R4 billion payable to the Equalization Fund (EQF) in relation to the sale of strategic stock by Strategic Fuel Fund (SFF)





|         | Revaluation<br>reserve | Transfer to<br>Equalization<br>Fund | Total reserves | Retained<br>income | Total<br>attributable to<br>equity holders<br>of the group/<br>company | Non-<br>controlling<br>interest | Total<br>equity |
|---------|------------------------|-------------------------------------|----------------|--------------------|------------------------------------------------------------------------|---------------------------------|-----------------|
|         | 1 691 931              | (3 643 730)                         | (1 320 115)    | 14 765 600         | 13 445 485                                                             | (1 024)                         | 13 444 461      |
|         | (1 691 931)            | –                                   | (1 691 931)    | 1 691 931          | –                                                                      | –                               | –               |
|         | –                      | (3 643 730)                         | (3 012 046)    | 16 457 531         | 13 445 485                                                             | (1 024)                         | 13 444 461      |
|         | –                      | –                                   | –              | 354 010            | 354 010                                                                | (142)                           | 353 868         |
|         | –                      | –                                   | (263 540)      | (24 714)           | (288 254)                                                              | –                               | (288 254)       |
|         | –                      | –                                   | (263 540)      | 329 296            | 65 756                                                                 | (142)                           | 65 614          |
|         | –                      | 326 240                             | 326 240        | –                  | 326 240                                                                | –                               | 326 240         |
|         | –                      | –                                   | –              | (24 116)           | (24 116)                                                               | –                               | (24 116)        |
|         | –                      | –                                   | –              | 6 728              | 6 728                                                                  | (14)                            | 6 714           |
|         | –                      | –                                   | –              | (229 460)          | (229 460)                                                              | –                               | (229 460)       |
|         | –                      | 326 240                             | 326 240        | (246 848)          | 79 392                                                                 | (14)                            | 79 378          |
|         | 1 669 449              | (3 317 490)                         | (1 279 897)    | 14 870 530         | 13 590 633                                                             | (1 180)                         | 13 589 453      |
|         | 22 482                 | –                                   | 22 482         | (22 482)           | –                                                                      | –                               | –               |
|         |                        | (3 317 490)                         | (2 949 346)    | 16 539 969         | 13 590 623                                                             | (1 180)                         | 13 589 443      |
|         | –                      | –                                   | –              | - (470 455)        | (470 455)                                                              | (138)                           | (470 593)       |
|         | –                      | –                                   | 495 072        | 23 979             | 519 051                                                                | –                               | 519 051         |
|         | –                      | –                                   | 495 072        | (446 476)          | 48 596                                                                 | (138)                           | 48 458          |
|         | –                      | –                                   | –              | (14 240)           | (14 240)                                                               | –                               | (14 240)        |
|         | –                      | (740 540)                           | (740 540)      | 5 398              | (735 142)                                                              | (5 398)                         | (740 540)       |
|         | –                      | 4 058 030                           | 4 058 030      | (4 058 030)        | –                                                                      | –                               | –               |
|         | –                      | –                                   | –              | 16 038             | 16 038                                                                 | –                               | 16 038          |
|         | –                      | –                                   | –              | (11,043)           | (11 043)                                                               | –                               | (11 043)        |
|         | –                      | –                                   | –              | 229 460            | 229 460                                                                | –                               | 229 460         |
|         | –                      | 3 317 490                           | 3 317 490      | (3 832 417)        | (514 927)                                                              | (5 398)                         | (520 325)       |
|         |                        | –                                   | 863 216        | 12 261 076         | 13 124 292                                                             | (6 716)                         | 13 117 576      |
| 19and34 | 34                     |                                     |                | 34                 |                                                                        |                                 |                 |

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2019

| Figures in Rand thousand                             | Note(s) | 2019               | 2018<br>Restated* |
|------------------------------------------------------|---------|--------------------|-------------------|
| <b>Cash flows from operating activities</b>          |         |                    |                   |
| Cash generated from operations                       | 35      | 276 360            | 1 377 333         |
| Interest income                                      |         | 1 156 638          | 1 057 608         |
| Dividend income                                      |         | 495 505            | 348 158           |
| Finance costs                                        |         | (156 890)          | (134 043)         |
| Tax paid                                             | 36      | (128 806)          | (180 878)         |
| <b>Net cash from operating activities</b>            |         | <b>1 642 807</b>   | <b>2 468 178</b>  |
| <b>Cash flows from investing activities</b>          |         |                    |                   |
| Purchase of property, plant and equipment            | 3       | (1 064 835)        | (257 240)         |
| Disposal of property, plant and equipment            | 3       | 128                | 1 920             |
| Purchase of intangible assets                        |         | (36 759)           | (28 829)          |
| Sale of other intangible assets                      | 4       | 151                | 4 400             |
| Investments in Associates/Joint ventures             |         | (11 711)           | (473)             |
| Purchase of financial assets                         |         | (25 924)           | (1 803)           |
| <b>Net cash from investing activities</b>            |         | <b>(1 138 950)</b> | <b>(284 863)</b>  |
| <b>Cash flows from financing activities</b>          |         |                    |                   |
| (Repayment)/Additions in other financial liabilities |         | 209 450            | (108 758)         |
| Increase in other non-current liabilities            |         | 1 800              | (13 535)          |
| Loans to group companies                             |         | (5 051)            | (13 746)          |
| (Repayment)/Additions in Finance lease               |         | 129 490            | (37 686)          |
| <b>Net cash from financing activities</b>            |         | <b>335 689</b>     | <b>(173 725)</b>  |
| <b>Total cash movement for the year</b>              |         | <b>839 546</b>     | <b>2 009 590</b>  |
| Cash at the beginning of the year                    |         | 17 186 008         | 15 694 839        |
| Effect of exchange rate movement on cash balances    |         | 899 021            | (518 421)         |
| <b>Total cash at end of the year</b>                 | 15      | <b>18 924 575</b>  | <b>17 186 008</b> |



# ACCOUNTING POLICIES

## FOR THE YEAR ENDED 31 MARCH 2019

### 1. Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated annual financial statements are set out below.

#### 1.1 Basis of preparation

The consolidated annual financial statements have been prepared on the going concern basis in accordance with, and in compliance with, International Financial Reporting Standards (“IFRS”) and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations issued and effective at the time of preparing these consolidated annual financial statements and the Companies Act 71 of 2008 of South Africa, as amended.

These consolidated annual financial statements comply with the requirements of the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council.

The consolidated annual financial statements have been prepared on the historic cost convention, unless otherwise stated in the accounting policies which follow and incorporate the principal accounting policies set out below. They are presented in Rands, which is the company’s functional currency.

These accounting policies are consistent with the previous period, except for the changes set out in note 2.

#### 1.2 Consolidation

##### Basis of consolidation

The consolidated annual financial statements incorporate the annual financial statements of the company and all subsidiaries. Subsidiaries are entities (including structured entities) which are controlled by the Group.

##### Investment in associates and joint ventures

The financial results of associates and joint ventures are included in the Group’s results according to the equity accounting method from the acquisition date until the disposal date. Under the equity method, investments in associates and joint ventures are recognised initially as cost. Subsequent to the acquisition date, the Group’s share of profits or losses of associates and joint ventures is charged to the income statement as equity accounted earnings and its share of movements in equity reserves is recognised as other comprehensive income or equity as appropriate. A JV is a joint arrangement in which parties have joint control, with rights to the net asset of the arrangement. An associate is an entity, other than a subsidiary, JV or joint operation, in which the Group has significant influence, but no control or joint control over the financial and operating policies. Associates and joint ventures whose financial year-ends are within three months of 31 March are included in the Consolidated Annual Financial Statements statements using their most recently management reports at 31 March. Adjustments are made to the associates’ and JVs’ financial results for material transactions and events in the intervening period.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on the investment in its associates or JVs and then recognises the loss as an impairment loss in the statement of profit or loss.

##### Joint operations

A joint operation is a type of joint arrangement whereby the parties have joint control of the arrangement. In its interests in joint operations, the Group recognises its share of:

- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Share of the revenue from the sale of the output by the joint operation and
- Expenses, including its share of any expenses incurred jointly.

##### Business combinations

The group accounts for business combinations using the acquisition method of accounting. The cost of the business combination is measured as the aggregate of the fair values of assets given, liabilities incurred or assumed and equity instruments issued. Costs directly attributable to the business combination are expensed as incurred, except the costs to issue debt which are amortised as part of the effective interest and costs to issue equity which are included in equity.

## ACCOUNTING POLICIES (continued)

### FOR THE YEAR ENDED 31 MARCH 2019

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#### 1.2 Consolidation (continued)

Any contingent consideration is included in the cost of the business combination at fair value as at the date of acquisition. Subsequent changes to the assets, liability or equity which arise as a result of the contingent consideration are not affected against goodwill, unless they are valid measurement period adjustments. Otherwise, all subsequent changes to the fair value of contingent consideration that is deemed to be an asset or liability is recognised in either profit or loss or in other comprehensive income, in accordance with relevant IFRS's. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The acquiree's identifiable assets, liabilities and contingent liabilities which meet the recognition conditions of IFRS 3 Business combinations are recognised at their fair values at acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current assets Held For Sale and Discontinued Operations, which are recognised at fair value less costs to sell.

Contingent liabilities are only included in the identifiable assets and liabilities of the acquiree where there is a present obligation at acquisition date.

On acquisition, the acquiree's assets and liabilities are reassessed in terms of classification and are reclassified where the classification is inappropriate for group purposes. This excludes lease agreements and insurance contracts, whose classification remains as per their inception date.

Non-controlling interests in the acquiree are measured on an acquisition-by-acquisition basis either at fair value or at the non-controlling interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. This treatment applies to non-controlling interests which are present ownership interests, and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other components of non-controlling interests are measured at their acquisition date fair values, unless another measurement basis is required by IFRS's.

In cases where the group held a non-controlling shareholding in the acquiree prior to obtaining control, that interest is measured to fair value as at acquisition date. The measurement to fair value is included in profit or loss for the year. Where the existing shareholding was classified as an available-for-sale financial asset, the cumulative fair value adjustments recognised previously to other comprehensive income and accumulated in equity are recognised in profit or loss as a reclassification adjustment.

Goodwill is determined as the consideration paid, plus the fair value of any shareholding held prior to obtaining control, plus non-controlling interest and less the fair value of the identifiable assets and liabilities of the acquiree. If, in the case of a bargain purchase, the result of this formula is negative, then the difference is recognised directly in profit or loss.

Goodwill is not amortised but is tested on an annual basis for impairment. If goodwill is assessed to be impaired, that impairment is not subsequently reversed.

Goodwill arising on acquisition of foreign entities is considered an asset of the foreign entity. In such cases the goodwill is translated to the functional currency of the group at the end of each reporting period with the adjustment recognised in equity through to other comprehensive income.

#### 1.3 Significant judgements and sources of estimation uncertainty

In preparing the Consolidated Annual Financial Statements in terms of IFRS, the Group's management is required to make certain estimates and assumptions that may materially affect reported amounts of assets and liabilities at the date of the Consolidated Annual Financial Statements and the reported amounts of revenues and expenses during the reported period and the related disclosures. As these estimates and assumptions concern future events, due to the inherent uncertainty involved in this process, the actual results often vary from the estimates. These estimates and judgments are based on historical experience, current and expected future economic conditions, and other factors, including expectations of future events that are believed to be reasonable under the circumstances.





## ACCOUNTING POLICIES (continued)

### FOR THE YEAR ENDED 31 MARCH 2019

#### 1.3 Significant judgements and sources of estimation uncertainty (continued)

##### Key sources of estimation uncertainty

###### Useful lives of property, plant and equipment

Management assess the appropriateness of the useful lives of property, plant and equipment at the end of each reporting period. The useful lives of motor vehicles, furniture and computer equipment are determined based on group replacement policies for the various assets. Individual assets within these classes, which have a significant carrying amount are assessed separately to consider whether replacement will be necessary outside of normal replacement parameters. The useful life of manufacturing equipment is assessed annually based on factors including wear and tear, technological obsolescence and usage requirements.

When the estimated useful life of an asset differs from previous estimates, the change is applied prospectively in the determination of the depreciation charge.

###### Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. 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 impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

###### Environmental, decommissioning and rehabilitation provision

The determination of long-term provisions, in particular environmental provisions, remains a key area where management's judgment is required. Estimating the future cost of these obligations is complex and requires management to make estimates and judgments because most of the obligations will be fulfilled only in the future, and contracts and laws are often not clear on what is required. The resulting provisions could also be influenced by changing technologies and political, environmental, safety, business, the exchange rate, inflation, discount rate and statutory considerations. It is envisaged that, based on the current information available, any additional liability in excess of an estimate is based on costs that are regularly reviewed, by internal and external experts, and adjusted as appropriate for new circumstances.

###### Other provisions

For other provisions, estimates are made of legal or constructive obligations, resulting in the raising of provisions, and the expected date of probable outflow of economic benefits to assess whether the provision should be discounted.

###### Recoverability of assets

The Group assesses its cash generating units (CGUs) at each reporting period to determine whether any indication of impairment exists. Impairment tests are performed when there is an indication of impairment of assets or a reversal of previous impairments of assets. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs of disposal (FVLCD) and value in use (VIU). Management, therefore, has implemented certain impairment indicators and these include movements in exchange rates, commodity prices and the economic environment in which its businesses operate. Estimates are made in determining the recoverable amount of assets, which include the estimation of cash flows and discount rates used. In estimating the cash flows, management bases cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the assets, based on publicly available information. The discount rates used are pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the assets for which the future cash flow estimates have not been adjusted. These estimates and assumptions are subject to risk and uncertainty.

Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of CGUs.

# ACCOUNTING POLICIES (continued)

## FOR THE YEAR ENDED 31 MARCH 2019

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### 1.3 Significant judgements and sources of estimation uncertainty (continued)

#### Impairments and impairment reversals

Impairment tests are performed when there is an indication of impairment of assets or a reversal of previous impairments of assets. Management, therefore, has implemented certain impairment indicators, including movements in exchange rates, commodity prices and the economic environment in which its businesses operate. Estimates are made in determining the recoverable amount of assets, which include the estimation of cash flows and discount rates used. In estimating cash flows, management bases cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the assets, based on publicly available information. The discount rates used are post-tax rates that reflect the current market assessment of the time value of money and the risks specific to the assets for which the future cash flow estimates have not been adjusted.

#### Mineral reserve and resource estimates

Mineral reserves are estimates of the amount of mineral that can be economically and legally extracted from the Group's mineral properties. The Group estimates its commercial reserves and resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the mineral body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of mineral in place, recovery factors and future commodity prices. Future development costs are estimated using assumptions as to the number of wells and drill holes required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs.

As the economic assumptions used may change and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Group's reported financial position and results, which include:

- a) The carrying value of exploration and evaluation assets and production assets may be affected due to changes in estimated future cash flows.
- b) Depreciation and amortisation charges in the statement of profit or loss may change where such charges are determined using the units of production (UoP) and life of mine (LoM) method.
- c) Provisions for decommissioning may change, where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities.
- d) The recognition and carrying value of deferred tax assets may change due to changes in judgments regarding the existence of such assets and in estimates of the likely recovery of such assets.

#### Depreciation of mineral assets

Mineral properties are depreciated using the UoP method. The actual production for the period is divided by the total proved developed and undeveloped mineral reserves. This results in a depreciation/amortisation charge (UoP rate) and LoM rate proportional to the depletion of the anticipated remaining production from the field.

The life of each item, which is assessed at least annually, is based on both its physical life limitations and present assessments of economically recoverable reserves of the field at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. The calculation of the UoP and LoM rates of depreciation/amortisation will be impacted to the extent that actual production in the future is different from current forecast production based on total proved reserves, whereas the life of each item and the total recoverable reserves are impacted by future capital expenditure (because the future estimated capital expenditure does not affect the UoP and LoM rates directly, but affects only the life and value of the assets to be depreciated).

#### Defined benefit plans (pension benefits)

The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.



## ACCOUNTING POLICIES (continued)

### FOR THE YEAR ENDED 31 MARCH 2019

#### 1.3 Significant judgements and sources of estimation uncertainty (continued)

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

#### Contingent liabilities

Management considers the existence of possible obligations that may arise from legal action, possible non-compliance with Companies Act, PFMA, CEF Act and the requirements of completion guarantees and other guarantees provided. The estimation of the amount disclosed is based on the expected possible outflow of economic benefits.

#### Exploration and evaluation expenditure

The amount of intangible exploration and evaluation assets represents active exploration assets. These amounts will be written off to the statement of profit or loss and comprehensive income as exploration costs unless commercial reserves are established or the determination process is not completed and there are no indicators of impairment.

The key areas in which management have applied judgment are as follows: Group's intention to proceed with future work programme for a prospect or licence, the likelihood of licence renewal or extension, and the success of a well result or geological or geophysical survey.

#### Fair-value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques, including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

#### Allowance for slow moving, damaged and obsolete stock

Net realisable value tests are performed at each reporting date and allowance is made to write stock down to the lower of cost or net realisable value. Management has made estimates of the selling price and production costs and cost to sell on certain inventory items. The write down is included in the operating expenses.

#### Unpumpable crude oil/crude oil sludge

The part of the crude that is necessary to operate (in technical terms) the plant and cannot be recouped (or can be recouped but would then be significantly impaired as sludge), even when the plant is abandoned, is considered part of non-current assets.

#### Inventory-coal stocks

Coal stocks are measured using the survey methods. At reporting date an independent surveyor is employed to perform the stock measurement concurrently with the company and the results are compared for reasonableness.

#### Operating lease commitments – group as lessor

The Group has entered into commercial property leases on its buildings and tanks. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

#### Joint arrangements

Judgment is required to determine when the company has joint control, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The company has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement.

## ACCOUNTING POLICIES (continued)

### FOR THE YEAR ENDED 31 MARCH 2019

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#### 1.3 Significant judgements and sources of estimation uncertainty (continued)

Judgment is also required to classify a joint arrangement as either a joint operation or joint venture. Classifying the arrangement requires the company to assess its rights and obligations arising from the arrangement.

Specifically, the company considers:

- The structure of the joint arrangement – whether it is structured through a separate vehicle
- The rights and obligations arising
- The legal form of the separate vehicle
- The terms of the contractual arrangement.

#### Key management personnel

The CEOs/equivalent for operating subsidiaries and the holding company are the Group's key management personnel.

#### Going concern

Management considers key financial metrics in its approved medium term budgets, together with its existing term facilities, to conclude that the going concern assumption used in compiling the annual financial statements is relevant.

#### 1.4 Irregular, Fruitless and wasteful Expenditure

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including the PFMA. It has been proved that the Group has not procured goods and services within the procurement pillars for a process that is 'Fair, equitable, transparent, competitive and cost effective'.

National Treasury Practice Note No 4 of 2008/2009, which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is required, with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required, with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is condoned only in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the Accounting Officer or Accounting Authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and be updated in the irregular expenditure register.

Fruitless expenditure means expenditure that was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of profit or loss in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense and, where recovered, is subsequently accounted for as income in the statement of profit or loss.

All irregular and fruitless and wasteful expenditure is charged against profit or loss in the period in which it is incurred and disclosed as a note to the Annual Financial Statements of the Group.





## ACCOUNTING POLICIES (continued)

### FOR THE YEAR ENDED 31 MARCH 2019

#### 1.5 Property, plant and equipment

The Group's Property plant and equipment is made up of the following:

- Assets used in the production process such as land and buildings, plant machinery, production assets, furniture and fixtures, motor vehicles, office equipment, IT equipment and mine infrastructure.
- Assets under development
- Restoration costs
- Major Maintenance costs (Shutdown)

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

#### Initial recognition

An item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the company, and the cost of the item can be measured reliably.

#### Initial measurement

Property, plant and equipment is initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset, including the capitalisation of borrowing costs on qualifying assets and adjustments in respect of hedge accounting, where appropriate.

The initial estimate of the costs of dismantling and removing an item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the group is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Expenditure incurred subsequently for major services, additions to or replacements of parts of property, plant and equipment are capitalised if it is probable that future economic benefits associated with the expenditure will flow to the company and the cost can be measured reliably. Day to day servicing costs are included in profit or loss in the year in which they are incurred.

#### Subsequent measurement

Property, plant and equipment is subsequently stated at cost less accumulated depreciation and any accumulated impairment losses, except for land which is stated at cost less any accumulated impairment losses.

Cost includes the purchase price or construction costs, the present value of the expected cost for the decommissioning and environmental rehabilitation of an asset after its use, and qualifying borrowing costs.

When property, plant and equipment comprises major components with different useful lives, these components are accounted for as separate items.

The useful lives of items of property, plant and equipment have been assessed as follows:

| Item                              | Depreciation method | Average useful life             |
|-----------------------------------|---------------------|---------------------------------|
| Buildings                         | Straight line       | 5 – 65 years                    |
| Plant and machinery               | Straight line       | 3 – 80 years                    |
| Furniture, fixtures and equipment | Straight line       | 3 – 20 years                    |
| Motor vehicles                    | Straight line       | 4 – 15 years                    |
| IT equipment                      | Straight line       | 2 – 10 years                    |
| Restoration costs                 | Straight line       | LoM                             |
| Mine infrastructure               | Straight line       | 5 – 20 years limited to LoM     |
| Shutdown costs                    | Straight line       | 3 – 5 years                     |
| Production assets                 | Straight line       | 3 – 20 years limited to LoM/UoP |

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

## ACCOUNTING POLICIES (continued)

### FOR THE YEAR ENDED 31 MARCH 2019

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#### 1.5 Property, plant and equipment (continued)

Impairment tests are performed on property, plant and equipment when there is an indicator that they may be impaired. When the carrying amount of an item of property, plant and equipment is assessed to be higher than the estimated recoverable amount, an impairment loss is recognised immediately in profit or loss to bring the carrying amount in line with the recoverable amount.

#### Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial time to prepare for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

#### Unpumpable stock

The part of the strategic crude oil that is necessary to operate (in technical terms) the plant and cannot be recouped (or can be recouped but would then be significantly impaired as sludge), even when the plant is abandoned, is considered as an item of property, plant and equipment. These items are initially measured at historical cost and subsequently measured at costs less accumulated depreciation and impairment. Depreciation is charged so as to write off the depreciable amount of the assets over their estimated useful lives, using the straight-line method to write off the cost of each asset that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity. The useful life is linked to the life of the Tanks.

#### Shutdown costs

Shutdown costs relate to expenditure incurred for major maintenance and servicing of the Plant. When shutdown costs will be incurred, an estimate of these shutdown costs is included in the carrying value of the asset at initial recognition.

#### Production assets (oil and gas fields)

Oil and gas production assets are the aggregated exploration and evaluation tangible assets, and development expenditure associated with the production of proved reserves.

Subsequent expenditure which enhances or extends the performance of oil and gas production assets beyond their original specifications is recognised as capital expenditure and added to the original cost of the asset.

Production assets are depreciated from the date production commences, on a unit of production basis, which is the ratio of oil and gas production in the period to the estimated quantities of proved and probable reserves at the end of the period plus the production in the period, on a field-by-field basis. Costs used in the unit of production calculation comprise the carrying value of capitalised costs plus the estimated future field development costs required to recover the commercial reserves remaining. Units of production rates are based on the proved and probable developed reserves, which are oil, gas and other mineral reserves estimated to be recoverable from existing facilities using current operating methods. Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively.

Where there has been a change in economic conditions that indicates a possible impairment in a discovery field, the recoverability of the carrying value relating to that field is assessed by comparison with the estimated discounted future cash flows based on management's expectations of future oil and gas prices and future costs. Where there is evidence of economic interdependency between fields, such as common infrastructure, the fields are grouped as a single cash generating unit for impairment purposes.

Any impairment identified is charged to profit or loss. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to profit or loss, net of any depreciation that would have been charged since the impairment.

#### Restoration costs

Cost of property, plant and equipment also includes the estimated costs of dismantling and removing the assets and site rehabilitation costs.



## ACCOUNTING POLICIES (continued)

### FOR THE YEAR ENDED 31 MARCH 2019

#### 1.5 Property, plant and equipment (continued)

Estimated decommissioning and restoration costs are based on current requirements, technology and price levels. Provision is made for all net estimated abandonment costs as soon as an obligation to rehabilitate the area exists, based on the present value of the future estimated costs. These costs are deferred and are depreciated over the useful life of the assets to which they relate using the unit of production method based on the same reserve quantities as are used for the calculation of depletion of oil and gas production assets.

The amount recognised is the estimated cost of restoration, discounted to its net present value, and is reassessed each year in accordance with local conditions and requirements. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the restoration provision is included as a finance cost.

#### Development expenditure

When proved reserves are determined and development is sanctioned, capitalised exploration and evaluation expenditure is reclassified as assets under construction, and is disclosed as a component of property, plant and equipment. All subsequent development expenditure is capitalised and classified as assets under construction, provided commercial viability conditions continue to be satisfied. Development expenditure is net of proceeds from the sale of minerals extracted during the development phase. On completion of development, all assets included in assets under construction are reclassified as mine infrastructure assets.

The cost capitalized includes finance costs incurred until the production facility is completed and ready for the start of the production phase.

Expenditure on producing mines is capitalised when excavation or drilling is incurred to extend reserves or further delineate existing proved and probable mineral reserves. All development expenditure incurred after the commencement of production is capitalised to the extent that it gives rise to probable future economic benefits.

#### Capitalised stripping costs

Waste removal costs incurred in the production phase are incurred for production of inventory as well as the creation of future benefits by improving access to the ore to be mined, the latter being referred to as a 'stripping activity asset'. Judgment is required to distinguish between these two activities. The ore bodies need to be identified by their identifiable components. An identifiable component is a specific volume of the ore body that is made more accessible by the stripping activity. Judgment is required to identify and define these components, and to determine the expected volumes (tons) of waste to be stripped and ore to be mined in each of these components. These assessments are based on a combination of information available in the mine plans, specific characteristics of the ore body and milestones relating to major capital investment decisions.

Judgment is required to identify a suitable production measure that can be applied in the calculation and allocation of production stripping costs between inventory and the stripping activity asset. The ratio of expected volume (tons) of waste to be stripped for an expected volume (tons) of ore to be mined for a specific component of the ore body, compared to the current period ratio of actual volume (tons) of waste to the volume (tons) of ore is considered to determine the most suitable production measure. These judgments and estimates are used to calculate and allocate the production stripping costs to inventory and/or the stripping activity asset(s). Furthermore, judgments and estimates are also used to apply the depreciation method in determining the depreciable lives of the stripping activity asset.

The process of removing overburden and other mine waste materials to access mineral deposits is referred to as stripping. In open-pit mining, stripping costs are accounted for separately for each component of an ore body. A component is a specific section within an ore body that is made more accessible by the stripping activity. The identification of components is dependent on the mine plan.

## ACCOUNTING POLICIES (continued)

### FOR THE YEAR ENDED 31 MARCH 2019

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#### 1.5 Property, plant and equipment (continued)

There are two types of stripping activity:

- Development stripping is the initial overburden removal during the development phase to obtain access to a mineral deposit that will be commercially produced.
- Production stripping begins after the first saleable minerals have been extracted from the component.

Development stripping costs are capitalised as a development stripping asset when:

- It is probable that future economic benefits associated with the asset will flow to the entity; and
- The costs can be measured reliably.

Production stripping can give rise to two benefits, either the production of inventory in the current period or improved access to the ore to be mined in future periods.

Where the benefits are realised in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing the inventory.

Where production stripping costs are incurred and where the benefit is the creation of access to ore to be mined in the future, the costs are recognised as a non-current asset, referred to as 'production stripping asset', if the following criteria are met:

- It is probable that the future economic benefit (improved access to ore) will flow to the entity
- The component of the ore body for which access has been improved can be identified and
- The costs relating to the stripping activity can be measured reliably.

If all the criteria are not met, the production stripping costs are charged to the statement of profit or loss. Production stripping asset is accounted for as an addition or enhancement to the mine infrastructure. The asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component, plus an allocation of attributable overheads. If the production stripping asset and the inventory produced are not separately identified, a production measure is used to allocate the production stripping costs between the inventory produced and the production stripping asset.

Production stripping assets are carried at cost less depreciation and impairment loss.

#### Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use.

Gains or losses on disposal of property, plant and equipment are determined by reference to their carrying amount.

The gain or losses arising from derecognition of an item of property, plant and equipment is included in operating profit or loss.

#### 1.6 Intangible assets

The Group's intangible assets comprise of the following:

- Exploration and evaluation assets
- Project development costs
- Software
- Patents and Licences
- Restoration costs

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.





## ACCOUNTING POLICIES (continued)

### FOR THE YEAR ENDED 31 MARCH 2019

#### 1.6 Intangible assets (continued)

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

#### Project development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

#### Patents and licences

The Group has also internally generated patents that were developed by the internal experts. These patents have an indefinite useful life.

The purchased patents are granted to be used for the duration of the contract by the relevant owner, with the option of renewal at the end of this period.

Software licences for the use of intellectual property are granted for periods ranging between two and 10 years depending on the specific licences.

#### Exploration, evaluation and development assets

##### - Oil and gas wells

The “successful efforts” method is used to account for natural oil and gas exploration, evaluation and development activities.

Under the successful efforts method, only those costs that lead directly to the discovery, acquisition, or development of specific discrete mineral reserves are capitalised and become part of the capitalised costs of the cost centre. Costs that are known to fail to meet this criterion (at the time of incurrence) are generally charged to the statement of profit or loss as an expense in the period they are incurred.

##### - Coal Mining

Pre-licence costs relate to costs incurred before the company has obtained legal rights to explore in a specific area. Such costs may include the acquisition of exploration data and the associated costs of analysing that data. These costs are expensed in the period in which they are incurred.

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

# ACCOUNTING POLICIES (continued)

## FOR THE YEAR ENDED 31 MARCH 2019

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### 1.6 Intangible assets (continued)

Exploration and evaluation activity includes:

- researching and analysing historical exploration data;
- gathering exploration data through topographical, geochemical and geophysical studies;
- exploratory drilling, trenching and sampling;
- determining and examining the volume and grade of the resource;
- surveying transportation and infrastructure requirements;
- Conducting market and finance studies.

Expenditure incurred in relation to desktop and concept studies are charged to the statement of profit or loss. The desktop and concept studies are high level studies to estimate tonnage available and potential mine size.

Upon the approval of the concept study competent persons report, (at which point the company considers it probable that economic benefits will be realised), the company capitalises any further expenditure incurred for the particular licence as exploration and evaluation assets. Such expenditure consists of an accumulation of direct exploration and evaluation costs incurred, together with an appropriate portion of overhead expenditure. Administration costs that are not directly attributable to a specific exploration area are charged to the statement of profit or loss. Expenditure incurred after technical feasibility and commercial viability of extracting the mineral resource have been demonstrated are capitalised to exploration and evaluation assets.

Capitalised exploration and evaluation expenditure is recognised as an intangible asset and is carried at cost less impairment charges. In determining whether the cost of the exploration and evaluation assets is intangible or property, plant and equipment, consideration is given to the substance and not legal form.

#### Pre-licensing costs

These are costs incurred prior to the acquisition of a legal right to explore for oil and gas. They may include speculative seismic data and subsequent geological and geophysical analysis of this data, but may not be exclusive to such costs. These costs are expensed in the year they are incurred.

#### Exploration and evaluation costs

All costs relating to the acquisition of licenses, exploration and evaluation of a well, field or exploration area are initially capitalised. Directly attributable administration costs and interest payable are capitalised insofar as they relate to specific development activities.

These costs are not depreciated but written off as exploration costs in profit or loss unless commercial reserves have been established or the determination process has not been completed and there are no indications of impairment.

#### Assets Pending Determination

Exploratory wells that discover potentially commercial reserves are capitalised pending a decision to further develop or a firm plan to develop has been approved. These are continuously assessed for impairment. If no such plan or development exists or information is obtained that raises doubt about the economic or operating viability then an impairment is recognised. If a plan or intention to further develop these wells or fields exists, the costs are transferred to development costs.

#### Commercial reserves

Commercial reserves are proven and probable oil and gas reserves, which are defined as the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50 per cent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable reserves and a 50 per cent statistical probability that it will be less.

#### Development costs

Costs of development wells, platforms, well equipment and attendant production facilities are capitalised. The cost of production facilities capitalised includes finance costs incurred until the production facility is completed and ready for the start of the production phase. All development wells are not depreciated until production starts and then they are depreciated on the Units of Production method calculated using the estimated proved and probable reserves.



# ACCOUNTING POLICIES (continued)

## FOR THE YEAR ENDED 31 MARCH 2019

### 1.6 Intangible assets (continued)

#### Dry wells

Geological and geophysical costs, as well as all other costs relating to dry exploratory wells costs are recognised in the profit and loss in the year they are incurred.

#### Software

Purchased software and the direct costs associated with the customisation and installation thereof are capitalised.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values.

A summary of the policies applied to the Group's intangible assets is as follows:

| Item                                | Amortisation method | Average useful life    |
|-------------------------------------|---------------------|------------------------|
| External Patents                    | Straight line       | 5 – 10 years           |
| Developed Patents                   | Indefinite          | Indefinite useful life |
| Software licenses                   | Straight line       | 2 – 10 years           |
| Intangible assets under development | N/A                 | N/A                    |

### 1.7 Financial instruments

Financial instruments held by the group are classified in accordance with the provisions of IFRS 9 Financial Instruments.

Broadly, the classification possibilities, which are adopted by the Group, as applicable, are as follows:

Financial assets which are equity instruments:

- Mandatorily at fair value through profit or loss; or
- Designated as at fair value through other comprehensive income. (This designation is not available to equity instruments which are held for trading or which are contingent consideration in a business combination).

Financial assets which are debt instruments:

- Amortised cost. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is met by holding the instrument to collect contractual cash flows); or
- Fair value through other comprehensive income. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is achieved by both collecting contractual cash flows and selling the instruments); or
- Mandatorily at fair value through profit or loss. (This classification automatically applies to all debt instruments which do not qualify as at amortised cost or at fair value through other comprehensive income); or
- Designated at fair value through profit or loss. (This classification option can only be applied when it eliminates or significantly reduces an accounting mismatch).

Derivatives which are not part of a hedging relationship:

- Mandatorily at fair value through profit or loss.

Financial liabilities:

- Amortised cost; or
- Mandatorily at fair value through profit or loss. (This applies to contingent consideration in a business combination or to liabilities which are held for trading); or
- Designated at fair value through profit or loss. (This classification option can be applied when it eliminates or significantly reduces an accounting mismatch; the liability forms part of a group of financial instruments managed on a fair value basis; or it forms part of a contract containing an embedded derivative and the entire contract is designated as at fair value through profit or loss).

Note 43 Financial instruments and risk management presents the financial instruments held by the Group based on their specific classifications.

## ACCOUNTING POLICIES (continued)

### FOR THE YEAR ENDED 31 MARCH 2019

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#### 1.7 Financial instruments (continued)

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.

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

#### Loans receivable at amortised cost

##### Classification

Loans to group companies (note 8) are classified as financial assets subsequently measured at amortised cost.

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

##### Recognition and measurement

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

They are subsequently measured at amortised cost.

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

##### Application of the effective interest method

Interest income is calculated using the effective interest method, and is included in profit or loss in investment income (note 31).

The application of the effective interest method to calculate interest income on a loan receivable is dependent on the credit risk of the loan as follows:

- The effective interest rate is applied to the gross carrying amount of the loan, provided the loan is not credit impaired. The gross carrying amount is the amortised cost before adjusting for a loss allowance.
- If a loan is purchased or originated as credit-impaired, then a credit-adjusted effective interest rate is applied to the amortised cost in the determination of interest. This treatment does not change over the life of the loan, even if it is no longer credit-impaired.
- If a loan was not purchased or originally credit-impaired, but it has subsequently become credit-impaired, then the effective interest rate is applied to the amortised cost of the loan in the determination of interest. If, in subsequent periods, the loan is no longer credit impaired, then the interest calculation reverts to applying the effective interest rate to the gross carrying amount.

##### Impairment

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

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

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





## ACCOUNTING POLICIES (continued)

### FOR THE YEAR ENDED 31 MARCH 2019

#### 1.7 Financial instruments (continued)

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

##### Significant increase in credit risk

In assessing whether the credit risk on a loan has increased significantly since initial recognition, the Group compares the risk of a default occurring on the loan as at the reporting date with the risk of a default occurring as at the date of initial recognition.

The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information.

For non-related party transactions and where there is no dispute, irrespective of the outcome of the above assessment, the credit risk on a loan is always presumed to have increased significantly since initial recognition if the contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

By contrast, if a loan is assessed to have a low credit risk at the reporting date, then it is assumed that the credit risk on the loan has not increased significantly since initial recognition.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increases in credit risk before the amount becomes past due.

##### Write off policy

The Group writes off a loan when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Loans written off may still be subject to enforcement activities under the Group recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

##### Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default.

The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. The exposure at default is the gross carrying amount of the loan at the reporting date.

Lifetime ECL is measured on a collective basis in cases where evidence of significant increases in credit risk are not yet available at the individual instrument level. Loans are then grouped in such a manner that they share similar credit risk characteristics, such as nature of the loan, external credit ratings (if available), industry of counterparty etc.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12 month ECL at the current reporting date, and visa versa.

An impairment gain or loss is recognised for all loans in profit or loss with a corresponding adjustment to their carrying amount through a loss allowance account. The impairment loss is included in other operating expenses in profit or loss as a movement in credit loss allowance (note 30).

# ACCOUNTING POLICIES (continued)

## FOR THE YEAR ENDED 31 MARCH 2019

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### 1.7 Financial instruments (continued)

#### Credit risk

Details of credit risk related to loans receivable are included in the specific notes and the financial instruments and risk management (note 43).

#### Trade and other receivables

##### Classification

Trade and other receivables, excluding, when applicable, VAT and prepayments, are classified as financial assets subsequently measured at amortised cost (note 14).

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

##### Recognition and measurement

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

They are subsequently measured at amortised cost.

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

##### Impairment

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

The group measures the loss allowance for trade and other receivables at an amount equal to lifetime expected credit losses (lifetime ECL), which represents the expected credit losses that will result from all possible default events over the expected life of the receivable.

##### Measurement and recognition of expected credit losses

The group makes use of a provision matrix as a practical expedient to the determination of expected credit losses on trade and other receivables. The provision matrix is based on historic credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current and forecast direction of conditions at the reporting date, including the time value of money, where appropriate.

The customer base is widespread and does not show significantly different loss patterns for different customer segments. The loss allowance is calculated on a collective basis for all trade and other receivables in totality. Details of the provision matrix is presented in note 14.

An impairment gain or loss is recognised in profit or loss with a corresponding adjustment to the carrying amount of trade and other receivables, through use of a loss allowance account. The impairment loss is included in other operating expenses in profit or loss as a movement in credit loss allowance (note 30).

#### Trade and other payables

##### Classification

Trade and other payables (note 25), excluding VAT and amounts received in advance, are classified as financial liabilities subsequently measured at amortised cost.

##### Recognition and measurement

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

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



## ACCOUNTING POLICIES (continued)

### FOR THE YEAR ENDED 31 MARCH 2019

#### 1.7 Financial instruments (continued)

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

If trade and other payables contain a significant financing component, and the effective interest method results in the recognition of interest expense, then it is included in profit or loss in finance costs (note 32).

Trade and other payables expose the Group to liquidity risk and possibly to interest rate risk. Refer to note 43 for details of risk exposure and management thereof.

#### Trade and other payables denominated in foreign currencies

When trade payables are denominated in a foreign currency, the carrying amount of the payables are determined in the foreign currency. The carrying amount is then translated to the Rand equivalent using the spot rate at the end of each reporting period. Any resulting foreign exchange gains or losses are recognised in profit or loss in the other operating gains (losses) (note 30).

Details of foreign currency risk exposure and the management thereof are provided in the financial instruments and risk management (note 43).

#### 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. These are initially and subsequently recorded at fair value. Due to the carrying value considered to reflect its fair value.

#### Derecognition

##### Financial assets

The Group derecognises a financial asset only 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.

##### Financial liabilities

The Group derecognises financial liabilities when, and only when, the Group obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

#### 1.8 Prepayments

Prepayments are recognised when there is a payment in advance for services not yet received. They are subsequently released to profit and loss over the period the services are received.

#### 1.9 Tax

##### Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset. Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

# ACCOUNTING POLICIES (continued)

## FOR THE YEAR ENDED 31 MARCH 2019

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### 1.9 Tax (continued)

#### Deferred tax assets and liabilities

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 at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses and unused STC credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused STC credits can be utilised.

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

#### 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
- a business combination.

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

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

#### Royalty taxes

In addition to corporate income taxes, the Group recognises taxes on royalty income. Royalty tax is treated as a taxation arrangement when it has the characteristics of a tax. This is considered to be the case when it is imposed under government authority and the amount payable is calculated by reference to revenue derived (net of any allowable deductions) after adjustment for temporary differences.

#### Value-added tax (VAT)

Expenses and assets are recognised net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of sales tax included. The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

### 1.10 Leases

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.

#### Finance leases - lessor

The group recognises finance lease receivables in the statement of financial position.

Finance income is recognised based on a pattern reflecting a constant periodic rate of return on the group's net investment in the finance lease.

#### Finance leases – lessee

Finance leases are recognised as assets and liabilities in the statement 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. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.





## ACCOUNTING POLICIES (continued)

### FOR THE YEAR ENDED 31 MARCH 2019

#### 1.10 Leases (continued)

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.

##### Group as a lessee

Operating lease income is recognised as an income on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Income for leases is disclosed under revenue in profit or loss.

##### Group as a lessor

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset/liability. This liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

#### 1.11 Inventories

Inventories are valued at the lower of cost and net realisable value and the costs are determined using the weighted average method.

Inventories includes a “right to returned goods asset” which represents the group right to recover products from customers where customers exercise their right of return under the group returns policy. The group uses its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method. A corresponding adjustment is recognised against cost of sales.

Inventories are valued at the lower of cost and net realisable value. These are the various types of inventory held by the Group:

##### Strategic inventory

Inventory costs include purchase cost, transport, handling costs as well as allocated operating overheads. These inventories are being held in accordance with Ministerial Directives as prescribed by the Minister.

The carrying amount of the strategic crude oil is expected to be realised past 12 months after the reporting date, thus it is included in non-current assets. The net realisable value is referenced against the crude oil market prices from Platts. This is based on the exercises where benchmarking had to be done to the Platts data.

Also included in strategic inventory is diesel. The diesel was acquired by the Group but has been pumped into Transnet's pipeline for that pipeline to operate. The diesel remains in the pipeline at all times. Although the diesel is in the pipeline owned by Transnet, the diesel still belongs to the Group and will be returned to the Group in the same condition (quality) when the pipeline ceases to operate. This is revalued annually against market prices.

##### Petroleum products

Finished and intermediate inventory is measured at the lower of cost and net realisable value according to the standard costing method. Cost includes production expenditure, depreciation and a proportion of triennial turnaround expenses and replacement of catalysts, as well as transport and handling costs. Provision is made for obsolete, slow-moving and defective inventories.

##### Coal inventory

Cost includes expenditure incurred in acquiring, manufacturing and transporting the inventory to its present location. Manufacturing costs include an allocated portion of production overheads, which are directly attributable to the cost of manufacturing such inventory.

# ACCOUNTING POLICIES (continued)

## FOR THE YEAR ENDED 31 MARCH 2019

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### 1.11 Inventories (continued)

Net realisable value is the estimated future sales price of the product the entity expects to realise when the product is sold, less estimated costs to bring the product to sale.

The future sales price is based on Eskom's fixed price as the majority of sales is made to Eskom.

#### Spares, catalysts and chemicals

These inventories are measured at the lower of cost on a weighted average cost basis and net realisable value less appropriate provision for obsolescence determined by reference to specific items of inventory. 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.

#### Finished inventories and work-in-progress

Finished inventories and work-in-progress is measured at the lower of cost and net realisable value according to the standard costing method. Standard costs take into account normal levels of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of current conditions. Cost includes production expenditure, depreciation and a proportion of shutdown expenses and replacement of catalysts, as well as transport and handling costs. Provision is made for obsolete, slow-moving and defective inventories.

#### Consumable stock

These inventories are measured at the lower of cost on a weighted average cost basis and net realisable value. Inventories are classified as current when it is reasonable to expect them to be sold within their normal cycle which could be the next financial year. If not, they are classified as non-current.

### 1.12 Non-current assets held for sale and Discontinued operations

The Group classifies non-current assets and disposal groups as held for sale/held for distribution to owners if their carrying amounts will be recovered principally through a disposal rather than through continuing use.

Such non-current assets and disposal groups classified as held for disposal are measured at the lower of their carrying amount and fair value less costs to sell or to distribute. Costs to distribute are the incremental costs directly attributable to the distribution, excluding the finance costs and income tax expense.

The criteria for held-for-disposal classification are regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate disposal and transfer in its present condition. Actions required to complete the disposal should indicate that it is unlikely that significant changes to the disposal will be made or that the disposal will be withdrawn. The probability of shareholders' approval (if required in terms of PFMA and other applicable laws and regulations) should be considered as part of the assessment of whether the distribution/sale is highly probable. Management must be committed to the disposal which qualifies for recognition as a completed sale within one year from the date of the classification.

Depreciation of assets ceases from the date of classification in 'Non-current assets held for sale'.

Assets and liabilities classified as held for disposal/distribution to owners are presented separately as current items in the consolidated statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss and other comprehensive income.

Financial performance, cash flows and net assets of the discontinued operation are disclosed separately in the notes.



## ACCOUNTING POLICIES (continued)

### FOR THE YEAR ENDED 31 MARCH 2019

#### 1.13 Impairment of assets

The Group assesses, at each reporting date, whether there is an indication that an asset (other than inventory and deferred tax asset) may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the statement of profit or loss and other comprehensive income in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. A previously recognised impairment loss reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss and other comprehensive income.

Exploration assets are tested for impairment prior to transferring to the development phase of the property or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration assets' carrying amount exceeds their recoverable amount.

#### 1.14 Materiality and aggregation

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Also the nature and size of the line item is taken into consideration.

Line items that are not considered to be individually material are aggregated with other items in the statements and disclosed separately in the notes.

#### 1.15 Employee benefits

##### Short-term employee benefits

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.

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

##### Defined contribution plans

The Group operates a defined contribution plan, the assets of which are held in a separate trustee-administered fund. When there are no assets held separately to fund the defined contribution plan, the retirement benefit obligation is funded through operating assets of the Group.

The plan is funded by payments from the Group and takes into account the recommendations of independent qualified actuaries.

Contributions to a defined contribution plan for service in a particular period are recognised as an expense in that period.

# ACCOUNTING POLICIES (continued)

## FOR THE YEAR ENDED 31 MARCH 2019

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### 1.15 Employee benefits (continued)

#### Defined benefit plans

Actuarial valuations are conducted annually by independent actuaries separately for each plan.

The Group provides defined benefit plans for pension and post-retirement healthcare to certain retirees. The entitlement to pension and post-retirement healthcare benefits is based on the eligible employees remaining in service up to retirement age. These benefits are funded by the Group. The cost of providing retirement benefits under a defined benefit plan is determined using a projected unit credit valuation method. The liability recognised in the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets.

Remeasurements, comprising actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to other comprehensive income (OCI) in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of the date of the plan amendment or curtailment and the date that the Group recognises related restructuring costs. Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation in the statement of profit or loss and other comprehensive income:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income.

#### 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.

Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

### 1.16 Provisions and contingencies

The Group's provisions mainly relate to the following:

- Environmental rehabilitation costs (Dismantling and Restoration)
- Bonus provision
- Social investment provision

Provisions represent liabilities of uncertain timing or amounts.

Provisions are measured at the expenditure required to settle the present obligation. Where the effect of discounting is material, provisions are measured at their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks for which future cash flow estimates have not been adjusted. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

#### Environmental rehabilitation costs (Dismantling and Restoration)

Provision for the cost of environmental and other remedial work, such as reclamation costs, shut down and restoration costs, is made when such expenditure is probable and the cost can be estimated with a reasonable range of possible outcomes.

Estimated decommissioning and restoration costs are based on current requirements, technology and price levels. Provision is initially recognised at net estimated decommissioning costs as soon as an obligation to rehabilitate the area exists, based on the present value of the future estimated costs. These costs are capitalised by increasing the carrying amount of the related mineral asset and depreciated over the useful life of the assets to which they relate based on the same reserve quantities as are used for the calculation of depletion of mineral assets.





## ACCOUNTING POLICIES (continued)

### FOR THE YEAR ENDED 31 MARCH 2019

The amount recognised is the estimated cost of restoration, discounted to its net present value, and is reassessed each year in accordance with local conditions and requirements. Changes in the estimated timing of restoration or restoration cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. Any reduction in the restoration liability and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to profit or loss. The unwinding of the discount on the restoration provision is included as a finance cost.

Environmental expenditures that relate to current revenues are expensed and/or future revenues are capitalised as appropriate. Expenditures that relate to an existing condition caused by past operations and do not contribute to current or future earnings are expensed.

The Group does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable. Contingencies are disclosed in note 38.

#### 1.17 Government grants

Government grants are recognised when there is reasonable assurance that:

- the group will comply with the conditions attaching to them; and
- the grants will be received.

Government grants are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as income of the period in which it becomes receivable.

#### 1.18 Revenue from contracts with customers

To determine whether to recognise revenue, the Group follows the 5-step process:

1. Identifying the contract with a customer;
2. Identifying the performance obligations;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligations; and
5. Recognising revenue when/as performance obligation(s) are satisfied.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer.

#### Nature of goods and services

The following is a description of principal activities from which the Group generates its revenues from:

##### 1. Sale of goods - Petroleum Products

Revenue from the sale of oil and petroleum products is recognised when the Group transfer control of the product to the customer. Control is transferred at the point of delivery.

##### 2. Coal

Revenue from the sale of coal is recognised when title has passed to the buyer. Title passes when delivery has been made and the coal have been accepted by the buyer to meet the required specifications.

##### 3. Rendering of services - Management fees

Revenue from the management services is recognised over time as the customer simultaneously receives and consume benefits as provided by the entity towards satisfying its performance obligation. The group measures the progress towards completion of performance obligation by making reference to the labour hours incurred to date as a percentage of total estimated labour hours for each contract.

When the contract outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

# ACCOUNTING POLICIES (continued)

## FOR THE YEAR ENDED 31 MARCH 2019

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### 1.18 Revenue from contracts with customers (continued)

#### 4. Levy

The Group provides oil pollution control services to customers. This is considered to be a distinct service as:

- the customers can benefit from the services either on its own or together with other resources that are readily available to the customer (i.e. the services are capable of being distinct); and
- the company's promise to transfer the services to the customers is separately identifiable from other promises in the contract (i.e. the services are distinct within the context of the contract).
- Revenue relating to the oil pollution control services is recognised at a point in time when the services are rendered.

#### 5. Royalties and licence fees

The Group issues licences and permits to customers for exploration and exploitation of oil and gas. Revenue is recognised over a term of granting the right and permit. A receivable is recognised by the company when a right/permit is granted. No element of financing is deemed present as the transaction has a credit term of 30 days.

#### 6. Interest income

For all financial instruments measured at amortised cost, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in investment income in the statement of profit or loss.

#### 7. Rental income

Rental income arising from operating leases on storage tanks is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature.

#### 8. Dividend income

Dividend income is recognised when the right to receive payment is established.

#### 9. Data Sales

For sales of data to customers, revenue is recognised when control of the goods has transferred, being when the customer has taken delivery of data. A receivable is recognised by the company when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. No element of financing is deemed present as the sales are made with a credit term of 30 days, which is consistent with market practice.

#### 10. Government grant

Refer to government grant accounting policy 1.17.

### 1.19 Over and under recoveries against controlled margins for petroleum products

The selling prices of certain petroleum products are subject to price control by the authorities. The selling prices are adjusted monthly to provide for the recovery of changes in the various items of landed cost of these products. The price adjustments by the authorities are, for various reasons, not made simultaneously with changes in landed cost, and thus the situation arises that oil companies, from time to time, are in the position of an over or under-recovery of changes in cost. The authorities, in conjunction with the oil companies, maintain a comprehensive record of the cumulative over or under-recoveries of the landed cost of these products. Any cumulative under-recovery is reflected as an asset at year-end with a corresponding credit to cost of sales in the statement of comprehensive income.

### 1.20 Cost of sales

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.

The related cost of providing services recognised as revenue in the current period is included in cost of sales.

Contract costs comprise:

- costs that relate directly to the specific contract;
- costs that are attributable to contract activity in general and can be allocated to the contract; and such other costs as are specifically chargeable to the customer under the terms of the contract.



## ACCOUNTING POLICIES (continued)

### FOR THE YEAR ENDED 31 MARCH 2019

#### 1.20 Cost of sales (continued)

Cost of sales is reduced by the amount recognised in inventory as a “right to returned goods asset” which represents the Group right to recover products from customers where customers exercise their right of return under the company returns policy.

#### 1.21 Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### 1.22 Translation of foreign currencies

##### Foreign currency transactions

The Group's Consolidated Annual Financial Statements are presented in South African rand, which is also the parent company's functional currency. The Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

##### Group companies

On consolidation, the assets and liabilities of foreign operations are translated into South African rand at the rate of exchange prevailing at the reporting date and their statement of profit or loss and other comprehensive income are translated at exchange rates prevailing at the dates of transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair-value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

At the end of the reporting period:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous consolidated annual financial statements are recognised in profit or loss in the period in which they arise.

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.

Cash flows arising from transactions in a foreign currency are recorded in Rand by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

#### 1.23 Related parties

Parties are considered to be related if one party directly or indirectly has the ability to control or jointly control the other party or exercise significant influence over the other party or is a member of key management of the reporting entity. The related parties mainly relate to JVs and associates. Disclosure for JVs and associates is provided in note 40.

## **ACCOUNTING POLICIES** (continued)

### FOR THE YEAR ENDED 31 MARCH 2019

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#### **1.23 Related parties (continued)**

Group companies, in the ordinary course of business, entered into various purchase and sale transactions with associates and JVs. The effect of these transactions is included in the financial performance and results of the Group. Terms and conditions are determined on an arm's length basis. Amounts owing (after eliminating intercompany balances) to related parties are disclosed in the respective notes to the financial statements for those statement of financial position items.

The CEOs/equivalent for operating subsidiaries and the holding company have been identified as key management personnel for the Group.

#### **1.24 Events after reporting period**

Recognised amounts in the Consolidated Annual Financial Statements are adjusted to reflect events arising after the reporting date that provide evidence of conditions that existed at the reporting date. Events after the reporting date that are indicative of conditions that arose after the reporting date are dealt with by way of a note disclosure.





# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

## 2. New Standards and Interpretations

### 2.1 Standards and interpretations effective and adopted in the current year

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

#### IFRS 15 'Revenue from Contracts with Customers'

In the current year, the company has applied IFRS 15 Revenue from Contracts with Customers (as revised in April 2016) and the related consequential amendments to other IFRSs. IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue - Barter Transactions Involving Advertising Services.

IFRS 15 introduces a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of these new requirements as well as their impact on the Group financial statements are described below. Refer to the revenue accounting policy for additional details.

When adopting IFRS 15 the Group has applied transitional relief and opted not to restate the prior year numbers. The cumulative impact has been recognised in retained earnings at the date of initial application being 01 April 2018.

#### IFRS 9 'Financial Instruments'

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement'. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

When adopting IFRS 9, the company applied transitional relief and opted not to restate prior periods. Differences from the adoption of IFRS 9 in relation to classification, measurement, and impairment are recognised in retained earnings.

The adoption of IFRS 9 has impacted the following areas:

- the classification and measurement of the company's financial assets. Management holds financial assets to hold and collect the associated cash flows. Financial assets previously classified as Loans and Receivables under IAS 39 continue to be accounted for at amortised cost as they meet the held to collect business model and contractual cash flow characteristics test in IFRS 9
- the impairment of financial assets applying the expected credit loss model. This affects the company's trade and other receivables and investments in debt-type assets measured at amortised cost. For contract assets arising from IFRS 15 and trade receivables, the company applies a simplified model of recognising lifetime expected credit losses as these items do not have a significant financing component.

The details of the impact on retained earnings is shown in the table below

| Impact of IFRS 9 (R'000)    | Before adoption of the new IFRSs | Adjustment | After the adoption of the new IFRSs |
|-----------------------------|----------------------------------|------------|-------------------------------------|
| Trade and other receivables | 2 060 813                        | (14 240)   | 2 046 573                           |

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2019

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## 2. New Standards and Interpretations (continued)

### 2.2 Standards and interpretations not yet effective

The group has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the group's accounting periods beginning on or after April 1, 2019 or later periods:

#### **IFRS 3 'Business Combinations' (effective 1 January 2020).**

This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

The Group expects to adopt the amendments in the 2020/21 financial statements, it is unlikely that the amendments will have a material impact on the Group's financial statements.

#### **Annual Improvements to IFRS standards 2015 – 2017 (effective 1 January 2019).**

These amendments include minor changes to the following standards:

- IFRS 3, 'Business combinations', – a company remeasures its previously held interest in a joint operation when it obtains control of the business.
- IFRS 11, 'Joint arrangements', – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- IAS 12, 'Income taxes' – a company accounts for all income tax consequences of dividend payments in the same way.
- IAS 23, 'Borrowing costs' – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

The Group expects to adopt the amendments in the 2019/20 financial statements, it is unlikely that the amendments will have a material impact on the Group's financial statements.

#### **IAS 1 and IAS 8 Amendments to definition of material (effective 1 January 2020).**

These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information on the definition of material.

The Group expects to adopt the amendments in the 2020/21 financial statements, it unlikely that the amendments will a material impact on the Group's financial statements.

#### **IAS 19 Plan Amendment, Curtailment or Settlement (effective 1 January 2019).**

These amendments require an entity to:

- use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and
- recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

The Group expects to adopt the amendments in the 2019/20 financial statements, it unlikely that the amendments will a material impact on the Group's financial statements.

#### **IAS 28 'Investment in associates and joint ventures' (effective 1 January 2019).**

The annual Improvements 2015 - 2017 Cycle clarifies that an entity should apply IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The Group expects to adopt the amendments in the 2019/20 financial statements, it unlikely that the amendments will a material impact on the Group's financial statements.

#### **IFRIC 23 'Uncertainty over income tax treatments' (effective 1 January 2019).**

This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments.



# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 2. New Standards and Interpretations (continued)

The IFRS IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

### **IFRS 16 'Leases' (effective 1 January 2019).**

The new standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. IFRS 16 also contains expanded disclosure requirements for lessees. The accounting for lessors will not significantly change.

The Group expects to adopt the amendments in the 2019/20 financial statements, it unlikely that the amendments will a material impact on the Group's financial statements.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 3. Property, plant and equipment

| Figures in Rand thousand   | 2019                |                                         |                  |  |
|----------------------------|---------------------|-----------------------------------------|------------------|--|
|                            | Cost or revaluation | Accumulated depreciation and impairment | Carrying value   |  |
| Land                       | 76 453              | –                                       | 76 453           |  |
| Buildings                  | 391 356             | (101 492)                               | 289 864          |  |
| Assets under development   | 229 411             | (65 532)                                | 163 879          |  |
| Plant and machinery        | 2 619 760           | (426 233)                               | 2 193 527        |  |
| Furniture and fixtures     | 743 475             | (636 134)                               | 107 341          |  |
| Motor vehicles             | 115 125             | (69 736)                                | 45 389           |  |
| Office equipment           | 4 930               | (3 610)                                 | 1 320            |  |
| IT equipment               | 41 792              | (21 611)                                | 20 181           |  |
| Production assets          | 39 854 688          | (33 684 174)                            | 6 170 514        |  |
| Shutdown costs capitalised | 565 063             | (565 062)                               | 1                |  |
| Restoration cost           | 3 024 865           | (2 900 004)                             | 124 861          |  |
| Mine infrastructure        | 80 678              | (43 143)                                | 37 535           |  |
| <b>Total</b>               | <b>47 747 596</b>   | <b>(38 516 731)</b>                     | <b>9 230 865</b> |  |

### Reconciliation of property, plant and equipment – 2019

| Figures in Rand thousand   | Opening balance  | Additions        | Disposals    | Transfers in   |  |
|----------------------------|------------------|------------------|--------------|----------------|--|
| Land                       | 76 453           | –                | –            | –              |  |
| Buildings                  | 294 247          | 2 450            | –            | 16 425         |  |
| Assets under development   | 138 250          | 625 774          | –            | –              |  |
| Plant and machinery        | 2 106 980        | 125 464          | –            | –              |  |
| Furniture and fixtures     | 115 707          | 14 565           | –            | 507            |  |
| Motor vehicles             | 50 015           | 3 390            | (128)        | 22             |  |
| Office equipment           | 819              | 620              | –            | 281            |  |
| IT equipment               | 7 067            | 11 918           | –            | 6 099          |  |
| Production assets          | 4 451 803        | 271 294          | –            | 10 083         |  |
| Shutdown costs capitalised | °                | 48 463           | –            | 509 341        |  |
| Restoration costs          | 75 471           | 78 664           | –            | –              |  |
| Mine infrastructure        | 37 730           | 7 698            | –            | 3 063          |  |
| <b>Total</b>               | <b>7 354 542</b> | <b>1 190 300</b> | <b>(128)</b> | <b>542 758</b> |  |





# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

|  | 2018                |                                         |                  | 2017                |                                         |                  |
|--|---------------------|-----------------------------------------|------------------|---------------------|-----------------------------------------|------------------|
|  | Cost or revaluation | Accumulated depreciation and impairment | Carrying value   | Cost or revaluation | Accumulated depreciation and impairment | Carrying value   |
|  | 76 453              | –                                       | 76 453           | 70 183              | –                                       | 70 183           |
|  | 387 467             | (93 220)                                | 294 247          | 380 613             | (87 201)                                | 293 412          |
|  | 261 035             | (122 785)                               | 138 250          | 400 949             | (216 547)                               | 184 402          |
|  | 2 489 656           | (382 676)                               | 2 106 980        | 2 490 242           | (343 348)                               | 2 146 894        |
|  | 735 660             | (619 953)                               | 115 707          | 664 770             | (587 636)                               | 77 134           |
|  | 114 344             | (64 329)                                | 50 015           | 104 327             | (58 293)                                | 46 034           |
|  | 2 963               | (2 144)                                 | 819              | 3 396               | (2 407)                                 | 989              |
|  | 18 355              | (11 288)                                | 7 067            | 16 881              | (10 272)                                | 6 609            |
|  | 38 312 949          | (33 861 146)                            | 4 451 803        | 37 631 006          | (30 958 037)                            | 6 672 969        |
|  | 71 132              | (71 132)                                | -                | 637 848             | (637 848)                               | -                |
|  | (138 715)           | 214 186                                 | 75 471           | 1 731 308           | (1 585 184)                             | 146 124          |
|  | 72 979              | (35 249)                                | 37 730           | 55 114              | (27 368)                                | 27 746           |
|  | <b>42 404 278</b>   | <b>(35 049 736)</b>                     | <b>7 354 542</b> | <b>44 186 637</b>   | <b>(34 514 141)</b>                     | <b>9 672 496</b> |

|  | Transfers out    | Change in estimates | Foreign exchange movements | Write-offs      | Depreciation     | Impairment (loss)/reversal | Total            |
|--|------------------|---------------------|----------------------------|-----------------|------------------|----------------------------|------------------|
|  | –                | –                   | –                          | –               | –                | –                          | 76 453           |
|  | –                | –                   | –                          | (15 099)        | (8 617)          | 458                        | 289 864          |
|  | (534 613)        | –                   | –                          | –               | –                | (65 542)                   | 163 879          |
|  | –                | 5 945               | –                          | –               | (43 556)         | (1 306)                    | 2 193 527        |
|  | –                | –                   | –                          | (3)             | (23 435)         | –                          | 107 341          |
|  | –                | –                   | –                          | –               | (7 910)          | –                          | 45 389           |
|  | –                | –                   | –                          | –               | (400)            | –                          | 1 320            |
|  | –                | –                   | –                          | (7)             | (4 896)          | –                          | 20 181           |
|  | –                | –                   | 879 443                    | (1 410)         | (710 317)        | 1 269 618                  | 6 170 514        |
|  | –                | –                   | –                          | –               | (63 930)         | (493 873)                  | 1                |
|  | –                | 1 371 313           | 16 695                     | –               | (15 831)         | (1 401 451)                | 124 861          |
|  | –                | –                   | –                          | –               | (7 893)          | –                          | 37 535           |
|  | <b>(534 613)</b> | <b>1 377 258</b>    | <b>896 138</b>             | <b>(16 519)</b> | <b>(886 785)</b> | <b>(692 096)</b>           | <b>9 230 865</b> |

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 3. Property, plant and equipment (continued)

### Reconciliation of property, plant and equipment – 2018

| Figures in Rand thousand   | Opening balance  | Additions        | Disposals      | Transfers in   |  |
|----------------------------|------------------|------------------|----------------|----------------|--|
| Land                       | 70 183           | 6 270            | –              | –              |  |
| Buildings                  | 293 412          | 8 547            | (308)          | 197            |  |
| Assets under development   | 184 402          | 185 708          | (153)          | 15 825         |  |
| Plant and machinery        | 2 146 894        | 418              | (2 121)        | –              |  |
| Furniture and fixtures     | 77 134           | 72 729           | (236)          | –              |  |
| Motor vehicles             | 46 034           | 10 726           | –              | –              |  |
| Office equipment           | 989              | 67               | (18)           | –              |  |
| IT equipment               | 6 609            | 2 808            | (92)           | –              |  |
| Production assets          | 6 672 969        | 822 493          | –              | 39 837         |  |
| Shutdown costs capitalised | –                | –                | –              | 71 133         |  |
| Restoration Costs          | 146 124          | –                | –              | –              |  |
| Mine infrastructure        | 27 746           | 3 651            | –              | 13 655         |  |
| <b>Total</b>               | <b>9 672 496</b> | <b>1 113 417</b> | <b>(2 928)</b> | <b>140 647</b> |  |

### Reconciliation of property, plant and equipment – 2017

| Figures in Rand thousand   | Opening balance   | Additions      | Disposals       | Transfers in   |  |
|----------------------------|-------------------|----------------|-----------------|----------------|--|
| Land                       | 55 517            | –              | –               | 14 666         |  |
| Buildings                  | 288 226           | 12 998         | –               | –              |  |
| Assets under development   | 310 132           | 170 967        | –               | 100 837        |  |
| Plant and machinery        | 2 276 962         | –              | –               | –              |  |
| Furniture and fixtures     | 88 820            | 12 947         | (505)           | –              |  |
| Motor vehicles             | 44 457            | 8 128          | –               | –              |  |
| Office equipment           | 1 026             | 981            | –               | –              |  |
| IT equipment               | 9 571             | 6 709          | (5)             | –              |  |
| Computer software          | 413               | –              | –               | –              |  |
| Production assets          | 7 672 071         | 590 688        | (74 861)        | 163 650        |  |
| Shutdown costs capitalised | 17 915            | 3              | –               | –              |  |
| Restoration costs          | 511 760           | –              | –               | –              |  |
| Mine infrastructure        | 30 866            | 3 937          | –               | –              |  |
| <b>Total</b>               | <b>11 307 736</b> | <b>807 358</b> | <b>(75 371)</b> | <b>279 153</b> |  |

### Changes in estimates

The Group reassesses the useful lives and residual values of items of Group at the end of each reporting period, in line with the accounting policy and IAS 16 Property, plant and equipment. These assessments are based on historic analysis, benchmarking, and the latest available and reliable information.

The useful life of certain fixed assets have been re-estimated during the current financial year. The effect of this revision has increased the depreciation charges for the current and future periods by R195 953.



# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

|  | Transfers out    | Change in estimates | Foreign exchange movements | Write-offs   | Depreciation       | Impairment (loss)/reversal | Total            |
|--|------------------|---------------------|----------------------------|--------------|--------------------|----------------------------|------------------|
|  | -                | -                   | -                          | -            | -                  | -                          | 76 453           |
|  | -                | -                   | -                          | (144)        | (7 023)            | (434)                      | 294 247          |
|  | (124 747)        | -                   | -                          | -            | -                  | (122 785)                  | 138 250          |
|  | -                | 2 997               | -                          | -            | (41 208)           | -                          | 2 106 980        |
|  | -                | -                   | -                          | (17)         | (26 537)           | (7 366)                    | 115 707          |
|  | -                | -                   | -                          | -            | (6 745)            | -                          | 50 015           |
|  | -                | -                   | -                          | -            | (219)              | -                          | 819              |
|  | -                | -                   | -                          | (21)         | (2 237)            | -                          | 7 067            |
|  | -                | -                   | (423 650)                  | (59)         | (934 163)          | (1 725 624)                | 4 451 803        |
|  | -                | -                   | -                          | -            | (7 262)            | (63 871)                   | -                |
|  | -                | (1 723 290)         | (10 452)                   | -            | (16 671)           | 1 679 760                  | 75 471           |
|  | -                | -                   | -                          | -            | (7 880)            | 558                        | 37 730           |
|  | <b>(124 747)</b> | <b>(1 720 293)</b>  | <b>(434 102)</b>           | <b>(241)</b> | <b>(1 049 945)</b> | <b>(239 762)</b>           | <b>7 354 542</b> |

|  | Transfers out    | Change in estimates | Foreign exchange movements | Depreciation       | Impairment (loss)/reversal | Total            |
|--|------------------|---------------------|----------------------------|--------------------|----------------------------|------------------|
|  | -                | -                   | -                          | -                  | -                          | 70 183           |
|  | (703)            | -                   | -                          | (7 089)            | (20)                       | 293 412          |
|  | (180 987)        | -                   | -                          | -                  | (216 547)                  | 184 402          |
|  | -                | (87 661)            | -                          | (42 407)           | -                          | 2 146 894        |
|  | (627)            | -                   | -                          | (22 940)           | (21)                       | 77 134           |
|  | (42)             | -                   | -                          | (6 509)            | -                          | 46 034           |
|  | (400)            | -                   | -                          | (293)              | (325)                      | 989              |
|  | (5 545)          | -                   | -                          | (4 056)            | (65)                       | 6 609            |
|  | (262)            | -                   | -                          | (151)              | -                          | -                |
|  | -                | -                   | (386 881)                  | (888 760)          | (402 938)                  | 6 672 969        |
|  | -                | -                   | -                          | (17 918)           | -                          | -                |
|  | -                | (1 907 916)         | (18 130)                   | (105 714)          | 1 666 124                  | 146 124          |
|  | -                | -                   | -                          | (6 486)            | (571)                      | 27 746           |
|  | <b>(188 566)</b> | <b>(1 995 577)</b>  | <b>(405 011)</b>           | <b>(1 102 323)</b> | <b>1 045 637</b>           | <b>9 672 496</b> |

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2019 (continued)

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### 3. Property, plant and equipment (continued)

#### 2019:

##### Transfers in

Transfers into Buildings of R16.4 million relate to the following:

- R15.89 million from Assets under development for the Vlaktefontein Mine Extension.
- R513 thousand for PASA Buildings which are no longer held for sale

The following transfers in relate to PASA's assets which are no longer held for sale (Refer to note 16 for more details):

- Furniture and fixtures R507 thousand;
- Motor vehicles R22 thousand;
- Office Equipment R281 thousand; and
- IT equipment R6.09 million

Transfers into production assets of R10 million relate to

- R9.28 million from Assets under development relating to PetroSA
- R0.7 million from exploration and evaluation assets (intangible assets) at PetroSA.

Transfers of R509.3 million into Shut down costs capitalised, from Assets under development for major maintenance and servicing of the GTL plant.

##### Transfers out

Transfers out of Assets under development of R534.6 million relate to the following:

- R509.3 million to Shut down costs capitalised for major maintenance and servicing of the GTL plant
- R15.89 million to Buildings for the Vlaktefontein Mine Extension.
- R9.28 million to Production Assets.

#### Other information

1 275 663 barrels of crude oil at the Saldanha terminal are defined as unpumpable crude oil and has been classified as property, plant and equipment (classified as Plant and Machinery). These volumes are required to be maintained in order for the operation of the oil storage facilities and are being depreciated over the useful life of the tanks it is stored in.

Additions to Plant and Machinery includes the finance lease (note 21) entered into by AEMFC SOC Limited which was initially recognised at R125 million. The acquisition was treated as non-cash addition to property, plant and equipment.

#### Restoration expenditure

Restoration expenditure relates to the decommissioning provision (note 23) and is amortised on a units of production basis. The units of production method is also used in calculating depreciation on producing assets. Due to the nature of the business, the gas and oil reserves at the end of each financial year differ from the previous year. This necessitates a change in the estimated remaining useful lives of these assets at the end of each financial year. The effect on the current year is an increase of R0.3 million in profit. Due to the number of variables involved in the depreciation calculation it is not practicable to estimate the effect in future years.

The Group's impairment for the year was R692 million (2018: R240 million impairment)





# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 3. Property, plant and equipment (continued)

### Impairment assessment - Oil and gas assets in South Africa

Oil and gas reserves are used in assessing oil and gas producing properties for impairment. A significant reduction in the oil and gas price and a downgrade of proved and probable reserves triggered an impairment review. When such indicators are identified, management must exercise further judgement in making an estimate of the recoverable amount (value in use) of the asset against which to compare the carrying value. The outcome of the review resulted in an impairment of R613 million (2018: R399 million impairment). The decommissioning provision (refer to note 23) increased significantly owing to the weakened Rand against the USD. This resulted in a change in estimate, and had a negative impact and increased the impairment charge by R1 401 million (2018: R1 680 million).

This was determined by comparing the CGU's carrying value at year-end against the expected present value of the free cash flows (net present value) from this CGU, based on a fixed life of field approved by the Board of Directors. These cash flows are management's best estimate taking into account past experience and future economic assumptions, such as forward curves for crude oil, product prices and exchange rates and discounted using the WACC of 14% (2018: 14%). The impairment loss was recorded as part of operating expenses.

### Impairment assessment- West Cape Three Points and Deepwater Tano blocks in Ghana

In light of the current commodity prices, the West Cape Three Points block and Deepwater Tano block held by PetroSA Ghana Limited were assessed for impairment. This assessment resulted in an impairment reversal of R1 282 million based on a recoverable amount of R5 034 million (2018: R1 521 million impairment).

The valuation assumptions are listed under key assumptions made by management in the accounting policies.

### Leased Assets

Finance lease assets are included in Plant and Machinery, refer to finance lease note 21 for assets under finance lease.

## 2018

### Transfers in

Transfers into Buildings of R0.2 million from intangible assets for building improvements at CEF.

Transfers into Assets under development of R15.8 million from exploration and evaluation assets (intangible assets) for the development of the Vlaktefontein Mine Extension.

Transfers into Production assets of R39.8 million relates to the following:

- R29.5 million from Assets under development for the start of PetroSA Ghana operations.
- R10.38 million from Assets under development for the commencement of the Vlaktefontein Mine Extension.

Transfers to Shut down costs of R71.1 million from Assets under development for the start of PetroSA Ghana operations.

Transfers into Mine Infrastructure of R13.66 million from Assets under development for the commencement of the Vlaktefontein Mine Extension.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2019 (continued)

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### 3. Property, plant and equipment (continued)

#### Transfers out

Transfers out of Assets under development of R124.7 million relate to the following:

- R15.8 million into exploration and evaluation assets (intangible assets) for the development of the Vlaktefontein Mine Extension.
- R29.5 million to Production assets for the start of PetroSA Ghana operations.
- R10.38 million to Production Assets for the commencement of the Vlaktefontein Mine Extension
- R71.1 million to Mine Assets under development for the start of PetroSA Ghana operations.

#### Capitalised decommissioning and rehabilitation provision

Restoration expenditure relates to the decommissioning and environmental rehabilitation capitalised. The asset is depreciated using the UoP method. The mineral reserves at the end of the reporting period differ from those of the previous period, necessitating a review of the useful life of the asset. The effect in the current financial year as a result of change in useful life for restoration expenditure is a decrease in depreciation of R25.7 million. Due to the number of variables involved in the depreciation calculation, it is not practicable to estimate the effect in future years.

Further to the above, the change in estimate of R240 million was as a result of the increase in the provision for decommissioning and rehabilitation for the Jubilee Field, which was due to a reduction in the vessel/rig rate from US\$1.1 million per day to US\$0.538 million per day. Other changes in assumptions include a discount rate of 4.02%. Changes in cost estimates are driven by revisions to the operator's cost assumptions and estimates. Detailed information on provisions has been disclosed in note 23.

#### Impairment

Net impairment of R240 million was due to the following:

- The Group's impairment was primarily driven by the change in estimate in the decommissioning and rehabilitation provision that resulted in an increase in property, plant and equipment;
- Change in commodity prices; and
- Change in proved and probable reserves for gas.

#### 2017

##### Transfers in

Transfers into Assets under development of R100.8 million from exploration and evaluation assets (intangible assets) for T- Project currently at infrastructure and development.



# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 3. Property, plant and equipment (continued)

Transfers into Production assets of R163.7 million from Assets under development costs incurred on PetroSA Ghana TEN project, which was commissioned during the financial year.

### Transfers out

Transfers out of Assets under development of R181 million relate to the following:

- R163.7 million to Production assets for costs incurred on PetroSA Ghana TEN project, which was commissioned during the financial year.
- R14.7 million to Buildings at AEMFC.

### Capitalised decommissioning and rehabilitation provision

Restoration expenditure relates to the decommissioning and environmental rehabilitation capitalised. The asset is depreciated using the UoP method. The mineral reserves at the end of the reporting period differ from those of the previous period therefore necessitating a review of the useful life of the asset. The effect in the current financial year as a result of change in useful life for restoration expenditure is a decrease in depreciation of R290 million. Due to the number of variables involved in the depreciation calculation, it is not practicable to estimate the effect in future years.

Further to the above, the change in estimate of R1 billion reversal was as a result of the decrease in the provision for decommissioning and rehabilitation for the Jubilee Field, which was due to a reduction in the vessel/rig rate from US\$1.1 million per day to US\$0.538 million per day. Other changes in assumptions include a decrease in discount rate from 4.59% to 4.02%. Changes in cost estimates are driven by revisions to the operator's cost assumptions and estimates. Detailed information on provisions has been disclosed in note 24.

### Impairment

Net reversal of impairment of R1 billion was due to the following:

- The Group's impairment reversal was primarily driven by the change in estimate in the decommissioning and rehabilitation provision that resulted in a decrease in property, plant and equipment;
- Improvement in commodity prices; and
- Change in proved and probable reserves for gas.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 4. Intangible assets

| Figures in<br>Rand thousand          | 2019                   |                                                  |                   |  |
|--------------------------------------|------------------------|--------------------------------------------------|-------------------|--|
|                                      | Cost or<br>revaluation | Accumulated<br>depreciation<br>and<br>impairment | Carrying<br>value |  |
| Patents, trademarks and other rights | 57 424                 | (53 797)                                         | 3 627             |  |
| Computer software                    | 87 192                 | (75 801)                                         | 11 391            |  |
| Exploration and evaluation assets    | 1 408 607              | (745)                                            | 1 407 862         |  |
| Restoration costs                    | 16 423                 | –                                                | 16 423            |  |
| <b>Total</b>                         | <b>1 569 646</b>       | <b>(130 343)</b>                                 | <b>1 439 303</b>  |  |

### Reconciliation of intangible assets – 2019

| Figures in<br>Rand thousand          | Opening<br>balance | Additions     | Transfer from<br>held for sale |  |
|--------------------------------------|--------------------|---------------|--------------------------------|--|
| Patents, trademarks and other rights | 3 905              | –             | –                              |  |
| Computer software                    | 3 586              | 4 664         | 6 674                          |  |
| Exploration and evaluation assets    | 1 601 518          | 31 165        | –                              |  |
| Restoration costs                    | 14 761             | 930           | –                              |  |
| <b>Total</b>                         | <b>1 623 770</b>   | <b>36 759</b> | <b>6 674</b>                   |  |

### Reconciliation of intangible assets – 2018

| Figures in<br>Rand thousand          | Opening<br>balance | Additions     | Disposals      |  |
|--------------------------------------|--------------------|---------------|----------------|--|
| Patents, trademarks and other rights | 4 182              | –             | –              |  |
| Computer software                    | 8 279              | 2 182         | –              |  |
| Exploration and evaluation assets    | 1 615 109          | 26 647        | (4 400)        |  |
| Restoration costs                    | 16 824             | –             | –              |  |
| <b>Total</b>                         | <b>1 644 394</b>   | <b>28 829</b> | <b>(4 400)</b> |  |

### Reconciliation of intangible assets – 2017

| Figures in<br>Rand thousand          | Opening<br>balance | Additions     | Disposals      |  |
|--------------------------------------|--------------------|---------------|----------------|--|
| Patents, trademarks and other rights | 4,459              | –             | –              |  |
| Computer software                    | 12,303             | 12,159        | –              |  |
| Intangible assets under development  | 203                | –             | –              |  |
| Exploration and evaluation assets    | 1,876,792          | 30,756        | (1,106)        |  |
| Restoration costs                    | 17,540             | –             | –              |  |
| <b>Total</b>                         | <b>1,911,297</b>   | <b>42,915</b> | <b>(1,106)</b> |  |





# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

|  | 2018                |                                         |                  | 2017                |                                         |                  |
|--|---------------------|-----------------------------------------|------------------|---------------------|-----------------------------------------|------------------|
|  | Cost or revaluation | Accumulated depreciation and impairment | Carrying value   | Cost or revaluation | Accumulated depreciation and impairment | Carrying value   |
|  | 57 424              | (53 519)                                | 3 905            | 57 424              | (53 242)                                | 4 182            |
|  | 70 173              | (66 587)                                | 3 586            | 68 014              | (59 735)                                | 8 279            |
|  | 1 601 518           | –                                       | 1 601 518        | 1 786 064           | (170 955)                               | 1 615 109        |
|  | 14 761              | –                                       | 14 761           | 16 824              | –                                       | 16 824           |
|  | <b>1 743 876</b>    | <b>(120 106)</b>                        | <b>1 623 770</b> | <b>1 928 326</b>    | <b>(283 932)</b>                        | <b>1 644 394</b> |

|  | Transfers    | Foreign exchange movements | Changes in estimates | Amortisation   | Impairment loss  | Total            |
|--|--------------|----------------------------|----------------------|----------------|------------------|------------------|
|  | –            | –                          | –                    | (278)          | –                | 3 627            |
|  | –            | –                          | –                    | (3 533)        | –                | 11 391           |
|  | (705)        | 35 593                     | –                    | –              | (259 709)        | 1 407 862        |
|  | –            | 3 417                      | (2 685)              | –              | –                | 16 423           |
|  | <b>(705)</b> | <b>39 010</b>              | <b>(2 685)</b>       | <b>(3 811)</b> | <b>(259 709)</b> | <b>1 439 303</b> |

|  | Transfers       | Foreign exchange movements | Changes in estimates | Amortisation   | Impairment loss | Total            |
|--|-----------------|----------------------------|----------------------|----------------|-----------------|------------------|
|  | –               | –                          | –                    | (277)          | –               | 3 905            |
|  | –               | –                          | –                    | (4 406)        | (2 469)         | 3 586            |
|  | (15 900)        | (19 938)                   | –                    | –              | –               | 1 601 518        |
|  | –               | (1 926)                    | (137)                | –              | –               | 14 761           |
|  | <b>(15 900)</b> | <b>(21 864)</b>            | <b>(137)</b>         | <b>(4 683)</b> | <b>(2 469)</b>  | <b>1 623 770</b> |

|  | Classified as held for sale | Transfers        | Foreign exchange movements | Other changes, movements | Amortisation   | Impairment loss  | Total            |
|--|-----------------------------|------------------|----------------------------|--------------------------|----------------|------------------|------------------|
|  | –                           | –                | –                          | –                        | (277)          | –                | 4,182            |
|  | (7,052)                     | 203              | –                          | –                        | (9,334)        | –                | 8,279            |
|  | –                           | (203)            | –                          | –                        | –              | –                | –                |
|  | –                           | (101,549)        | (18,829)                   | –                        | –              | (170,955)        | 1,615,109        |
|  | –                           | –                | (1,695)                    | 979                      | –              | –                | 16,824           |
|  | <b>(7,052)</b>              | <b>(101,549)</b> | <b>(20,524)</b>            | <b>979</b>               | <b>(9,611)</b> | <b>(170,955)</b> | <b>1,644,394</b> |

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2019 (continued)

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### 4. Intangible assets (continued)

#### Other information

#### Transfers in/(out) are as follows:

##### 2019

Transfers of R0.705 million from Exploration and evaluation assets (intangible assets) to Production assets relates to PetroSA.

The transfers from held for sale assets relate to PASA which is no longer held for sale (Refer to note 16 for more details).

##### 2018

Transfers from exploration and evaluation assets into assets under development and of R15.825 million are due to the development of the Vlaktefontein Mine Extension.

Transfers of R0.075 million relate to the start of PetroSA Ghana operations.

##### 2017

Transfers into assets under development of R100.837 million relate to exploration and evaluation costs incurred for the T- project, which is currently in infrastructure development phase.

Exploration and evaluation are costs that are capitalised relate to the following projects:

- Vlaktefontein Mine Extension
- Klipfontein Mine
- T-project and
- PetroSA upstream projects



# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 5. Interests in subsidiaries

The following table lists the entities that are controlled directly/indirectly by the Group companies. The country of incorporation for all subsidiaries is the Republic of South Africa, except for PetroSA Europe BV, which was incorporated in the Netherlands and PetroSA Ghana Ltd, which was incorporated in British Virgin Islands.

| Name of company                                                                             | Held by         | % holding 2019 | % holding 2018 | % holding 2017 |
|---------------------------------------------------------------------------------------------|-----------------|----------------|----------------|----------------|
| AEMFC SOC Ltd                                                                               | CEF SOC Ltd     | 100,00         | 100,00         | 100,00         |
| CCE Solutions SOC Ltd                                                                       | CEF SOC Ltd     | 89,20          | 89,20          | 89,20          |
| CEF Carbon SOC Ltd                                                                          | CEF SOC Ltd     | 100,00         | 100,00         | 100,00         |
| Cotec Development SOC Ltd                                                                   | CEF SOC Ltd     | 100,00         | 100,00         | 100,00         |
| Cotec Partrade SOC Ltd                                                                      | CEF SOC Ltd     | 100,00         | 100,00         | 100,00         |
| ETA Energy SOC Ltd                                                                          | CEF SOC Ltd     | 100,00         | 100,00         | 100,00         |
| SASDA NPC                                                                                   | CEF SOC Ltd     | 100,00         | 100,00         | 100,00         |
| Klippoortjie Koolemyne SOC Ltd                                                              | SFF NPC         | 100,00         | 100,00         | 100,00         |
| Mahnes Areas SOC Ltd                                                                        | SFF NPC         | 100,00         | 100,00         | 100,00         |
| Oil Pollution Control SA (OPCSA) NPC                                                        | CEF SOC Ltd     | 100,00         | 100,00         | 100,00         |
| PetroSA Brass SOC Ltd                                                                       | PetroSA SOC Ltd | 100,00         | 100,00         | 100,00         |
| PetroSA Egypt SOC Ltd                                                                       | PetroSA SOC Ltd | 100,00         | 100,00         | 100,00         |
| PetroSA Equatorial Guinea SOC Ltd                                                           | PetroSA SOC Ltd | 100,00         | 100,00         | 100,00         |
| PetroSA Europe BV                                                                           | PetroSA SOC Ltd | 100,00         | 100,00         | 100,00         |
| PetroSA Ghana Ltd                                                                           | PetroSA SOC Ltd | 100,00         | 100,00         | 100,00         |
| PetroSA Gryphon Marin Permit SOC Ltd                                                        | PetroSA SOC Ltd | 100,00         | 100,00         | 100,00         |
| PetroSA Iris SOC Ltd                                                                        | PetroSA SOC Ltd | 100,00         | 100,00         | 100,00         |
| PetroSA Namibia SOC Ltd                                                                     | PetroSA SOC Ltd | 100,00         | 100,00         | 100,00         |
| PetroSA SOC Ltd                                                                             | CEF SOC Ltd     | 100,00         | 100,00         | 100,00         |
| PetroSA Sudan SOC Ltd                                                                       | PetroSA SOC Ltd | 100,00         | 100,00         | 100,00         |
| PetroSA Synfuels International SOC Ltd                                                      | PetroSA SOC Ltd | 100,00         | 100,00         | 100,00         |
| PetroSA Themis SOC Ltd                                                                      | PetroSA SOC Ltd | 100,00         | 100,00         | 100,00         |
| South African Agency for Promotion of Petroleum Exploration and Exploitation (PASA) SOC Ltd | CEF SOC Ltd     | 100,00         | 100,00         | 100,00         |
| South African Gas Development Company (iGas) SOC Ltd                                        | CEF SOC Ltd     | 100,00         | 100,00         | 100,00         |
| Strategic Fuel Fund Association (SFF) NPC                                                   | CEF SOC Ltd     | 100,00         | 100,00         | 100,00         |

*The voting rights are the same as the percentage holdings.*

### Subsidiaries pledged as security

PetroSA SOC Ltd has provided its shares in PetroSA Ghana Ltd as security to the lenders for the reserve-based lending facility. Refer to note 20.

### Reporting period

The end of the reporting period of PetroSA Ghana Ltd is 31 December.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2019 (continued)

### 6. Joint arrangements

#### Joint operations

The following joint operations are material to the Group companies.

The joint operations are for gas exploration by PetroSA SOC Ltd. The country of incorporation is the same as the principle place of business for all joint operations. The Group's proportionate share in the assets and liabilities of unincorporated JVs, which are included in the financial statements are as follows:

| Joint operation | Partners | % ownership interest |      |      |
|-----------------|----------|----------------------|------|------|
|                 |          | 2019                 | 2018 | 2017 |
| Block 2A        | Sunbird  | 24                   | 24   | 24   |
| Block 2C        | Anadarko | 100                  | 35   | 35   |
| Block 3A/4A     | Sasol    | 100                  | 50   | 50   |
| Block 5/6/7     | Anadarko | 20                   | 20   | 20   |
| Block 1         | Cairn    | 100                  | 40   | 40   |

In accordance with the Group's accounting policy, the results of joint operations are accounted for on a line-by-line basis.

In the current year, there were no partners for the 100% ownership of Block 2C, 3A/4A and 1.

#### Joint ventures

The following table lists all of the joint ventures in the Group:

| Name of company | Held by         | % ownership interest | % ownership interest | % ownership interest |
|-----------------|-----------------|----------------------|----------------------|----------------------|
|                 |                 | 2019                 | 2018                 | 2017                 |
| GTL.F1 AG       | PetroSA SOC Ltd | 50.00                | 50.00                | 50.00                |
| PAMDC (Pty) Ltd | AEMFC SOC Ltd   | 33.00                | 33.00                | 33.00                |

#### Pan African Mineral Development Company (Pty) Ltd

The governments of South Africa, Zimbabwe and Zambia created a structured entity, PAMDC (Pty) Ltd, to collaborate and develop mineral resources in the region as enshrined in the Southern African Development Community Mining Protocol, the plan of action for the Global Mining Initiative of the New Partnership for the Africa's Development and African Mining Partnership. PAMDC (Pty) Ltd is co-owned by the parties in equal proportions. The South African Government, through AEMFC SOC Ltd, is a co-share owner in PAMDC (Pty) Ltd.

The memorandum of agreement states that decisions on activities require the unanimous consent of all the parties. PAMDC (Pty) Ltd is a JV since the partners have rights to the net assets of PAMDC (Pty) Ltd and the memorandum gives the parties the rights to a share of the net outcome generated by the economic activity.

#### GTL.F1 AG

GTL.F1 AG is the process licensor of Low Temperature Fischer Tropsch (LTFT) technology and its principal place of business is Germany.

#### Aggregated individually immaterial joint ventures accounted for using the equity method

| Figures in Rand thousand                          | 2019 | 2018 | 2017 |
|---------------------------------------------------|------|------|------|
| Carrying value of investments                     | –    | –    | 250  |
| Share of profit (loss) from continuing operations | –    | –    | 250  |
| Share of total comprehensive income               | –    | –    | 250  |





# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 6. Joint arrangements (continued)

### Reporting period

The end of the reporting period of GTL.F1 AG Ltd is Monday, December 31, 2018. The reporting period is different from the Group reporting period as the investment is not controlled by the Group.

### Unrecognised losses

#### PAMDC (Pty) Ltd

The Group has discontinued recognising its share of the losses of PAMDC (Pty) Ltd, as the investment at a Group level is held at R nil (2018: R nil 2017: R0.15 million) and the Group has no obligation for any losses of the JV. The total unrecognised losses for the current period amount to R1.457 million (2018: R2.857 million). The accumulated unrecognised losses amounted to R8.145 million (2018: R6.171 million, 2017: R2.9 million).

#### GTL.F1 AG

The Group has discontinued recognising its share of the losses of GTL.F1 AG, as the investment at a Group level is held at R nil and the Group has no obligation for any losses of the JV. The total unrecognised losses for the current period amount to R3.3 million (2018: R24.9 million, 2017: R20.3 million). The accumulated unrecognised losses to date amount to R173.5 million (2018: R170.1 million, 2017: R145.2 million).

## 7. Investments in associates

The following table lists all of the associates in Group. The country of incorporation for all associates is the Republic of South Africa.

| Name of company                                   | Held by       | % ownership interest 2019 | % ownership interest 2018 | % ownership interest 2017 | Carrying amount 2019 | Carrying amount 2018 | Carrying amount 2017 |
|---------------------------------------------------|---------------|---------------------------|---------------------------|---------------------------|----------------------|----------------------|----------------------|
| African Royalty Minerals (Pty) Ltd                | AEMFC SOC Ltd | 40,00                     | –                         | –                         | 161 167              | –                    | –                    |
| Baniettor (Pty) Ltd                               | CEF SOC Ltd   | 49,00                     | 49,00                     | 49,00                     | –                    | –                    | –                    |
| Ener-G Systems (Pty) Ltd                          | CEF SOC Ltd   | 29,00                     | 29,00                     | 29,00                     | 5 923                | 6 494                | 8 754                |
| Mzimkhulu Mining (Pty) Ltd                        | AEMFC SOC Ltd | 26,00                     | 26,00                     | 26,00                     | 80 932               | 9 562                | 3 900                |
| Republic of Mozambique Pipeline Company (Pty) Ltd | iGas SOC Ltd  | 25,00                     | 25,00                     | 25,00                     | 734 283              | 870 038              | 881 694              |
| Thin Solar Film Technology (Pty) Ltd              | CEF SOC Ltd   | 45,00                     | 45,00                     | 45,00                     | –                    | –                    | 14 758               |
|                                                   |               |                           |                           |                           | <b>982 305</b>       | <b>886 094</b>       | <b>909 106</b>       |

#### African Royalty Minerals (Pty) Ltd

AEMFC SOC Ltd holds a 40% share in African Royalty Minerals (Pty) Ltd, which operates Chilwavirusiku Colliery, a coal mine operating in Mpumalanga. The associate's principal business is conducted in the Republic of South Africa. The financial year end for the entity is 28 February.

This investment is not accounted for using the equity method due to lack of financial information available at the time the Group AFS were authorised and audited. The investment was assessed for impairment and there were no indicators of impairment noted.

There is still a disagreement regarding the Memorandum of Incorporation (MOI) that was lodged at the CIPC, however the shareholders are still engaging to try and find an amicable solution.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2019 (continued)

### 7. Investments in associates (continued)

#### Baniettor Mining (Pty) Ltd

CEF SOC Ltd holds a 49% share in Baniettor Mining, which is a company that acts as an intermediate financing company for the South 32 SA Group. In the current year the Baniettor Mining loan of R16.7 million was converted into equity as a result of a resolution by the Baniettor Mining Board. This loan was already fully impaired in prior years and is still fully impaired after the conversion. Baniettor Mining is currently in the process of deregistration. The financial year end of the entity is 31 March.

#### Mzimkhulu Mining (Pty) Ltd

AEMFC SOC Ltd holds a 26% share in Mzimkhulu Mining (Pty) Ltd, which is a coal-mining company that extracts and delivers thermal coal. Mzimkhulu Mining (Pty) Ltd is incorporated in South Africa.

The external loan in the associate restricts Mzimkhulu Mining (Pty) Ltd from paying dividends to shareholders during the term of the loan. The financial year end of the entity is 28 February.

#### Ener-G Systems (Pty) Ltd

CEF SOC Ltd holds a 29% share in Ener-G Systems (Pty) Ltd, which is a company that converts landfill gas to power. Ener-G Systems (Pty) Ltd is incorporated in South Africa. The financial year end of the entity is 31 March.

#### Thin Solar Film Technology (Pty) Ltd (TSFT)

CEF SOC Ltd holds a 45% share in Thin Solar Film Technology (Pty) Ltd, which is a company that was intended to build a 30 MW solar plant. TSFT is incorporated in South Africa. The financial year end of the entity is 31 March.

The CEF Board of directors approved the disposal of TSFT in the prior year.

#### Material associates

The following associate is material to the Group:

|                                                   | Country of incorporation | Method | % ownership interest |      |      |
|---------------------------------------------------|--------------------------|--------|----------------------|------|------|
|                                                   |                          |        | 2019                 | 2018 | 2017 |
| Republic of Mozambique Pipeline Company (Pty) Ltd | South Africa             | Equity | 25                   | 25   | 25   |

#### Rompco (Pty) Ltd

Shares beneficially owned in the company, which is involved in the supply of gas from Mozambique to South Africa. The percentage voting rights is equal to the percentage ownership.

#### Summarised financial information of material associates

| Figures in Rand thousand                                              | Republic of Mozambique Pipeline Company (Pty) Ltd |                  |                |
|-----------------------------------------------------------------------|---------------------------------------------------|------------------|----------------|
| Summarised Statement of Profit or Loss and Other Comprehensive Income | 2019                                              | 2018             | 2017           |
| Revenue                                                               | 2 213 134                                         | 2 222 000        | 1 966 000      |
| Other income and expenses                                             | (635 080)                                         | (728 000)        | (703 000)      |
| Profit before tax                                                     | 1 578 054                                         | 1 494 000        | 1 263 000      |
| Tax expense                                                           | (541 446)                                         | (415 000)        | (402 000)      |
| Profit (loss) from continuing operations                              | 1 036 608                                         | 1 079 000        | 861 000        |
| <b>Total comprehensive income</b>                                     | <b>1 036 608</b>                                  | <b>1 079 000</b> | <b>861 000</b> |
| <b>Dividends received from associate</b>                              | <b>495 500</b>                                    | <b>346 250</b>   | <b>115 000</b> |



# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 7. Investments in associates (continued)

| Figures in Rand thousand                   | Republic of Mozambique Pipeline Company (Pty) Ltd |                  |                  |
|--------------------------------------------|---------------------------------------------------|------------------|------------------|
| Summarised Statement of Financial Position | 2019                                              | 2018             | 2017             |
| <b>Assets</b>                              |                                                   |                  |                  |
| Non-current                                | 5 098 470                                         | 5 571 000        | 6 046 000        |
| Current                                    | 1 759 141                                         | 2 755 000        | 2 619 000        |
| <b>Total assets</b>                        | <b>6 857 611</b>                                  | <b>8 326 000</b> | <b>8 665 000</b> |
| <b>Liabilities</b>                         |                                                   |                  |                  |
| Non-current                                | 2 864 787                                         | 3 808 000        | 4 351 000        |
| Current                                    | 1 055 693                                         | 970 000          | 796 000          |
| <b>Total liabilities</b>                   | <b>3 920 480</b>                                  | <b>4 778 000</b> | <b>5 147 000</b> |
| <b>Total net assets</b>                    | <b>2 937 131</b>                                  | <b>3 548 000</b> | <b>3 518 000</b> |

| Figures in Rand thousand                                                   | Republic of Mozambique Pipeline Company (Pty) Ltd |           |           |
|----------------------------------------------------------------------------|---------------------------------------------------|-----------|-----------|
| Reconciliation of net assets to equity accounted investments in associates | 2019                                              | 2018      | 2017      |
| Interest in associates at percentage ownership                             | 734 283                                           | 870 038   | 881 694   |
| Carrying value of investment in associate                                  | 734 283                                           | 870 038   | 881 694   |
| Opening balance                                                            | 870 038                                           | 881 694   | 648 143   |
| Adjustment on opening balance                                              | 17 500                                            | (17 500)  | 45 815    |
| Share of profit before elimination of intragroup transactions              | 342 245                                           | 352 063   | 302 225   |
| Share of OCI                                                               | -                                                 | 31        | 511       |
| Dividends received from associate                                          | (495 500)                                         | (346 250) | (115 000) |
| Investment at end of period                                                | 734 283                                           | 870 038   | 881 694   |

Adjustments on the opening balance of retained earnings are due to a different reporting period which is 30 June.

Share of profit from associate after accounting for intercompany transactions at year end was R342.3 million (2018: R352.1 million, 2017: R302.2 million). The total intercompany transaction relating to rental and recovery of expenses eliminated was R0.007 million (2018: R0.006 million, 2017: R0.019 million).

The summarised information presented above reflects the financial statements of the associates after adjusting for differences in accounting policies between the company and the associate.

### Aggregated individually immaterial associates accounted for using the equity method

| Figures in Rand thousand                           | 2019    | 2018    | 2017    |
|----------------------------------------------------|---------|---------|---------|
| Carrying value of investments                      | 248 022 | 165 512 | 27 412  |
| Share of profit /(loss) from continuing operations | 73 367  | 3 991   | (2 213) |
| Share of total comprehensive income                | 73 367  | 3 991   | (2 213) |

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2019 (continued)

### 7. Investments in associates (continued)

#### Associates with different reporting dates

The following associates, included in the consolidated financial statements, have different reporting dates to that of the CEF Group companies

- African Royalty Minerals (Pty) Ltd: 28 February;
- Baniettor Mining (Pty) Ltd: 30 June;
- Rompco (Pty) Ltd: 30 June; and
- Mzimkhulu Mining (Pty) Ltd: 28 February.

The reporting period is different from the Group reporting period as the investment is not controlled by the Group.

#### Unrecognised share of losses of associates

##### Baniettor (Pty) Ltd

The accumulated unrecognised losses to date amount to R16.7 million (2018: R16.651 million, 2017: R16.650 million).

#### Associates pledged as security

The investment in Rompco (Pty) Limited, with a carrying value of R734.2 million (2018: R870 million), has been used to secure banking facilities granted to the company of R5.8 billion (2018: R5.8 billion) for the construction of Loopline 2 from Mozambique to South Africa.

### 8. Loans to group companies

#### Joint ventures

| Figures in Rand thousand | Basis of accounting | 2019 | 2018 | 2017 |
|--------------------------|---------------------|------|------|------|
| GTL.F1 AG                | Amortised cost      | –    | –    | –    |

The loan of R226.4 million (2018: R201.8 million, 2017: R192.3 million) has been fully impaired.

The subordinated loan accrues interest at EURIBOR + 0.75%. This loan is not repayable within the next 12 months. Should settlement not be possible at this date, a new instalment plan may be agreed on the same day.

| Figures in Rand thousand   | 2019          | 2018          | 2017          |
|----------------------------|---------------|---------------|---------------|
| <b>Associates</b>          |               |               |               |
| Baniettor Mining (Pty) Ltd | –             | –             | –             |
| Mzimkhulu Mining (Pty) Ltd | 11 515        | 10 249        | –             |
| Ener-G Systems (Pty) Ltd   | 40 111        | 36 326        | 32 829        |
|                            | <b>51 626</b> | <b>46 575</b> | <b>32 829</b> |

#### Baniettor (Pty) Ltd

In the current year, the Baniettor Mining loan of R16.6 million was converted into equity as a result of a resolution by the Baniettor Mining Board. Baniettor Mining is currently in the process of deregistration. The loan of R16.6 million (2018: R16.6 million, 2017: R16.6 million) was fully impaired in prior years.

#### Energy Joburg (RF) (Pty) Ltd

The Energy Joburg (RF) (Pty) Ltd loan attracts an annual interest rate at prime. This loan has no fixed specific repayment terms.

#### Mzimkhulu Mining (Pty) Ltd

The loan is an advance towards working capital of the company. The loan is unsecured, accrues interest at the prevailing prime rate + 3% and has no fixed repayment terms.

|                    |               |               |               |
|--------------------|---------------|---------------|---------------|
| Non-current assets | 40 111        | 36 326        | 32 829        |
| Current assets     | 11 515        | 10 249        | –             |
|                    | <b>51 626</b> | <b>46 575</b> | <b>32 829</b> |



# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 8. Loans to group companies (continued)

### Exposure to credit risk

Refer to note 43 for details of credit risk management for Loans receivable.

### Credit loss allowances

The following tables set out the carrying amount, loss allowance and measurement basis of expected credit losses for group loans receivable:

#### 2019

| Instrument                          | Basis of loss allowance                 | Gross Carrying amount | Loss allowance   | Amortised cost |
|-------------------------------------|-----------------------------------------|-----------------------|------------------|----------------|
| <b>Loans to joint ventures</b>      |                                         |                       |                  |                |
| GTL.F1 AG                           | Lifetime ECL impaired (credit impaired) | 226 424               | (226 424)        | –              |
| <b>Loans to associates</b>          |                                         |                       |                  |                |
| Mzimkhulu Mining (Pty) Ltd          | Other                                   | 11 515                | –                | 11 515         |
| Energy Joburg (RF) (Pty) Ltd        | Other                                   | 40 111                | –                | 40 111         |
|                                     |                                         | <b>51 626</b>         | <b>–</b>         | <b>51 626</b>  |
| <b>Total credit loss allowances</b> |                                         |                       |                  |                |
| Loans to joint ventures             |                                         | 226 424               | (226 424)        | –              |
|                                     |                                         | <b>294 696</b>        | <b>(243 070)</b> | <b>51 626</b>  |

#### 2018

| Instrument                          | Basis of loss allowance                 | Gross Carrying amount | Loss allowance   | Amortised cost |
|-------------------------------------|-----------------------------------------|-----------------------|------------------|----------------|
| <b>Loans to joint ventures</b>      |                                         |                       |                  |                |
| GTL.F1 AG                           | Lifetime ECL impaired (credit impaired) | 201 829               | (201 829)        | –              |
| <b>Loans to associates</b>          |                                         |                       |                  |                |
| Baniettor Mining (Pty) Ltd          | Lifetime ECL impaired (credit impaired) | 16 646                | (16 646)         | –              |
| Mzimkhulu Mining (Pty) Ltd          | Other                                   | 10 249                | –                | 10 249         |
| Energy Joburg (RF) (Pty) Ltd        | Other                                   | 36 326                | –                | 36 326         |
|                                     |                                         | <b>63 221</b>         | <b>(16 646)</b>  | <b>46 575</b>  |
| <b>Total credit loss allowances</b> |                                         |                       |                  |                |
| Loans to joint ventures             |                                         | 201 829               | (201 829)        | –              |
| Loans to associates                 |                                         | 63 221                | (16 646)         | 46 575         |
|                                     |                                         | <b>265 050</b>        | <b>(218 475)</b> | <b>46 575</b>  |

### Fair value of group loans receivable

The fair value of group loans receivable approximates their carrying amounts.



# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 9. Other financial assets – Comparative information as per IAS 39

| Figures in Rand thousand                                                                                                                                                                                                                                                                                                                                                                                                  | 2019           | 2018<br>Restated* | 2017<br>Restated* |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|-------------------|-------------------|
| <b>Equity investments at fair value through profit or loss</b>                                                                                                                                                                                                                                                                                                                                                            |                |                   |                   |
| Listed shares                                                                                                                                                                                                                                                                                                                                                                                                             | 160            | 185               | 146               |
| 2 164 Sanlam Limited shares held by SFF NPC valued at R73.76 (2018: R85.30, 2017: R67.37)                                                                                                                                                                                                                                                                                                                                 |                |                   |                   |
| Unlisted shares 19% shareholding in Methcap                                                                                                                                                                                                                                                                                                                                                                               | 1 475          | 1 475             | 1 475             |
|                                                                                                                                                                                                                                                                                                                                                                                                                           | 1 635          | 1 660             | 1 621             |
| <b>Loans and receivables</b>                                                                                                                                                                                                                                                                                                                                                                                              |                |                   |                   |
| <b>Ghana National Petroleum Corporation (GNPC)</b>                                                                                                                                                                                                                                                                                                                                                                        | 114 454        | 115 740           | 139 845           |
| The loan for TEN Development capital expenditure bears interest at LIBOR, plus a margin percentage of 1.5% per annum, and the loan for TEN Development gas export pipeline expenditure bears interest at 15% per annum. There is currently no signed agreement in place between the GNPC and the JV partners on repayment terms, but repayment proposals are currently being considered and evaluated by the JV partners. |                |                   |                   |
| <b>Lurgi</b>                                                                                                                                                                                                                                                                                                                                                                                                              | 195 858        | 173 832           | 169 651           |
| The amount owing by Lurgi is in respect of a purchase of a 12.5% share in the GTL.F1 AG JV. The loan accrues interest at EURIBOR + 0.75%. The loan is repayable based on dividends receivable by Lurgi from the GTL.F1 AG technology company.                                                                                                                                                                             |                |                   |                   |
| <b>Darling Wind Power (Pty) Ltd</b>                                                                                                                                                                                                                                                                                                                                                                                       | 502            | 502               | 502               |
| The loan is due, but the liquidators have not repaid it. The loan is interest free.                                                                                                                                                                                                                                                                                                                                       |                |                   |                   |
| <b>AEMFC SOC Ltd Insurance Guarantee restricted cash</b>                                                                                                                                                                                                                                                                                                                                                                  | 52 908         | 38 243            | 26 011            |
| An insurance rehabilitation guarantee is in place whereby the insurer guarantees to pay Department of Mineral Resources R61.5 million and R42.9 million for environmental rehabilitation of Vlaktefontein Mine and T Project respectively. A portion of the premium is invested and earn interest to meet environmental obligations at the end of life of mine. The cash is restricted for use.                           |                |                   |                   |
| <b>African Royalty Minerals (Pty) Ltd</b>                                                                                                                                                                                                                                                                                                                                                                                 | –              | 9 456             | –                 |
| The loan is an advance towards working capital of the company. The loan is unsecured, interest free and there are no fixed repayment terms. The loan to African Royalty Mining (Pty) Ltd will be repaid out of the profits of the company prior to the distribution of any profits to shareholders. The loan was transferred to investments in associate in the current year.                                             |                |                   |                   |
|                                                                                                                                                                                                                                                                                                                                                                                                                           | 363 722        | 337 773           | 336 009           |
| Loans and receivables (impairments)                                                                                                                                                                                                                                                                                                                                                                                       | (196 360)      | (174 334)         | (154 058)         |
|                                                                                                                                                                                                                                                                                                                                                                                                                           | <b>167 362</b> | <b>163 439</b>    | <b>181 951</b>    |
| <b>Total other financial assets</b>                                                                                                                                                                                                                                                                                                                                                                                       | <b>168 997</b> | <b>165 099</b>    | <b>183 572</b>    |



# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 9. Other financial assets – Comparative information as per IAS 39 (continued)

| Figures in Rand thousand                   | 2019           | 2018<br>Restated* | 2017<br>Restated* |
|--------------------------------------------|----------------|-------------------|-------------------|
| <b>Non-current assets</b>                  |                |                   |                   |
| Designated as at FV through profit /(loss) | 1 635          | 1 660             | 1 621             |
| Loans and receivables                      | 167 362        | 163 439           | 181 951           |
|                                            | <b>168 997</b> | <b>165 099</b>    | <b>183 572</b>    |
| <b>Loans and receivables impaired</b>      |                |                   |                   |

As at 31 March 2019 the amount of the provision was R196.360 million as of 31 March 2019 (2018: R174.334 million, 2017: R154.058 million).

The ageing of these loans is as follows.

|               |         |         |         |
|---------------|---------|---------|---------|
| Over 6 months | 196 360 | 174 334 | 154 058 |
|---------------|---------|---------|---------|

### Exposure to credit risk

Refer to note 43 for details of credit risk management for other financial assets.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 10. Deferred taxes

| Figures in Rand thousand                                                                                            | 2019               | 2018<br>Restated*  | 2017<br>Restated*  |
|---------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|--------------------|
| <b>Deferred tax liability</b>                                                                                       |                    |                    |                    |
| Property plant and equipment and intangible assets                                                                  | (2 137 019)        | (1 421 724)        | (1 888 129)        |
| Operating lease accrual                                                                                             | –                  | –                  | (10)               |
| Prepayments                                                                                                         | (118)              | (219)              | (654)              |
| Underlift                                                                                                           | –                  | (6 037)            | –                  |
| <b>Total deferred tax liability</b>                                                                                 | <b>(2 137 137)</b> | <b>(1 427 980)</b> | <b>(1 888 793)</b> |
| <b>Deferred tax asset</b>                                                                                           |                    |                    |                    |
| Provisions                                                                                                          | 97 294             | 64 091             | 61 955             |
| Finance lease                                                                                                       | 371 467            | 284 404            | –                  |
| Deferred tax balance from temporary differences other than unused tax losses                                        | 468 761            | 348 495            | 61 955             |
| Tax losses available for set off against future taxable income                                                      | 145 354            | 224 836            | 272 816            |
|                                                                                                                     | 614 115            | 573 331            | 334 771            |
| <b>Total deferred tax asset</b>                                                                                     | <b>614 115</b>     | <b>573 331</b>     | <b>334 771</b>     |
| Deferred tax liability                                                                                              | (2 137 137)        | (1 427 980)        | (1 888 793)        |
| Deferred tax asset                                                                                                  | 614 115            | 573 331            | 334 771            |
| <b>Total net deferred tax liability</b>                                                                             | <b>(1 523 022)</b> | <b>(854 649)</b>   | <b>(1 554 022)</b> |
| <b>Reconciliation of deferred tax asset/(liability)</b>                                                             |                    |                    |                    |
| At beginning of year                                                                                                | (854 649)          | (1 554 022)        | (1 381 403)        |
| Increases (decrease) in tax loss available for set off against future taxable income - gross of valuation allowance | (79 483)           | (47 980)           | (51 848)           |
| Increases (decrease) in valuation allowance of provisions and accruals                                              | 33 159             | 1 647              | 723                |
| Taxable / (deductible) temporary difference movement on tangible fixed assets and intangibles                       | (745 806)          | 364 582            | (173 321)          |
| Taxable / (deductible) temporary difference movement in fair value on acquisition of subsidiary                     | –                  | (213)              | –                  |
| Taxable/(deductible) temporary difference movement in fair value on acquisition of subsidiary                       | 30 512             | 90 443             | 52 353             |
| Taxable/(deductible) temporary difference on Prepayments                                                            | 101                | 453                | (526)              |
| Taxable/(deductible) temporary difference on Finance lease                                                          | 87 107             | 284 404            | –                  |
| Taxable/(deductible) temporary difference on Underlift                                                              | 6 037              | 6 037              | –                  |
|                                                                                                                     | <b>(1 523 022)</b> | <b>(854 649)</b>   | <b>(1 554 022)</b> |



# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 10. Deferred taxes (continued)

### Recognition of deferred tax asset

PetroSA is an oil and gas company as defined in the Tenth Schedule to the Income Tax Act. As an oil and gas company, PetroSA qualifies for additional tax deductions in respect of its capital expenditure on exploration and production activities. This assessed loss position is directly attributable to PetroSA's oil and gas activities.

As it is unlikely that the assessed loss will be utilised in the foreseeable future, no deferred tax asset has been recognised. The current tax value of the unrecognised estimated tax loss/assessed loss is R8.8 billion (2018: R8.2 billion, 2017: R5.6 billion). The unused estimated/assessed tax loss at year-end is R21.7 billion (2018: R20.2 billion, 2017: R19.9 billion).

| Figures in Rand thousand                                 | 2019      | 2018<br>Restated* | 2017<br>Restated* |
|----------------------------------------------------------|-----------|-------------------|-------------------|
| <b>Unrecognised deferred tax asset</b>                   |           |                   |                   |
| Unused tax credits not recognised as deferred tax assets | 8 800 000 | 8 200 000         | 5 600 000         |

### Use and sales rate

The deferred tax rate applied to the fair value adjustments of investment properties/ financial assets is determined by the expected manner of recovery. Where the expected recovery of the investment property/financial assets is through sale the capital gains tax rate of 22.4% (2018: 22.4%) is used. If the expected manner of recovery is through indefinite use the normal tax rate of 28% (2018: 28%) is applied.

If the manner of recovery is partly through use and partly through sale, a combination of capital gains tax rate and normal tax rate is used.

## 11. Prepayments

Operating lease assets is in respect of power infrastructure constructed for the mine and held as an operating lease. The cost of the infrastructure is charged to the statement of profit or loss over the lower of life of the mine or economic life of the underlying asset. There are no future lease payments towards the right to use the asset.

| Figures in Rand thousand           | 2019          | 2018<br>Restated* | 2017<br>Restated* |
|------------------------------------|---------------|-------------------|-------------------|
| Insurance                          | 98 009        | 69 643            | 79 339            |
| African Royalty Minerals (Pty) Ltd | -             | 140 000           | -                 |
| Royalties advance payment          | -             | 6 432             | 13 248            |
| Other                              | 726           | 16 744            | 12 063            |
|                                    | <b>98 735</b> | <b>232 819</b>    | <b>104 650</b>    |
| Non-current assets                 | 662           | 140 726           | 830               |
| Current assets                     | 98 073        | 92 093            | 103 820           |
|                                    | <b>98 735</b> | <b>232 819</b>    | <b>104 650</b>    |

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2019 (continued)

### 12. Strategic Stock

These inventories are being held in accordance with Ministerial Directives as prescribed by the Minister of Energy. The carrying amount of these inventories is expected to be realised past 12 months after the reporting date, thus it is included in non-current assets.

A total of 1 275 663 barrels of crude oil at the Saldanha terminal is defined as unpumpable crude oil and has been classified as property, plant and equipment (refer to note 3). These volumes are required to be maintained for the operation of the oil storage facilities.

An amount of R1.074 billion was spent to purchase the 155 million litres of diesel white product (D500) that was injected into the new national multi-products pipeline by the company during the 2011/12 financial year. The product is valued at R1.074 billion (2018: R985 million, 2017: R857 million)

The volume of crude oil of 1.2 Mbbls (2017 and 2018: 1.2 Mbbls) is unpumpable.

#### Inventory loan

300 barrels of crude oil (Basrah) was advanced to Enviroshore in the prior financial years at a cost of R60.4 million. The settlement is expected to be in the same number of barrels of crude oil (Bonny Light). It came to management attention that the counterparty will not be able to fulfil the obligation and, therefore, the stock was written down to Rnil.

| Figures in Rand thousand         | 2019             | 2018<br>Restated* | 2017<br>Restated* |
|----------------------------------|------------------|-------------------|-------------------|
| <b>Values of products held:</b>  |                  |                   |                   |
| Crude Oil                        | 11 096           | 11 096            | 11 005            |
| Diesel                           | 1 073 804        | 985 386           | 857 824           |
|                                  | <b>1 084 900</b> | <b>996 482</b>    | <b>868 829</b>    |
| <b>Volumes of products held:</b> |                  |                   |                   |
| Barrels held at year end         | 100 433          | 100 433           | 100 097           |
| Consignment stock                | (45 322)         | (45 322)          | (45 436)          |
|                                  | <b>55 111</b>    | <b>55 111</b>     | <b>54 661</b>     |
| Diesel (litres)                  | 153 535 263      | 155 000 000       | 155 000 000       |

### 13. Inventories

|                                         |                  |                  |                  |
|-----------------------------------------|------------------|------------------|------------------|
| Petroleum fuels                         | 1 852 300        | 1 343 373        | 1 475 339        |
| Crude oil                               | 52 669           | 61 337           | 37 876           |
| Consumable stores, spares and catalysts | 371 568          | 357 484          | 366 877          |
| Run of mine stock (ROM)                 | 1 335            | 4 311            | 1 202            |
| Crushed coal                            | 3 285            | 5 193            | 3 568            |
|                                         | 2 281 157        | 1 771 698        | 1 884 862        |
| Inventories (write-downs)               | (7 414)          | (8 267)          | (3 939)          |
|                                         | <b>2 273 743</b> | <b>1 763 431</b> | <b>1 880 923</b> |





# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 14. Trade and other receivables

| Figures in Rand thousand                              | 2019             | 2018<br>Restated* | 2017<br>Restated* |
|-------------------------------------------------------|------------------|-------------------|-------------------|
| <b>Financial instruments:</b>                         |                  |                   |                   |
| Trade receivables                                     | 3 121 479        | 2 275 572         | 2 157 124         |
| Advances - African Royalty Minerals                   | -                | -                 | 475               |
| Loss allowance                                        | (441 978)        | (481 735)         | (395 525)         |
| Trade receivables at amortised cost                   | 2 679 501        | 1 793 837         | 1 762 074         |
| Deposits                                              | 12 390           | 12 699            | 10 421            |
| Operating lease receivables                           | -                | 49                | -                 |
| Underlift                                             | 2 348            | 17 249            | -                 |
| Payroll receivable                                    | 4 577            | 3 168             | 3 994             |
| Interest receivable                                   | 120 267          | 88 083            | 64 130            |
| Sundry debtors                                        | 136 158          | 75 871            | 63 915            |
| <b>Non-financial instruments:</b>                     |                  |                   |                   |
| VAT                                                   | 42 040           | 60 487            | 67 544            |
| Statutory receivables (tax and levies)                | 100 849          | 9 369             | 125 327           |
| <b>Total trade and other receivables</b>              | <b>3 098 130</b> | <b>2 060 812</b>  | <b>2 097 405</b>  |
| <b>Split between non-current and current portions</b> |                  |                   |                   |
| Non-current assets                                    | 200 601          | 67 234            | 44 249            |
| Current assets                                        | 2 897 529        | 1 993 578         | 2 053 156         |
|                                                       | <b>3 098 130</b> | <b>2 060 812</b>  | <b>2 097 405</b>  |
| <b>Categorisation of trade and other receivables</b>  |                  |                   |                   |

Trade and other receivables are categorised as follows in accordance with IFRS 9: Financial Instruments:

|                           |                  |                  |                  |
|---------------------------|------------------|------------------|------------------|
| At amortised cost         | 2 955 241        | 2 019 342        | 1 904 534        |
| Non-financial instruments | 142 889          | 41 470           | 192 871          |
|                           | <b>3 098 130</b> | <b>2 060 812</b> | <b>2 097 405</b> |

### Trade and other receivables pledged as security

The Group does not hold any collateral over trade and other receivables as security.

### Exposure to credit risk

Refer to note 43 for details of credit risk management for trade and other receivables.

### Exposure to currency risk

Refer to note 43 for details of currency risk management for trade and other receivables.

### Fair value of trade and other receivables

The fair value of trade and other receivables approximates their carrying amounts.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2019 (continued)

### 15. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks and investments in money market instruments. Cash and cash equivalents included in the statements of financial position comprise the following:

| Figures in Rand thousand                                  | 2019              | 2018<br>Restated* | 2017<br>Restated* |
|-----------------------------------------------------------|-------------------|-------------------|-------------------|
| Cash on hand                                              | 80                | 77                | 92                |
| Bank balances                                             | 1 236 844         | 775 887           | 571 798           |
| Short-term deposits                                       | 17 687 651        | 16 410 044        | 15 122 948        |
|                                                           | <b>18 924 575</b> | <b>17 186 008</b> | <b>15 694 838</b> |
| <b>Restricted cash not available for use by the Group</b> |                   |                   |                   |
| SFF cash relating to the sale of strategic stock          | 4 261 248         | 3 383 045         | 3 786 566         |
| PetroSA cash held by CEF for guarantees                   | 486 585           | 486 585           | 486 585           |
| PetroSA rehabilitation ring-fenced funds                  | 1 751 042         | 1 710 661         | 1 577 468         |
|                                                           | <b>6 498 875</b>  | <b>5 580 291</b>  | <b>5 850 619</b>  |

Included in the short-term deposits are US\$ investments to the value of R4.261 billion (2018: R3.383 billion, 2017: R3.787 billion), which relate to the proceeds from the sale of strategic stock in December 2015. An application has been lodged with the court to declare the sale unlawful and set it aside.

The CEF is holding a cash collateral of R486.585 million (2017 and 2018: R486.585 million) for PetroSA for guarantees issued on behalf of PetroSA by the CEF SOC Ltd. Refer to contingencies in note 38.

PetroSA is holding cash of R1.751 billion (2018: R1.710 billion, 2017: R1.577 billion) to fund the rehabilitation provision refer to note 23.

The deposit held in a trust relates to cash deposits received from operators and licencees in terms of issued rights and permits. These deposits can only be paid back to the holder on relinquishment of the rights in terms of Section 43 of the MPRDA and on granting of a closure certificate by the Minister.

The carrying amount of cash and cash equivalents approximates the fair value due to the short-term nature of the instruments.

#### Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short-term deposits, excluding cash on hand, that are neither past due nor impaired can be assessed by reference to external credit ratings or historical information about counterparty default rates. Refer to note 43 for more details on risk management.

| Figures in Rand thousand                                                                                                           | 2019           | 2018<br>Restated* | 2017<br>Restated* |
|------------------------------------------------------------------------------------------------------------------------------------|----------------|-------------------|-------------------|
| <b>Other restricted cash and cash equivalents</b>                                                                                  |                |                   |                   |
| Demand site management levy                                                                                                        | 29 445         | 28 358            | 53 868            |
| Cash held on behalf (Upstream training Trust and DWP – Refer to note 20 for cash on call and Vaal Dam Projects – refer to note 24) | 59 703         | 47 178            | 35 412            |
| PetroSA's restricted cash that earns interest (credit facilities)                                                                  | 350 000        | 750 000           | –                 |
|                                                                                                                                    | <b>439 148</b> | <b>825 536</b>    | <b>89 280</b>     |

#### Exposure to currency risk

Refer to note 43 Financial instruments and financial risk management for details of currency risk management for cash and cash equivalents.



# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 16. Discontinued operations or disposal groups or non-current assets held for sale/distribution to owner

### Investment in TSFT

In prior years, the CEF Board approved the disposal of its investment in TSFT with a carrying amount of R14.758 million for an estimated selling price of R19 million. The sale of TSFT was not concluded in the expected 12 months due to delays from external parties, however at year end both parties were still committed to completing the sale.

### PASA

In the prior year the investment in PASA was classified as non-current assets held for distribution. The CEF Board of directors declared the investment as a dividend in specie to the State (represented by DMRE). In the current year, the Board resolution to declare the dividend has lapsed in terms of s46(3) of the Companies Act of 2008, as it has been more than 120 business days since the resolution was passed. PASA has therefore been consolidated in the current financial year.

### 2018:

#### Investment at PASA SOC Ltd

The investment at PASA SOC Ltd is still classified as non-current asset held for distribution to owners. The CEF Board of directors declared the investment in PASA SOC Ltd as a dividend in specie to the state (represented by DMRE).

A final approval for the disposal of the investment was required in terms of Section 54(2) of the PFMA, which was obtained in the current year. The transfer of PASA is expected to be finalised in the 2018/19 financial year. The fair value of the investment as at 31 March 2018 has been determined as R229.460 million.

| Figures in Rand thousand                 | 2019          | 2018<br>Restated* | 2017<br>Restated* |
|------------------------------------------|---------------|-------------------|-------------------|
| <b>Profit and loss from PASA SOC Ltd</b> |               |                   |                   |
| Revenue                                  | -             | 151 899           | 61 553            |
| Expenses                                 | -             | (113 581)         | (110 581)         |
|                                          | -             | <b>38 318</b>     | <b>(49 028)</b>   |
| <b>Assets and liabilities</b>            |               |                   |                   |
| <b>Non-current assets held for sale</b>  |               |                   |                   |
| Property, plant and equipment            | -             | -                 | 50 000            |
| Other assets                             | 14 758        | 14 758            | -                 |
|                                          | <b>14 758</b> | <b>14 758</b>     | <b>50 000</b>     |
| <b>Assets of disposal groups</b>         |               |                   |                   |
| Property, plant and equipment            | -             | 7 557             | 7 580             |
| Intangible assets                        | -             | 6 277             | 7 052             |
| Trade and other receivables              | -             | 2 653             | 23 280            |
| Other financial assets                   | -             | 2 747             | 369               |
| Inventories                              | -             | 341               | 358               |
|                                          | -             | <b>19 575</b>     | <b>38 639</b>     |
|                                          | <b>14 758</b> | <b>34 333</b>     | <b>88 639</b>     |
| <b>Liabilities of disposal groups</b>    |               |                   |                   |
| Other liabilities                        | -             | 18 485            | 18 915            |
| <b>Equity</b>                            |               |                   |                   |
| Other                                    | -             | 229 460           | 19 724            |

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2019 (continued)

### 17. Share capital

There were no changes in issued capital of R1 from the previous financial year to the current financial year.

### 18. Foreign currency translation reserve

Translation reserve comprises exchange differences on consolidation of foreign subsidiaries.

| Figures in Rand thousand                                                                          | 2019    | 2018<br>Restated* | 2017<br>Restated* |
|---------------------------------------------------------------------------------------------------|---------|-------------------|-------------------|
| Foreign currency translation reserve arising from consolidation of PetroSA's foreign subsidiaries | 863 216 | 368 144           | 631 715           |

### 19. Revaluation reserve

The revaluation of property, plant and equipment at SFF on first-time conversion to IFRS has been restated refer to note 39.

|                                                                |   |   |             |
|----------------------------------------------------------------|---|---|-------------|
| Revaluation surplus arising from conversion of SA GAAP to IFRS | - | - | 1 691 931   |
| Realised to retained income                                    | - | - | (1 691 931) |
|                                                                | - | - | -           |



# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 20. Other financial liabilities

| Figures in Rand thousand                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 2019             | 2018<br>Restated* | 2017<br>Restated* |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|-------------------|-------------------|
| <b>Held at amortised cost</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                  |                   |                   |
| <b>Reserve-based lending facility</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 968 271          | 769 256           | 866 846           |
| The loan accrues interest at LIBOR plus a margin percentage, varying between 3.25% and 4.50% over the period of the loan. The loan is due to mature in February 2022. All interest payable accrues from day to day at the relevant rate of interest, is calculated on the basis of the actual number of days elapsed and a 360 day year.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                  |                   |                   |
| The facility is a revolving credit facility secured against the producing asset of PetroSA Ghana. The security package comprises a share pledge and subordination of future loans to PetroSA Ghana. Additional security includes an offshore debenture comprising security over contemplated hedging agreement, intercompany loans granted by PetroSA Ghana to its subsidiaries and certain project accounts into which transaction funds are deposited. The available facility amount/borrowing base is redetermined six monthly at the end of June and December and is a function of the present value of future cash flows generated by a producing/developing assets. The available facility amount most sensitive to economic assumptions such as the Brent crude oil price and changes to independently audited oil reserves. The loan covenants applicable are the field life cover ratio of 1.3 and a loan life cover ratio of 1.1. All loan covenants relating to this facility have been satisfied. |                  |                   |                   |
| Transaction costs of R80.409 million was incurred (2018: R82.317 million, 2017: R94.8 million).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                  |                   |                   |
| <b>Cash on call (Darling Wind Power)</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 534              | 497               | 473               |
| These are funds held and invested in call accounts on behalf of Darling Wind Power (Pty) Ltd.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                  |                   |                   |
| <b>Truter Boerdery Trust</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | -                | 3 110             | -                 |
| The financial liability is for the purchase of Portion 1 of Farm Vlakfontein 569. The loan is unsecured, accrues interest at the prevailing prime rate and payable over two years.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                  |                   |                   |
| <b>Cash on call (Upstream Training Trust)</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 58 231           | 45 810            | 34 602            |
| These are funds held and invested in call accounts on behalf of the Upstream Training Trust that is managed by PASA.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                  |                   |                   |
| <b>Demand site management levy</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 29 445           | 28 358            | 53 868            |
| These are levies collected by CEF SOC Ltd on behalf of the DMRE from the oil companies as mandated by the CEF Act 38 of 1977 and payable into the National Revenue Fund.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                  |                   |                   |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | <b>1 056 481</b> | <b>847 031</b>    | <b>955 789</b>    |
| <b>Split between non-current and current portions</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                  |                   |                   |
| Non-current liabilities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 968 271          | 770 171           | 866 846           |
| Current liabilities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 88 210           | 76 860            | 88 943            |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | <b>1 056 481</b> | <b>847 031</b>    | <b>955 789</b>    |

### Exposure to currency risk

Refer to note 43 Financial instruments and financial risk management for details of currency risk management for borrowings.

### Exposure to interest rate risk

Refer to note 43 for details of interest rate risk management for investments in borrowings.



# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2019 (continued)

### 21. Finance lease liabilities

| Figures in Rand thousand                              | 2019             | 2018<br>Restated* | 2017<br>Restated* |
|-------------------------------------------------------|------------------|-------------------|-------------------|
| <b>Minimum lease payments due</b>                     |                  |                   |                   |
| – within one year                                     | 168 355          | 106 891           | -                 |
| – in second to fifth year inclusive                   | 661 145          | 427 855           | -                 |
| – later than five years                               | 941 856          | 872 010           | -                 |
|                                                       | 1 771 356        | 1 406 756         | -                 |
| less: future finance charges                          | (681 968)        | (594 173)         | -                 |
| <b>Present value of minimum lease payments</b>        | <b>1 089 388</b> | <b>812 583</b>    | <b>-</b>          |
| <b>Present value of minimum lease payments due</b>    |                  |                   |                   |
| – within one year                                     | 89 615           | 39 684            | -                 |
| – in second to fifth year inclusive                   | 367 129          | 197 226           | -                 |
| – later than five years                               | 632 644          | 575 673           | -                 |
|                                                       | 1 089 388        | 812 583           | -                 |
| <b>Split between non-current and current portions</b> |                  |                   |                   |
| Non-current liabilities                               | 999 771          | 772 899           | -                 |
| Current liabilities                                   | 89 617           | 39 684            | -                 |
|                                                       | 1 089 388        | 812 583           | -                 |

AEMFC entered into a finance lease with Innovent Rental and Asset Management Solution (Pty) Ltd for mining machinery. The finance lease was initially recognised at R144.2 million.

The present value of the lease liability unwinds over the expected life of the lease and is reported within the finance costs as finance leases.

The initial lease period is 5 years and the impute interest rate is 9.5%.

PetroSA Ghana Ltd, together with its JV partners, entered into a finance lease with MODEC for the leasing of a floating production storage and offloading unit (FPSO) in the TEN field. The finance lease was initially recognised at R850.3 million. The present value of the lease liability unwinds over the expected life of the lease and is reported within finance costs as finance leases.

The initial lease period is 10 years, with an option to renew for an additional 10 years, until end of life of field. The imputed interest rate is 8.4%.

The Group's obligations under the finance lease are secured by the lessor's charge over the leased assets. Refer note 3.



# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 22. Retirement benefits

### Defined benefit plan

#### Post-employment medical aid scheme

Two subsidiaries of the Group, SFF and PetroSA, have a post-retirement medical scheme in place that is governed by the Medical Aid Schemes Act of 1998. The post-employment medical arrangement provides health benefits to retired employees and certain dependants. The benefit was applicable and on offer only to employees in the service of the affected Group companies before the changes to the new current benefit policy.

#### PetroSA

The obligation is partially funded and was valued using the 'projected unit credit method'. A discount rate of 9.81% (2018: 8.88%) and a healthcare cost inflation of 7.29% (2018: 7.4%) were assumed. Mortality assumptions were in line with standard table SA56/62 ultimate (pre-retirement) and PA (90) rated down by two years (post-retirement).

#### SFF

The obligation is not funded and was valued using the 'projected unit credit method'. A discount rate of % 9.81 (2018: 8.98%) and a healthcare cost inflation of 7.48% (2018: 7.99%) were assumed. Mortality assumptions were in line with standard table PA (90) ultimate (pre-retirement) rated down by two years (post-retirement).

The plan is a final salary pension/flat plan or a post employment medical benefit plan.

| Figures in Rand thousand                                                   | 2019             | 2018<br>Restated* | 2017<br>Restated* |
|----------------------------------------------------------------------------|------------------|-------------------|-------------------|
| <b>Carrying value</b>                                                      |                  |                   |                   |
| Present value of the defined benefit obligation-wholly unfunded            | (62 263)         | (167 352)         | (136 816)         |
| Present value of the defined benefit obligation-partially or wholly funded | (190 953)        | (116 653)         | (97 138)          |
| Fair value of plan assets                                                  | 93 160           | 106 972           | 97 680            |
|                                                                            | <b>(160 056)</b> | <b>(177 033)</b>  | <b>(136 274)</b>  |
| The fair value of plan assets includes:                                    |                  |                   |                   |
| <b>Movements for the year</b>                                              |                  |                   |                   |
| Opening balance                                                            | 177 033          | 136 274           | 121 172           |
| Current year service costs                                                 | 2 207            | 2 159             | 2 215             |
| Past year service costs                                                    | 740              | 791               | 907               |
| Net interest return (costs)                                                | 15 657           | 12 549            | 11 450            |
| Net benefit payments                                                       | (5 028)          | (7 661)           | (5 716)           |
| Net actuarial (gains) and losses                                           | (30 553)         | 32 921            | 6 246             |
|                                                                            | <b>160 056</b>   | <b>177 033</b>    | <b>136 274</b>    |

### Defined contribution plan

It is the policy of the Group to provide retirement benefits to all its eligible employees. All eligible Group employees are members of the respective CEF Group subsidiaries' retirement funds and medical aid contribution funds, all of which are subject to the Pensions Fund Act of 1956 and the Medical Aid Schemes Act of 1998 respectively. This excludes instances where a defined benefit plan is applicable – refer to above.

The Group is under no obligation to cover any unfunded benefits.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 23. Provisions

### Reconciliation of provisions – 2019

|                              | Opening balance  | Additions      | Utilised during the year | Reversed during the year | Change in discount factor | Unwinding of discounting | Total             |
|------------------------------|------------------|----------------|--------------------------|--------------------------|---------------------------|--------------------------|-------------------|
| Environmental rehabilitation | 8 811 748        | 84 550         | 53 358                   | -                        | 1 371 160                 | 379 274                  | 10 700 090        |
| Bonus                        | 68 835           | 115 001        | (84 889)                 | (265)                    | -                         | -                        | 98 682            |
| Social investment            | 16 551           | -              | (10 035)                 | -                        | -                         | -                        | 6 516             |
|                              | <b>8 897 134</b> | <b>199 551</b> | <b>(41 566)</b>          | <b>(265)</b>             | <b>1 371 160</b>          | <b>379 274</b>           | <b>10 805 288</b> |

### Reconciliation of provisions – 2018

|                              | Opening balance   | Additions     | Utilised during the year | Reversed during the year | Change in discount factor | Unwinding of discounting | Total            |
|------------------------------|-------------------|---------------|--------------------------|--------------------------|---------------------------|--------------------------|------------------|
| Environmental rehabilitation | 10 122 492        | 26            | (28 953)                 | -                        | (1 720 432)               | 438 615                  | 8 811 748        |
| Product warranties           | 4                 | -             | (4)                      | -                        | -                         | -                        | -                |
| Bonus                        | 59 565            | 72 693        | (62 985)                 | (438)                    | -                         | -                        | 68 835           |
| Social investment            | 21 063            | 3 900         | (8 412)                  | -                        | -                         | -                        | 16 551           |
|                              | <b>10 203 124</b> | <b>76 619</b> | <b>(100 354)</b>         | <b>(438)</b>             | <b>(1 720 432)</b>        | <b>438 615</b>           | <b>8 897 134</b> |

### Reconciliation of provisions – 2017

|                              | Opening balance   | Additions     | Utilised during the year | Reversed during the year | Change in discount factor | Total             |
|------------------------------|-------------------|---------------|--------------------------|--------------------------|---------------------------|-------------------|
| Environmental rehabilitation | 11 618 762        | -             | (34 783)                 | (310)                    | (1 461 177)               | 10 122 492        |
| Product warranties           | 34                | -             | (30)                     | -                        | -                         | 4                 |
| Bonus                        | 79 124            | 68 976        | (87 150)                 | (1 385)                  | -                         | 59 565            |
| Social investment            | 24 208            | 7 422         | (10 657)                 | -                        | -                         | 21 063            |
| Restructuring                | 21 656            | 4 368         | (26 024)                 | -                        | -                         | -                 |
|                              | <b>11 743 784</b> | <b>80 766</b> | <b>(158 644)</b>         | <b>(1 695)</b>           | <b>(1 461 177)</b>        | <b>10 203 124</b> |

| Figures in Rand thousand                              | 2019              | 2018 Restated*   | 2017 Restated*    |
|-------------------------------------------------------|-------------------|------------------|-------------------|
| <b>Split between non-current and current portions</b> |                   |                  |                   |
| Non-current liabilities                               | 10 687 772        | 8 799 368        | 10 065 994        |
| Current liabilities                                   | 117 516           | 97 766           | 137 130           |
|                                                       | <b>10 805 288</b> | <b>8 897 134</b> | <b>10 203 124</b> |



# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 23. Provisions (continued)

### Environmental rehabilitation

#### PetroSA

The decommissioning provision of R10.2 billion (2018: R8.3 billion, 2017: R9.6 billion) represents the present value of decommissioning costs relating to oil and gas interests, the majority of which are expected to be incurred up to 2027. Assumptions, based on the current economic environment, have been made that management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed annually to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required, which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This, in turn, will depend upon future oil and gas prices, which are inherently uncertain.

PetroSA has commissioned an external expert to assess the quantum and scope of the abandonment provision. The current year assessment includes additional research into the requirements to fully close or decommission all PetroSA wells. No provision has been made for the plugged and abandoned wells.

Major assumptions included in the calculation of local provisions is a discount rate of 4.2% (2018: 4.02%, 2017: 4.56%). A sensitivity analysis indicates that a R1 weakening of the Rand against the US Dollar translates into R515 million (2018: R491 million, 2017: R518 million) increase in the provision. The program also assumes the decommissioning will be executed in one campaign in aid of managing logistical costs. It is assumed that each well will take an average of 15 days to abandon.

For international provisions, the discount rate used is 4.02% (2018: 4.02%, 2017: 4.02%), with an expected realisation date of 2036. Changes in cost estimates are driven by revisions to the operator's cost assumptions and estimates.

#### SFF NPC

The provision amount of R517 million (2018: R486 million, 2017: R462 million) relates to the decommissioning and rehabilitation of the Milnerton and Saldanha tank farms under the requirements of NERA and the environmental monitoring and rehabilitation of the underground crude oil tanks in Ogies, with the requirements contained in the MPRDA. Major assumptions included in the calculation of the provision are the South African inflation rate of 4.5% (2018: 3.8%; 2017: 6.49%).

#### Saldanha and Milnerton

The six Saldanha in-ground tanks will be decommissioned and withdrawn from service but not demolished. The scope of work includes the cleaning, decommissioning and mothballing of the equipment within the perimeter fences of the tank-farm. The value of any recovered material, including steel from tanks, steel piping, transformers and electrical cabling, will not be used to offset the cost of demolition of the various facilities. Allowance will be made for potentially recoverable material to be placed in waste skips after demolition. The cost of removal from the tank-farm to a scrap yard will be deemed to be offset by the value of the recovered materials. No allowance has been made for the removal of crude oil/sludge from the tanks and pipeline. The decommissioning cost estimate will not include the removal or mothballing of the Chevron facilities as it is assumed that this would be undertaken by Chevron at its expense. Total provisions for Saldanha and Milnerton tank farms are R197.3 million and R190.2 million (2018: R182.5 million and R180.5 million, 2017: R169.9 million and R173.9 million) respectively.

#### Ogies

The provision for this site is to address the economic analysis of the worst-case environmental damages and the clean-up costs for the assessed hazard. Environmental damage affects groundwater, soil that produces food in the surrounding area, property and trading damages such as human life and mineral rights. The assumptions used in the calculation take into account the probability of occurrence.

At year end, the total provision for the Ogies tank storage mine infrastructure was R129.1 million (2018: R123.0 million, 2017: R118.5 million).

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2019 (continued)

### 23. Provisions (continued)

#### AEMFC

As at 31 March 2019 the environmental rehabilitation balance of R23.2 million (2018: R20.3 million) was recognised for Vlakkfontein Mine rehabilitation based on estimates provided by independent environmental consultants. The net present value of the environmental rehabilitation provision is based on discount rates taking into account long bond yield rates of 6.75% for 2019 cashflows and 9.14% for 2029 cashflows (2018: 6.68% and 8.86% respectively) and inflation rate of 5.36% (2018: 5.6%) in line with South African Reserve Bank long term inflation targets. Current mine plans envisage the expected outflow to occur at the end of the life of mine.

In respect of the rehabilitation provision, there was no asset write up (2018: write down R25 335) recognised in property, plant and equipment in the mine infrastructure asset class.

#### Funding of rehabilitation provision

PetroSA is working with all key stakeholders to ensure compliance with the requirements of the financial provision regulations before 19 February 2024. To this extent, the Group has committed to assist PetroSA, through various support and oversight mechanisms, to close the funding gap. In addition, PetroSA is working closely with the regulator (the Petroleum Agency of South Africa) to ensure that it discharges its responsibilities as required under the NEMA financial provision regulations. Other key stakeholders involved include the Departments of Energy, National Treasury, Mineral Resources and Environmental Affairs. No funds have been set aside for the funding of international provisions valued at R347 million. In terms of the signed petroleum agreements, this will commence once 50% of the estimated reserves have been produced from the relevant fields. PetroSA has set aside funds towards the cost of decommissioning. These funds are not available for the general purposes of the Group and comprise of the following investments:

| Figures in Rand millions | 2019         | 2018<br>Restated* | 2017<br>Restated* |
|--------------------------|--------------|-------------------|-------------------|
| Cash deposits            | 477          | 477               | 477               |
| Cash in Escrow account   | 1 751        | 1 711             | 1 453             |
| Financial Guarantee      | 180          | 180               | 198               |
|                          | <b>2 408</b> | <b>2 368</b>      | <b>2 128</b>      |

#### Social investment

This provision amount of R6.5 million (2018: R16.5 million, 2017: R21.1 million) is for commitments to community investment projects as a pre-condition for the issuing of exploration licences.

#### Bonus

Provision for performance bonus for an amount of R99.5 million (2018: R68.8 million, 2017: R59.6 million) represents incentives for employees who qualify in terms of their performance during the current year.

The estimate is based on the expected average performance of the group and employees using the variables as determined in the CEF group incentive bonus policy. The bonus liability is anticipated to be paid within the next twelve months

Included in the prior year bonus provision is retention bonus for PetroSA employees who qualify in terms of their employment contracts.





# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 24. Other non-current financial liabilities

### Operating lease liability

Contracts relating to rental payable have been smoothed over the contract period. Refer to note 37 for disclosure of commitments.

Current portion of operating lease liability is included in trade and other payable.

### Deferred income

#### CEF SOC Ltd

The deferred grant was received by CEF SOC Ltd from the DMRE. This funds grant is used to fund feasibility studies for the Vaal Dam projects. The balance of this grant is R0.94 million (2018: R0.87 million, 2017: R0.81 million).

#### SFF NPC

An upfront reservation fee of R74.6 million (\$5.95 million) is applicable to one of the crude oil storage contracts with a duration of seven years and is being recognised as revenue over the duration of the contract. As at 31 March 2019, there were 59 months left on the contract. The remaining portion of the income received in advance was translated at the spot exchange rate on the reporting date (R14.565/USD as at 31 March 2019; R11.795/USD as at 31 March 2018).

#### PASA

The Agency received ring-fenced grant income for shale gas exploration and training and development. Due to delays, this income remains unspent at 31 March 2019 and will be spent in 2019/20. The balance as at 31 March 2019 is R0.514 million.

| Figures in Rand thousand  | 2019          | 2018<br>Restated* | 2017<br>Restated* |
|---------------------------|---------------|-------------------|-------------------|
| Operating lease liability | 16 465        | 16 801            | 15 964            |
| Deferred income           | 51 663        | 49 527            | 63 899            |
|                           | <b>68 128</b> | <b>66 328</b>     | <b>79 863</b>     |

## 25. Trade and other payables

### Financial instruments:

|                                                  |           |           |           |
|--------------------------------------------------|-----------|-----------|-----------|
| Trade payables                                   | 3 025 494 | 1 246 973 | 1 240 713 |
| Sundry creditors                                 | 172 031   | 250 446   | 125 825   |
| Accrued leave pay                                | 80 350    | 75 056    | 70 892    |
| Cash calls in advance                            | 177 615   | 346 172   | 320 510   |
| Equalization Fund payable                        | 4 058 030 | 3 317 490 | -         |
| Liabilities arising from sale of strategic stock | 957 411   | 793 072   | 4 380 856 |
| Unearned Finance Income                          | -         | -         | 75        |
| Payroll related liabilities                      | 11 675    | 11 136    | 10 380    |

### Non-financial instruments:

|                             |                  |                  |                  |
|-----------------------------|------------------|------------------|------------------|
| Amounts received in advance | 21 113           | 10 663           | 10 663           |
| Statutory payables          | 1 049 041        | 789 299          | 640 027          |
| VAT                         | 636              | 814              | 11               |
| Operating lease payables    | 971              | 175              | 215              |
|                             | <b>9 554 367</b> | <b>6 841 296</b> | <b>6 800 167</b> |

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2019 (continued)

### 26. Dividend payable

In the prior year the investment in PASA was classified as non-current assets held for distribution. The CEF Board of directors declared the investment as a dividend in specie to the State (represented by DMRE). In the current year, the Board resolution to declare the dividend has lapsed in terms of s46(3) of the Companies Act of 2008, as it has been more than 120 business days since the resolution was passed. PASA has therefore been consolidated in the current financial year.

### 27. Revenue

| Figures in Rand thousand                                       | 2019              | 2018              |
|----------------------------------------------------------------|-------------------|-------------------|
| <b>Revenue from contracts with customers</b>                   |                   |                   |
| Fuel production sales                                          | 10 531 477        | 9 322 834         |
| Data sales                                                     | 26 288            | 30 403            |
| Crude oil sales                                                | 1 607 476         | 1 095 867         |
| Oil pollution control                                          | 14 034            | 33 493            |
| Application fees                                               | 75                | 109               |
| Coal sales                                                     | 634 950           | 458 452           |
| Administration and management fees                             | 4 090             | 4 379             |
|                                                                | <b>12 818 390</b> | <b>10 945 537</b> |
| <b>Revenue other than from contracts with customers</b>        |                   |                   |
| Rental Income                                                  | 243 804           | 620 230           |
| Interest received (trading)                                    | 23                | 41                |
| Government grants                                              | 87 988            | 87 138            |
|                                                                | <b>331 815</b>    | <b>707 409</b>    |
|                                                                | <b>13 150 205</b> | <b>11 652 946</b> |
| <b>Disaggregation of revenue from contracts with customers</b> |                   |                   |
| The group disaggregates revenue from customers as follows:     |                   |                   |
| Total revenue from contracts with customers                    | <b>12 818 390</b> | <b>10 945 537</b> |
| <b>Timing of revenue recognition</b>                           |                   |                   |
| <b>At a point in time</b>                                      |                   |                   |
| Fuel production sales                                          | 10 531 477        | 9 322 834         |
| Coal sales                                                     | 634 950           | 458 452           |
| Application fees                                               | 75                | 109               |
| Data sales                                                     | 26 288            | 30 403            |
| Oil pollution control                                          | 14 034            | 33 493            |
|                                                                | <b>11 206 824</b> | <b>9 845 291</b>  |
| <b>Over time</b>                                               |                   |                   |
| Crude oil sales                                                | 1 607 476         | 1 095 867         |
| Administration and management fees                             | 4 090             | 4 379             |
|                                                                | <b>1 611 566</b>  | <b>1 100 246</b>  |
| <b>Total revenue from contracts with customers</b>             | <b>12 818 390</b> | <b>10 945 537</b> |



# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 28. Cost of sales

| Figures in Rand thousand | 2019              | 2018              |
|--------------------------|-------------------|-------------------|
| Sale of goods            | 12 285 694        | 10 516 391        |
|                          | <b>12 285 694</b> | <b>10 516 391</b> |

## 29. Other operating income

| Figures in Rand thousand                        | 2019             | 2018           |
|-------------------------------------------------|------------------|----------------|
| Profit (loss) on sale of assets and liabilities | 2 037            | 485            |
| Profit (loss) on exchange differences           | 667 876          | 21 292         |
| Commissions received                            | 19               | 30             |
| Royalties received                              | 71               | 50             |
| Other rental income                             | (3 016)          | 6 984          |
| Other recoveries                                | 1 061            | 2 826          |
| Revaluation and impairment                      | 174 237          | 52 366         |
| Recovery of coal transport costs                | 149 709          | 108 151        |
| Other income                                    | 267 443          | 200 606        |
| Income from landfill                            | 18 032           | 14 676         |
| Management fees                                 | 93               | 391            |
| Insurance claims                                | 4                | 269            |
| Withholding tax                                 | 4 089            | -              |
| Gantry fee                                      | 59 999           | 69 948         |
|                                                 | <b>1 341 654</b> | <b>478 074</b> |

## 30. Operating loss

Operating loss for the year is stated after charging (crediting) the following, amongst others:

| Figures in Rand thousand       | 2019          | 2018          |
|--------------------------------|---------------|---------------|
| <b>Operating lease charges</b> |               |               |
| Premises                       |               |               |
| • Contractual amounts          | 17 293        | 19 688        |
| Equipment                      |               |               |
| • Contractual amounts          | 2 152         | 3 109         |
|                                | <b>19 445</b> | <b>22 797</b> |

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2019 (continued)

### 30. Operating loss (continued)

| Figures in Rand thousand                                                                            | 2019        | 2018        |
|-----------------------------------------------------------------------------------------------------|-------------|-------------|
| Loss on sale of Property, plant and equipment                                                       | –           | 19 532      |
| Impairment on property, plant and equipment                                                         | 1 974 551   | (1 280 166) |
| Reversal of impairment on property, plant and equipment                                             | (1 281 898) | 1 521 144   |
| Tax related expenses                                                                                | 10 689      | (1 421)     |
| Auditors remuneration                                                                               | 9 285       | 10 815      |
| Impairment on intangible assets                                                                     | 745         | 2 468       |
| Write off of intangible assets                                                                      | 258 813     | –           |
| Administration and management fees                                                                  | 5 163       | 5 013       |
| Consulting and professional fees – accounting                                                       | 1 620       | 1 885       |
| Impairment on other financial assets                                                                | 837         | 84 314      |
| Consulting and professional fees                                                                    | 87 888      | 58 427      |
| Insurance                                                                                           | 45 129      | 43 626      |
| Hedge premium                                                                                       | (2 329)     | 746         |
| Impairment of trade and other receivables                                                           | 151 114     | 90 013      |
| Financial services fees                                                                             | 13 286      | 10 597      |
| Repairs and maintenance                                                                             | 18 952      | 10 895      |
| (Profit)/loss on exchange differences                                                               | –           | 451 178     |
| Amortisation on intangible assets                                                                   | 3 809       | 5 625       |
| Transport and freight                                                                               | 300 692     | 270 974     |
| Restatement of financial assets and financial liabilities                                           | 126 356     | 54 768      |
| Impairment reversal inventories                                                                     | (88 418)    | (127 653)   |
| Depreciation on property, plant and equipment                                                       | 875 586     | 1 052 015   |
| Travel – local                                                                                      | 11 706      | 11 792      |
| Employee costs                                                                                      | 508 334     | 441 771     |
| Computer maintenance                                                                                | 7 914       | 8 419       |
| Travel – overseas                                                                                   | 7 886       | 3 287       |
| Motor vehicle maintenance expenses and other related expenses                                       | 5 198       | 5 705       |
| Security                                                                                            | 4 704       | 5 475       |
| Staff welfare                                                                                       | 4 987       | 4 933       |
| Training                                                                                            | 7 499       | 6 256       |
| Municipal expenses                                                                                  | 8 181       | 16 854      |
| Participating fees                                                                                  | 7 350       | 5 972       |
| Administration expenses PetroSA (employee costs, depreciation, impairment and administration costs) | 617 404     | 572 203     |
| Research and development costs                                                                      | 2 981       | 2 653       |
| <b>Expenses by nature (summarised)</b>                                                              |             |             |
| Employee costs                                                                                      | 508 336     | 441 774     |
| Depreciation, amortisation and impairment                                                           | 821 856     | 344 600     |
| General expenses                                                                                    | 1 603 799   | 1 801 471   |



# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 31. Investment income

| Figures in Rand thousand                                        | 2019             | 2018             |
|-----------------------------------------------------------------|------------------|------------------|
| <b>Dividend income</b>                                          |                  |                  |
| <b>Equity instruments at fair value through profit or loss:</b> |                  |                  |
| Unlisted investments – Local                                    | 5                | 8                |
| Other financial assets – shareholding less than 20% at Methcap  | –                | 1 900            |
| <b>Total dividend income</b>                                    | <b>5</b>         | <b>1 908</b>     |
| <b>Interest income</b>                                          |                  |                  |
| <b>Investments in financial assets:</b>                         |                  |                  |
| Bank and investments                                            | 1 149 203        | 1 045 324        |
| Interest charged on trade and other receivables                 | –                | 1 907            |
| Loans at amortised cost                                         | 4 747            | 5 986            |
| <b>Loans to group companies:</b>                                |                  |                  |
| Associates                                                      | 2 688            | 2 483            |
| <b>Total interest income</b>                                    | <b>1 156 638</b> | <b>1 055 700</b> |
| <b>Total investment income</b>                                  | <b>1 156 643</b> | <b>1 057 608</b> |

Interest is charged at South African prime rate +3% on the loan to an associate.

Investment income on financial instruments which are available for sale or held to maturity are only presented for comparative purposes for financial instruments held in the prior reporting period but which were disposed of prior to the beginning current reporting period, which is the date of adoption of IFRS 9 Financial Instruments. Investment income on all other financial assets has been reclassified in compliance with IFRS 9.

## 32. Finance costs

| Figures in Rand thousand                                                        | 2019           | 2018           |
|---------------------------------------------------------------------------------|----------------|----------------|
| Non-current borrowings                                                          | 4 234          | 216            |
| Trade and other payables                                                        | 6 590          | 156            |
| Finance leases                                                                  | 79 449         | 79 248         |
| Bank overdraft                                                                  | 564            | 3 492          |
| Current borrowings                                                              | 61 761         | 46 846         |
| Late payment of tax                                                             | 349            | 848            |
| Unwinding of discount on provisions and other liabilities                       | 378 114        | 439 594        |
| Interest due to third parties as result of cash held on behalf of third parties | 3 943          | 3 237          |
| <b>Total finance costs</b>                                                      | <b>535 004</b> | <b>573 637</b> |



# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2019 (continued)

### 33. Taxation

| Figures in Rand thousand                                                                             | 2019           | 2018             |
|------------------------------------------------------------------------------------------------------|----------------|------------------|
| <b>Major components of the tax expense</b>                                                           |                |                  |
| <b>Current</b>                                                                                       |                |                  |
| Local income tax – current period                                                                    | 249 733        | 140 193          |
| Local income tax – recognised in current tax for prior periods                                       | (2 479)        | 264              |
| Foreign income tax or withholding tax – current period                                               | 1 026          | 1 734            |
|                                                                                                      | <b>248 280</b> | <b>142 191</b>   |
| <b>Deferred</b>                                                                                      |                |                  |
| Originating and reversing temporary differences                                                      | 144 697        | (658 319)        |
| Benefit of unrecognised tax loss/tax credit/temporary difference used to reduce deferred tax expense | 387 041        | 29 075           |
|                                                                                                      | <b>531 738</b> | <b>(629 244)</b> |
|                                                                                                      | <b>780 018</b> | <b>(487 053)</b> |
| <b>Reconciliation of the tax expense</b>                                                             |                |                  |
| Reconciliation between accounting profit and tax expense.                                            |                |                  |
| Accounting profit                                                                                    | 309 425        | (133 185)        |
| Tax at the applicable tax rate of 28% (2018: 28%)                                                    | 86 639         | (37 292)         |
| <b>Tax effect of adjustments on taxable income</b>                                                   |                |                  |
| Income not subject to tax                                                                            | (446 187)      | (464 404)        |
| Expenses not deductible for tax purposes                                                             | 169 104        | 426 399          |
| Associates' results reported net of tax                                                              | (116 371)      | (99 411)         |
| Unrecognised deferred tax asset                                                                      | 9 867          | –                |
| Effects of tax rates in different jurisdictions                                                      | (137 530)      | (197 799)        |
| Tax losses carried forward                                                                           | 1 216 975      | (114 850)        |
| Tax expense in respect of prior years                                                                | (2 479)        | 304              |
|                                                                                                      | <b>780 018</b> | <b>(487 053)</b> |

The average effective tax rate is 252% (2018: -366%). Companies are subject to income tax at company level and not at Group/ level. The tax expense arises from individual Group companies that are subject to income tax and generated taxable profits during the financial year.

Non-deductible and non-taxable income is made up of income and expenditure from subsidiaries (SFF, PASA, OPCSA) that are not subject to income tax and income from equity accounting of associates.

Tax losses carried forward originate from PetroSA Ghana and ETA Energy.

Deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset has been recognised.

20 200 000

20 200 000



# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 34. Other comprehensive income

### Components of other comprehensive income – 2019

| Figures in Rand thousand                                      | Gross          | Tax      | Net            |
|---------------------------------------------------------------|----------------|----------|----------------|
| <b>Remeasurements on net defined benefit liability/asset</b>  |                |          |                |
| Remeasurements on net defined benefit liability/asset         | 23 979         | -        | 23 979         |
| <b>Exchange differences on translating foreign operations</b> |                |          |                |
| Exchange differences arising during the year                  | 495 072        | -        | 495 072        |
| <b>Total</b>                                                  | <b>519 051</b> | <b>-</b> | <b>519 051</b> |

### Components of other comprehensive income – 2018

#### Items that will not be reclassified to profit (loss)

#### Remeasurements on net defined benefit liability/asset

Remeasurements on net defined benefit liability/asset

|          |   |          |
|----------|---|----------|
|          |   |          |
| (24 714) | - | (24 714) |

#### Items that may be reclassified to profit (loss)

#### Exchange differences on translating foreign operations

Exchange differences arising during the year

|           |   |           |
|-----------|---|-----------|
|           |   |           |
| (263 571) | - | (263 571) |

#### Gains (losses) on cash flow hedges not subject to basis adjustments

Gains (losses) on hedge

|    |   |    |
|----|---|----|
|    |   |    |
| 31 | - | 31 |

#### Total items that may be reclassified to profit (loss)

Total

|           |   |           |
|-----------|---|-----------|
| (263 540) | - | (263 540) |
| (288 254) | - | (288 254) |

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2019 (continued)

### 35. Cash generated from operations

| Figures in Rand thousand                                                          | 2019           | 2018             |
|-----------------------------------------------------------------------------------|----------------|------------------|
| Profit before taxation                                                            | 309 425        | (133 185)        |
| <b>Adjustments for:</b>                                                           |                |                  |
| Depreciation and amortisation                                                     | 879 395        | 1 057 640        |
| (Gains)/losses on disposals, scrappings and settlements of assets and liabilities | (2 037)        | 556              |
| (Gains)/losses on foreign exchange                                                | (1 339 096)    | 749 468          |
| Income from equity accounted investments                                          | (415 612)      | (356 060)        |
| Investment income                                                                 | (1 156 643)    | (1 057 608)      |
| Finance costs                                                                     | 535 004        | 573 637          |
| Fair value losses                                                                 | 260 233        | 241              |
| Impairment /(reversals of impairment)                                             | 694 235        | 327 760          |
| Group loan impairment                                                             | –              | 9 480            |
| Increase in retirement benefit assets and liabilities                             | 13 576         | 40 759           |
| Movements in provisions                                                           | 151 106        | (46 460)         |
| Other non-cash items                                                              | (3 574)        | 4 189            |
| <b>Changes in working capital:</b>                                                |                |                  |
| Inventories                                                                       | (510 312)      | 117 492          |
| Trade and other receivables                                                       | (1 037 318)    | 36 591           |
| Decrease in prepayments                                                           | 134 084        | (128 169)        |
| (Increase)/Decrease in strategic stock                                            | (88 418)       | (127 652)        |
| Increase/(decrease) in trade and other payables                                   | 1 852 312      | 308 654          |
|                                                                                   | <b>276 360</b> | <b>1 377 333</b> |

### 36. Tax paid

| Figures in Rand thousand                                                   | 2019             | 2018             |
|----------------------------------------------------------------------------|------------------|------------------|
| Balance at beginning of the year                                           | (16 513)         | 14 931           |
| Current tax for the year recognised in profit or loss                      | (248 280)        | (142 191)        |
| Non cash adjustment                                                        | 5 546            | –                |
| Exchange differences arising on the translation of foreign operations(OCI) | 136 810          | (70 130)         |
| Balance at end of the year                                                 | (6 369)          | 16 513           |
|                                                                            | <b>(128 806)</b> | <b>(180 877)</b> |

### 37. Commitments

| Figures in Rand thousand                           | 2019    | 2018    |
|----------------------------------------------------|---------|---------|
| <b>Authorised capital expenditure</b>              |         |         |
| <b>Already contracted for but not provided for</b> |         |         |
| AEMFC SOC Ltd                                      | 383 232 | 215 011 |
| CEF SOC Ltd                                        | 200 000 | 280 049 |
| PASA SOC Ltd                                       | 465     | 1 193   |
| PetroSA SOC Ltd                                    | 297 795 | 494 389 |
| Not yet contracted for and authorised by directors | 722 000 | 853 039 |



# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 37. Commitments (continued)

This committed expenditure relating to the above and that will be financed by available bank facilities, retained profits, existing cash resources, funds internally generated and debts.

### Operating leases – as lessee (expense)

#### Minimum lease payments due

- within one year
- in second to fifth year inclusive
- later than five years

|  |                |                |
|--|----------------|----------------|
|  |                |                |
|  | 25 703         | 53 657         |
|  | 97 647         | 84 290         |
|  | 23 560         | 67 542         |
|  | <b>146 910</b> | <b>205 489</b> |

AEMFC and CEF SOC Ltd lease office equipment over an average term of three to five years.

Properties/premises operating lease commitments relate to the following:

- SFF NPC leases land in Saldanha. Leases are negotiated for an average term of 17 years and rentals increase with a fixed percentage of 9%, as per the contract with Transnet National Ports Authority (TNPA), on an annual basis.
- SFF lease for the office space in Cape Town is negotiated for a term of five years, with a fixed increase in rental of 8% per annum.
- PetroSA SOC Ltd - A hanger together with office space is leased at the general aviation area of the George Airport effective from 1 October 2017. The lease payment is fixed at R54 872 per month with a 8% escalation per annum. The lease period is three years and ends on 30 September 2020.
- PetroSA leases premises and other properties from Transnet National Ports Authority at a monthly fee of R260 964 escalating at 9%. The lease term of 10 years commenced on 1 April 2012.
- PetroSA BV (Europe) leases office space rental at Willemsswerf, 13th Floor, Boompjes 40, 3011 XB, was renewed from 2 December 2017. The current lease instalment is R24 289 per month. The previous three-year lease period, ending 30 November 2017, was renegotiated and extended until 1 October 2019.
- PASA leases office space from Sulnisa Property for a period of five years ending 30 September 2019. The initial lease payment was fixed at R0.530 million per month, with an escalation linked to CPI.
- PASA leases storage space at Modderdam Road, Airport Industria from Redefine Properties which expires on 30 June 2019. The lease payment is fixed at R0.012 million per month, with no escalation clause per annum. The company has an option to renew the lease.
- AEMFC SOC Ltd operating lease payments represent rentals payable by the company for certain of its office properties. Leases are negotiated for an average term of five years and rentals are fixed for an average of three years.

No contingent rent is payable.

| Figures in Rand thousand                     | 2019           | 2018           |
|----------------------------------------------|----------------|----------------|
| <b>Operating leases – as lessor (income)</b> |                |                |
| <b>Minimum lease payments due</b>            |                |                |
| • within one year                            | 124 679        | 159 011        |
| • in second to fifth year inclusive          | 128 447        | 5 359          |
|                                              | <b>253 126</b> | <b>164 370</b> |

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2019 (continued)

### 37. Commitments (continued)

AEMFC and the CEF SOC Ltd leases out office premises. The average contract term is 3 to 5 years.

SSF's Storage tanks in Saldanha Bay are held to generate rental income. Lease agreements have terms from 3 years to 7 years. Contract terms are in US Dollars, and have been translated at the year end exchange rate of R14.565 (2018: R11.795).

There are no contingent rents receivable.

#### Commitments relating to operating activities

The company has the following commitments relating to joint ventures:

Commitments to contribute funding to the joint venture for 10 years  
Commitments to acquire interests from other joint ventures

|                |                |
|----------------|----------------|
| 386 193        | 574 108        |
| –              | 9 100          |
| <b>386 193</b> | <b>583 208</b> |

### 38. Contingencies

#### SFF NPC

##### Customer claim – uplifting of crude oil

Arbitration is currently underway for an alleged breach of storage contract relating to SFF's refusal to allow a customer to uplift 300 000 barrels of oil.

##### Restraint of trade claim

The company has been served with court papers, as the former CEO is making financial demands for what he claims to be a restraint of trade agreement signed with the company. The company's legal representatives and management consider the action against the company being less than likely. Should SFF be unsuccessful in defending this case, the company could be liable for R5 million and emoluments. The applicant has proposed a settlement, with SFF proposing the withdrawal of the matter and each party paying its own costs. The matter is now proceeding. Both parties have filed heads of arguments, it is now the prerogative of the applicant to apply for a court date.

##### Metering system

An interim arbitration award (in which SFF is the respondent) has been finalised, whereby the parties agree that the arbitration is postponed sine die and the costs of the arbitration are reserved. An independent expert has been appointed to establish whether the metering system operated within the specification agreed to by the parties. The independent expert has requested that additional work should be undertaken to bring the flow metres to a position where they are operating, before they can proceed with the agreed scope of work. The parties have agreed to share the costs of remedial work on an equal basis and the metering system has been taken overseas by the claimant for remedial work. Costs of the remedial work will be shared by the parties on an equal basis.

Should the expert conclude that the system operates as intended, SFF shall be liable for R7.669 million plus mora interest (calculated at 9.5% per annum on the capital sum from 1 April 2014 to date of payment), 50% of the independent expert's costs and the legal costs of the arbitration proceedings paid by the claimant. Together with legal costs and interest, management estimates the total value of the claim to be R12 million.

Should the independent expert, however, conclude that the system does not operate as intended, the claimant will be liable to reimburse to SFF 50% of the independent expert's costs, SFF's legal costs of the arbitration proceedings and submit to SFF a comprehensive remedial plan setting out the steps and measures that the claimant would be taking to ensure that the system operates as intended.





# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 38. Contingencies (continued)

### Demurrage claim

A crude oil storage customer is claiming demurrage costs (of approximately \$1.3 million, translated to R19 million as at year end) paid to Transnet National Port Authority from SFF. SFF is disputing this claim on the basis of force majeure. SFF's legal advisors are of the opinion that the customer's case is less than likely to succeed.

### Strategic stock

The company, together with the holding company (CEF SOC Ltd) has lodged an application in the Western Cape High Court to set aside the disposal of the strategic crude oil stocks on the grounds that these disposals were unlawful, invalid and unconstitutional. Should the Court rule in favour of CEF and SFF on a restitution basis, SFF will have to repay all proceeds from the transactions, as well as all storage income received from the buyers for storing these barrels from the date of transfer, including all interest earned and other associated costs. The estimated total amount repayable as at 31 March 2019 is R4.7 billion, based on the prevailing foreign exchange rate between South African Rand and US Dollar. It is noteworthy to mention that according to laws governing restitution unless agreed otherwise, each party is bound to restore to the other party that which each party has received in terms of the contract. Given the foregoing, the Purchasers of Strategic Stocks are not entitled to make profits from contracts that are illegal or invalid and therefore the above liability could be set-off against profits that would have been made from these contracts by the Purchasers and regrettably it is not possible to quantify the supposed profits or losses at this stage.

Should the Court rule that the transaction is valid, according to paragraph 3A(c) of the CEF Act no 38 of 1988, the proceeds from the sale of crude oil received by SFF Association, shall be payable into the Equalization Fund. It must be mentioned though that should a Ministerial Directive be issued to replenish the Strategic Stocks using the proceeds generated from this Sale being challenged in Court, the strategic Stocks that could be purchased based on prices prevailing by the 31st of March 2019 is only about 4.6 million barrels whilst the Sale was for 10 million barrels.

### Other contingencies arising out of operations

#### PetroSA

##### Mbizana Integrated Energy Centre

PetroSA may be liable for any soil contamination resulting from the dispensing of fuel at the Mbizana Integrated Energy Centre. The estimated financial impact is R1 million.

### Third-party claim

In September 2005, a vessel owned by a shipping company (the defendant) snagged and damaged a carrier and product pipeline owned by PetroSA. The matter is currently before the Western Cape High Court exercising its Admiralty jurisdiction. Based on the feedback from external legal counsel, PetroSA is likely to succeed in its claim against the defendant. The expected amount cannot be determined at this time.

### Incentive bonus

PetroSA had a Short Term Incentive Policy (STIP) that expired on 31 March 2017. No replacing scheme was approved by the PetroSA Board and the Labour Union. For the financial year ending 31 March 2018, PetroSA's corporate performance score was 2.98 which was a score high enough to trigger an incentive bonus in terms of the expired STIP scheme. On 10 August 2018 the PetroSA Board resolved not to pay an incentive bonus which led to a dispute with Labour Union. The dispute was referred to arbitration at the National Bargaining Council for Chemicals Industry (NBCCI). On 25 June 2019, the NBCCI issued an award in terms of which PetroSA was ordered to pay qualifying employees an incentive bonus of R123 million. The PetroSA Board has resolved based on senior council opinion to take the arbitration award on review to the Labour Court in terms of section 145 of the Labour Relations Act (LRA).

### CEF SOC Ltd

Litigation is pending against a former employee for failing to adhere to procurement processes. The former employee has also filed a counter claim against CEF in the amount of R205 000. The counter claim is being defended. The legal costs incurred to date are R90 000.

A current employee has referred a matter to the Labour Court. The claim is not yet quantifiable. The legal costs incurred to date are R200 000.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2019 (continued)

### 38. Contingencies (continued)

| Figures in Rand thousand                                                                              | 2019           | 2018           |
|-------------------------------------------------------------------------------------------------------|----------------|----------------|
| <b>Guarantees</b>                                                                                     |                |                |
| The Group has issued guarantees for the rehabilitation of land disturbed by mining on the Sable field | 180 000        | 180 000        |
| The Group has issued a manufacture and excisable bond in favour of the South African Revenue Service  | 5 000          | 5 000          |
| The group has issued an evergreen VAT guarantee in favour of the Dutch VAT Authorities (€0.5 million) | 8 178          | 7 289          |
| DME for rehabilitation of E-BT/E-AR mining lease                                                      | 27 100         | 27 100         |
| Eskom for payment of guarantee for electrical supply                                                  | 9 485          | 9 485          |
| DMRE for rehabilitation of FA mining lease                                                            | 450 000        | 450 000        |
| Absa Bank for OPCSA's deed of suretyship                                                              | 2 000          | 2 000          |
| Absa Bank for iGas deed of suretyship                                                                 | 2 100          | 2 100          |
|                                                                                                       | <b>683 863</b> | <b>682 974</b> |
| <b>Claims</b>                                                                                         |                |                |
| PetroSA is considering settling claims made in terms of contracts                                     | –              | 52 502         |

### 39. Restatements

#### SFF

##### Property, plant and equipment and Provisions

Errors in the abandonment provision calculation were discovered in the current year, relating to incorrect calculation of Saldanha Tank Farm mothballing costs that were in its totality escalated using the South African Inflation rate even though there were costs elements that were crude oil price driven. The correction of the errors had the following impact:

- Property, plant and equipment decrease of 2017: R91.7 million and 2018: R66.5 million; and
- Provisions decrease of 2017: R91.7 million and 2018: R66.5 million.

These were as a result of the decrease in the rehabilitation provision as a result of the change in the inputs used in the valuation model

##### Revaluation reserve

As part of the conversion from SA GAAP to IFRS in 2015 financial year, the group fair valued some items of property, plant and equipment in line with IFRS1. As per IFRS1.11 adjustments at the date of transition should be recognised directly in retained earnings, or, if appropriate, another category of equity at the date of transition to IFRS.

The revaluation reserve was recognised as a separate category of equity in the prior year's financial statements, but has been moved into retained earnings in the current financial year, with the comparative figures adjusted accordingly.



# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 39. Restatements (continued)

### Reconciliation of equity at 31 March 2017

| Figures in Rand thousand                   | Previously reported | Adjustment  | Restated          |
|--------------------------------------------|---------------------|-------------|-------------------|
| Property, plant and equipment              | 9 764 263           | (91 767)    | 9 672 496         |
| Provisions                                 | (10 294 891)        | 91 767      | (10 203 124)      |
| <b>Total assets less total liabilities</b> | <b>(530 628)</b>    | <b>-</b>    | <b>(530 628)</b>  |
| Reserves                                   | (1 320 115)         | (1 691 931) | (3 012 046)       |
| Retained earnings                          | 14 765 600          | 1 691 931   | 16 457 531        |
| <b>Total equity</b>                        | <b>13 445 485</b>   | <b>-</b>    | <b>13 445 485</b> |

### Reconciliation of equity at 31 March 2018

| Figures in Rand thousand                   | Previously reported | Adjustment  | Restated           |
|--------------------------------------------|---------------------|-------------|--------------------|
| Property, plant and equipment              | 7 421 025           | (66 483)    | 7 354 542          |
| Provisions                                 | 8 963 618           | (66 483)    | 8 897 135          |
| <b>Total assets less total liabilities</b> | <b>(1 542 593)</b>  | <b>-</b>    | <b>(1 542 593)</b> |
| Reserves                                   | (1 279 897)         | (1 669 449) | (2 949 346)        |
| Retained earnings                          | 14 870 530          | 1 669 449   | 16 539 979         |
| <b>Total equity</b>                        | <b>13 590 633</b>   | <b>-</b>    | <b>13 590 633</b>  |

## 40. Related parties

Holding company  
Subsidiaries  
Joint ventures  
Associates  
Unconsolidated structure

Under common control

Members of key management

Department of Mineral Resources and Energy  
Refer to note 5  
Refer to note 6  
Refer to note 7  
Gannet Trust  
PetroSA Development Trust  
Upstream Training Trust  
Equalization Fund (EQF)  
South African National Energy Development Institute (SANEDI)  
Refer to note 42

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 40. Related parties (continued)

| Figures in Rand thousand                                                              | 2019        | 2018        |
|---------------------------------------------------------------------------------------|-------------|-------------|
| <b>Related party balances</b>                                                         |             |             |
| <b>Loan accounts – Owing (to) by related parties</b>                                  |             |             |
| Mzimkhulu Mining (Pty) Ltd                                                            | 11 515      | 10 249      |
| Baniettor (Pty) Ltd                                                                   | –           | 16 646      |
| Extended Continental Shelf Claim Project                                              | 211         | 1 558       |
| GTL.F1 AG                                                                             | 226 424     | 201 829     |
| Ener-G Systems (Pty) Ltd                                                              | 40 111      | 36 326      |
| <b>Amounts included in Trade receivable (Trade Payable) regarding related parties</b> |             |             |
| PAMDC (Pty) Ltd                                                                       | 4 790       | 3 591       |
| DMRE                                                                                  | 694         | 694         |
| SANEDI                                                                                | 814         | 495         |
| Upstream Training Trust                                                               | 11          | 7           |
| Rompco (Pty) Ltd                                                                      | 3           | 7           |
| Equalization Fund                                                                     | 461         | 432         |
| Equalization Fund                                                                     | (4 058 030) | (3 317 490) |
| <b>Cash on call held on behalf of others</b>                                          |             |             |
| Upstream Training Trust (UTT)                                                         | (58 231)    | (45 810)    |
| <b>Related party transactions</b>                                                     |             |             |
| <b>Interest paid to (received from) related parties</b>                               |             |             |
| Ener-G Systems (Pty) Ltd                                                              | (3 785)     | (3 497)     |
| Upstream Training Trust                                                               | 3 836       | 3 136       |
| <b>Rent paid to (received from) related parties</b>                                   |             |             |
| Rompco (Pty) Ltd                                                                      | (28)        | (25)        |
| SANEDI                                                                                | (930)       | (916)       |
| PAMDC (Pty) Ltd                                                                       | (91)        | (83)        |
| <b>Administration fees paid to (received from) related parties</b>                    |             |             |
| DMRE                                                                                  | (1)         | (1)         |
| UTT                                                                                   | (76)        | (61)        |
| Equalization Fund                                                                     | (2 661)     | (2 373)     |
| PAMDC (Pty) Ltd                                                                       | (982)       | (899)       |
| SANEDI                                                                                | (368)       | (486)       |
| <b>Recoveries paid to (received from) related parties</b>                             |             |             |
| SANEDI                                                                                | (34)        | (56)        |
| PAMDC (Pty) Ltd                                                                       | (62)        | (254)       |
| DMRE                                                                                  | –           | (694)       |
| Equalization Fund                                                                     | (117)       | (1 147)     |
| <b>Provisions balances relating to related parties</b>                                |             |             |
| Baniettor (Pty) Ltd – loan and investment                                             | –           | (16 744)    |
| GTL.F1 AG                                                                             | (226 224)   | (201 829)   |



# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 41. Interests in unconsolidated structured entities

### **PetroSA Development Trust**

The PetroSA Development Trust was established to facilitate the development and transformation of the lives of people from historically disadvantaged and impoverished communities and the enhancement of the education and literacy levels in these communities, in particular those within which PetroSA operates, such as the Mossel Bay region and other deserving communities.

### **Gannet Trust**

The Gannet Trust group of companies was created to underwrite insurance risks for PetroSA and other companies with similar risk profiles. Gannet Trust enables PetroSA to access the reinsurance markets that would not otherwise be available to it.

Gannet Trust is also available to accept risks that are either uninsured, uninsurable or that bridge the gap between the underwriters' imposed risk retentions and PetroSA's preferred risk retentions.

### **Upstream Training Trust**

The UTT was established to receive irrevocable and unconditional contributions and grants from any persons or entities for the purpose of applying these funds for education and educational development, research, the provision of funding, assets, services and other resources to public benefit organisations. PASA nominates and serves as a trustee on the board of trustees of UTT.

PASA is responsible for the administration of UTT, but is not able to control it as all decisions have to be made by majority vote of the trustees, which may be a minimum of three and a maximum of seven (PASA has only one vote).

PASA receives no administration fees from UTT and makes no contribution to UTT.

At 31 March, PASA had a loan receivable from UTT of R3 000 (2018: R nil). Terms and conditions of the loan are that it is due and receivable 30 days from date of invoice receipt by UTT.

PASA's maximum exposure to loss from UTT is R3 000 (2018: R nil).



# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2019 (continued)

### 42. Directors' emoluments

#### Executive management

| Figures in Rand thousand      | Salary        | Bonuses and performance payments | Pension/Retirement | Other Allowances | Total         |
|-------------------------------|---------------|----------------------------------|--------------------|------------------|---------------|
| <b>2019</b>                   |               |                                  |                    |                  |               |
| Mr M Moagi (CEF Group)*       | 4 649         | 1 644                            | –                  | 1 110            | 7 403         |
| Mr S Makhanya (CEF Group)**   | 2 538         | 828                              | 157                | 570              | 4 093         |
| Mr S Madondo (AEMFC SOC Ltd)  | 3 233         | 1 793                            | 456                | 40               | 5 522         |
| Mr B Sayidini (PetroSA Group) | 2 465         | –                                | 51                 | 93               | 2 609         |
| Mr M Seedat (iGas SOC Ltd)    | 2 078         | 1 013                            | 136                | 576              | 3 803         |
| Ms L Mekwe (PASA SOC Ltd)     | 1 842         | 358                              | 418                | 525              | 3 143         |
|                               | <b>16 805</b> | <b>5 636</b>                     | <b>1 218</b>       | <b>2 914</b>     | <b>26 573</b> |
| <b>2018</b>                   |               |                                  |                    |                  |               |
| Mr M Moagi (CEF Group)*       | 4 023         | 1 109                            | –                  | –                | 5 132         |
| Mr S Madondo (AEMFC SOC Ltd)  | 3 246         | 4 916                            | 447                | –                | 8 609         |
| Mr K Zono (PetroSA Group)     | 2 671         | –                                | 399                | 4 779            | 7 849         |
| Mr M Seedat (iGas SOC Ltd)*** | 2 295         | 714                              | –                  | 32               | 3 041         |
| Ms L Mekwe (PASA SOC Ltd)     | 1 734         | 334                              | 768                | –                | 2 836         |
|                               | <b>13 969</b> | <b>7 073</b>                     | <b>1 614</b>       | <b>4 811</b>     | <b>27 467</b> |

The CEOs/Equivalent of the holding company and operating subsidiaries are key management personnel for the Group.

#### 2019

\* Mr G Moagi contract term ended on 9 December 2018 as the CEF Group CEO.

\*\* Mr S Makhanya was appointed as the CEF Group Interim CEO on 9 December 2018.

\*\*\*\* Mr B Sayidini was appointed as the PetroSA Group Interim CEO during the year.

#### 2018

\* Mr G Moagi was the CEF SOC Ltd and SFF NPC interim CEO for the year.

\*\*\* Mr M Seedat was appointed Acting COO of iGas SOC Ltd on 1 April 2017.

\* Other benefits comprise travel allowance and medical benefits.



# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 42. Directors' emoluments (continued)

### Non-executive

2019

| Figures in Rand thousand                           | Directors' fees | Other expenses | Directors' fees for services as directors' of subsidiaries | Total        |
|----------------------------------------------------|-----------------|----------------|------------------------------------------------------------|--------------|
| Mr L Makasi (Former Chairperson) <sup>#</sup>      | 1 190           | 673            | –                                                          | 1 863        |
| Mr MJ Besnaar                                      | 604             | 129            | 285                                                        | 1 018        |
| Adv L. Mtunzi <sup>##</sup>                        | 493             | 204            | 77                                                         | 774          |
| Mr N. Mompoti (Interim Chairperson) <sup>***</sup> | 650             | 421            | 358                                                        | 1 429        |
| Mr T Maqubela                                      | –               | 45             | –                                                          | 45           |
| Ms M Molope <sup>***</sup>                         | 178             | 26             | –                                                          | 204          |
| Ms G Leketi <sup>**</sup>                          | –               | 57             | –                                                          | 57           |
|                                                    | <b>3 115</b>    | <b>1 555</b>   | <b>720</b>                                                 | <b>5 390</b> |

2018

| Figures in Rand thousand                | Directors' fees | Other expenses | Directors' fees for services as directors' of subsidiaries | Total        |
|-----------------------------------------|-----------------|----------------|------------------------------------------------------------|--------------|
| Mr L. Makasi (Chairperson)              | 1 569           | 1 991          | –                                                          | 3 560        |
| Mr M Besnaar                            | 663             | 202            | 49                                                         | 914          |
| Adv L Mtunzi                            | 766             | 138            | 222                                                        | 1 126        |
| Ms M Molope                             | 246             | 23             | –                                                          | 269          |
| Ms G Leketi                             | –               | –              | –                                                          | –            |
| Mr T Maqubela <sup>**#</sup>            | –               | –              | –                                                          | –            |
| Mr G Bezuidenhoudt <sup>**</sup>        | –               | –              | –                                                          | –            |
| Adv L Mtunzi                            | –               | –              | –                                                          | –            |
| Mr T Sethosa (Alternate) <sup>***</sup> | –               | –              | –                                                          | –            |
| Mr N Mompoti <sup>*</sup>               | 716             | 195            | 315                                                        | 1 226        |
|                                         | <b>3 960</b>    | <b>2 549</b>   | <b>586</b>                                                 | <b>7 095</b> |

2019

<sup>#</sup> Mr L Makasi services was terminated on 15 March 2019

<sup>\*\*\*</sup> Mr M Molope term ended on 9 December 2018

<sup>##</sup> Adv L Mtunzi term ended 9 December 2018

<sup>\*\*\*</sup> Mr N Mompoti is the Interim Group Chairperson from 15 March 2019.

2018

<sup>\*\*#</sup> Mr Maqubela was reappointed on 1 May 2017.

<sup>\*\*</sup> Mr Bezuidenhoudt was replaced by Mr Maqubela as the shareholder representative on May 2017.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 43. Financial instruments and risk management

### Categories of financial instruments

#### Categories of financial assets

2019

| Figures in Rand thousand    | Note(s) | Amortised cost    | Leases   | Total             |
|-----------------------------|---------|-------------------|----------|-------------------|
| Loans to group companies    | 8       | 51 626            | –        | 51 626            |
| Trade and other receivables | 14      | 2 955 241         | –        | 2 955 241         |
| Cash and cash equivalents   | 15      | 18 924 575        | –        | 18 924 575        |
|                             |         | <b>21 931 442</b> | <b>–</b> | <b>21 931 442</b> |

2018

| Figures in Rand thousand    | Note(s) | Amortised cost    | Leases    | Total             |
|-----------------------------|---------|-------------------|-----------|-------------------|
| Loans to group companies    | 8       | 46 575            | –         | 46 575            |
| Trade and other receivables | 14      | 2 019 342         | 49        | 2 019 391         |
| Cash and cash equivalents   | 15      | 17 186 008        | –         | 17 186 008        |
|                             |         | <b>19 251 925</b> | <b>49</b> | <b>19 251 974</b> |

#### Categories of financial liabilities

2019

| Figures in Rand thousand  | Note(s) | Amortised cost   | Leases           | Total             |
|---------------------------|---------|------------------|------------------|-------------------|
| Trade and other payables  | 25      | 8 482 606        | 971              | 8 483 577         |
| Borrowings                | 20      | 1 056 481        | –                | 1 056 481         |
| Finance lease obligations | 21      | –                | 1 089 388        | 1 089 388         |
|                           |         | <b>9 539 087</b> | <b>1 090 359</b> | <b>10 629 446</b> |

2018

|                           |    |                  |                |                  |
|---------------------------|----|------------------|----------------|------------------|
| Trade and other payables  | 25 | 6 040 345        | 175            | 6 040 520        |
| Borrowings                | 20 | 847 031          | –              | 847 031          |
| Finance lease obligations | 21 | –                | 812 583        | 812 583          |
| Dividend payable          | 27 | 229 460          | –              | 229 460          |
|                           |    | <b>7 116 836</b> | <b>812 758</b> | <b>7 929 594</b> |



# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 43. Financial instruments and risk management (continued)

### Pre tax gains and losses on financial instruments

#### Gains and losses on financial assets

2019

| Figures in Rand thousand             | Note(s) | Fair value through profit or loss – Mandatory | Amortised cost   | Total            |
|--------------------------------------|---------|-----------------------------------------------|------------------|------------------|
| <b>Recognised in profit or loss:</b> |         |                                               |                  |                  |
| Interest income                      | 31      | –                                             | 1 156 638        | 1 156 638        |
| Dividend income                      | 31      | 5                                             | –                | 5                |
| Gains/(losses) on foreign exchange   |         | –                                             | 667 876          | 667 876          |
| Movement in credit loss allowances   | 30      | –                                             | (151 114)        | (151 114)        |
| <b>Net gains (losses)</b>            |         | <b>5</b>                                      | <b>1 673 400</b> | <b>1 673 405</b> |

2018

#### Recognised in profit or loss:

|                                    |    |              |                |                |
|------------------------------------|----|--------------|----------------|----------------|
| Interest income                    | 31 | –            | 1 055 700      | 1 055 700      |
| Dividend income                    | 31 | 1 908        | –              | 1 908          |
| Gains (losses) on foreign exchange |    | –            | (429 886)      | (429 886)      |
| Movement in credit loss allowances | 30 | –            | (90 013)       | (90 013)       |
| <b>Net gains (losses)</b>          |    | <b>1 908</b> | <b>535 801</b> | <b>537 709</b> |

#### Gains and losses on financial liabilities

2019

| Figures in Rand thousand             | Note(s) | Amortised cost  | Leases          | Total            |
|--------------------------------------|---------|-----------------|-----------------|------------------|
| <b>Recognised in profit or loss:</b> |         |                 |                 |                  |
| Finance costs                        | 32      | (77 092)        | (79 449)        | (156 541)        |
| Gains (losses) on foreign exchange   |         | –               | –               | –                |
| <b>Net gains (losses)</b>            |         | <b>(77 092)</b> | <b>(79 449)</b> | <b>(156 541)</b> |

2018

#### Recognised in profit or loss:

|               |    |          |          |           |
|---------------|----|----------|----------|-----------|
| Finance costs | 32 | (53 947) | (79 248) | (133 195) |
|---------------|----|----------|----------|-----------|

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2019 (continued)

### 43. Financial instruments and risk management (continued)

#### Capital risk management

The Group's objective when managing capital are to safeguard the Group's ability to continue as a going concern to provide returns for its shareholder and benefits for other stakeholder and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes 8, 20 and 21 cash and cash equivalents disclosed in note 15, and equity as disclosed in the statement of financial position.

To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to its shareholder, return capital to its shareholder or sell assets to reduce debt.

Consistent with others in the State-Owned Companies, the Group monitors capital on the basis of the gearing ratio as per the National Treasury guidance. The ratio is calculated as total interest bearing debt divided by total capital. Total capital is calculated as equity as shown in the statement of financial position.

There have been no changes to what the Group manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

| Figures in Rand thousand | Notes | 2019              | 2018              |
|--------------------------|-------|-------------------|-------------------|
| Interest-bearing debt    | 20    | 986 271           | 769 256           |
| <b>Total borrowings</b>  |       | <b>986 271</b>    | <b>769 256</b>    |
| <b>Total Equity</b>      |       | <b>13 117 576</b> | <b>13 589 453</b> |
| Gearing ratio            |       | 7%                | 6%                |

#### Financial risk management

##### Overview

The Group is exposed to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk (currency risk, interest rate risk and price risk).

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of directors. The Group treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board of directors provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

The group's risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the group's activities.

The group audit committee oversees how management monitors compliance with the risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the group. The audit committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee and the risk committee.





# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 43. Financial instruments and risk management (continued)

### Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The Group deposits cash only with major banks with high-quality credit standing and limits exposure to any one counterparty.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash. Credit guarantee insurance is purchased when deemed appropriate.

The group is exposed to credit risk on loans receivable, trade and other receivables, cash and cash equivalents, loan commitments and financial guarantees.

Credit loss allowances for expected credit losses are recognised for all debt instruments, but excluding those measured at fair value through profit or loss. Credit loss allowances are also recognised for loan commitments and financial guarantee contracts.

In order to calculate credit loss allowances, management determine whether the loss allowances should be calculated on a 12 month or on a lifetime expected credit loss basis. This determination depends on whether there has been a significant increase in the credit risk since initial recognition. If there has been a significant increase in credit risk, then the loss allowance is calculated based on lifetime expected credit losses. If not, then the loss allowance is based on 12 month expected credit losses. This determination is made at the end of each financial period. Thus the basis of the loss allowance for a specific financial asset could change year on year.

The maximum exposure to credit risk is presented in the table below:

|                             |    | 2019                  |                       |                           | 2018                  |                       |                           |
|-----------------------------|----|-----------------------|-----------------------|---------------------------|-----------------------|-----------------------|---------------------------|
|                             |    | Gross carrying amount | Credit loss allowance | Amortised cost fair value | Gross carrying amount | Credit loss allowance | Amortised cost/fair value |
| Loans to group companies    | 8  | 278 050               | (226 424)             | 51 626                    | 265 050               | (218 475)             | 46 575                    |
| Trade and other receivables | 14 | 3 397 219             | (441 978)             | 2 955 241                 | 2 501 077             | (481 735)             | 2 019 342                 |
| Cash and cash equivalents   | 15 | 18 924 575            | -                     | 18 924 575                | 17 186 008            | -                     | 17 186 008                |
|                             |    | <b>22 599 844</b>     | <b>(668 402)</b>      | <b>21 931 442</b>         | <b>19 952 135</b>     | <b>(700 210)</b>      | <b>19 251 925</b>         |

### Liquidity risk

The Group is exposed to liquidity risk, which is the risk that the Group will encounter difficulties in meeting its obligations as they become due. The Group manages liquidity risk through an ongoing review of future commitments and credit facilities.

The Group manages its liquidity risk by effectively managing its working capital, capital expenditure and cash flows. The financing requirements are met through a mixture of cash generated from operations and long and short term borrowings. Committed borrowing facilities are available for meeting liquidity requirements and deposits are held at central banking institutions.

The Group has provided guarantees on behalf of its subsidiaries. Refer to the Contingencies note 38.

The maturity profile of contractual cash flows of non-derivative financial liabilities, and financial assets held to mitigate the risk, are presented in the following table. The cash flows are undiscounted contractual amounts.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 43. Financial instruments and risk management (continued)

2019

|                                |    | Less<br>than<br>1 year | 2 to 5<br>years  | Over 5<br>years | Total             |
|--------------------------------|----|------------------------|------------------|-----------------|-------------------|
| <b>Non-current liabilities</b> |    |                        |                  |                 |                   |
| Other financial liabilities    | 20 | -                      | 968 271          | -               | 968 271           |
| Finance lease liabilities      | 21 | -                      | 367 127          | 632 644         | 999 771           |
| <b>Current liabilities</b>     |    |                        |                  |                 |                   |
| Trade and other payables       | 21 | 8 482 606              |                  |                 | 8 482 606         |
| Other financial liabilities    | 20 | 88 210                 |                  |                 | 88 210            |
| Finance lease liabilities      | 21 | 89 617                 |                  |                 | 89 617            |
|                                |    | <b>8 660 443</b>       | <b>1 335 398</b> | <b>632 644</b>  | <b>10 574 503</b> |

2018

|                                |    |                  |                |                |                  |
|--------------------------------|----|------------------|----------------|----------------|------------------|
| <b>Non-current liabilities</b> |    |                  |                |                |                  |
| Borrowings                     | 20 | -                | 770 171        | -              | 770 171          |
| Finance lease liabilities      | 21 | -                | 197 226        | 575 673        | 772 899          |
| <b>Current liabilities</b>     |    |                  |                |                |                  |
| Trade and other payables       | 25 | 6 040 345        | -              | -              | 6 040 345        |
| Borrowings                     | 20 | 76 860           | -              | -              | 76 860           |
| Finance lease liabilities      | 21 | 39 864           | -              | -              | 39 864           |
| Dividend payable               | 26 | 229 460          | -              | -              | 229 460          |
|                                |    | <b>6 386 529</b> | <b>967 397</b> | <b>575 673</b> | <b>7 852 739</b> |

### Foreign currency risk

The Group is exposed to foreign currency fluctuations as it raises funding on the offshore financial markets, imports raw material and spares and furthermore exports finished products and crude oil. The Group takes cover on foreign exchange transactions where there is future currency exposure. The Group also make use of a natural hedge situation to manage foreign currency exposure. The foreign currencies in which the Group deals primarily are US Dollars and Euros.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

There have been no significant changes in the foreign currency risk management policies and processes since the prior reporting period.



# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 43. Financial instruments and risk management (continued)

### Exposure in Rand

The net carrying amounts, in Rand, of the various exposures, are denominated in the following currencies. The amounts have been presented in Rand by converting the foreign currency amounts at the closing rate at the reporting date:

| Figures in Rand thousand                 | Notes | 2019               | 2018               |
|------------------------------------------|-------|--------------------|--------------------|
| <b>US Dollar exposure:</b>               |       |                    |                    |
| <b>Non-current assets:</b>               |       |                    |                    |
| Financial assets                         |       | 114 454            | 115 740            |
| <b>Current assets:</b>                   |       |                    |                    |
| Trade and other receivables              | 14    | 354 639            | 51 978             |
| Cash and cash equivalents                | 15    | 4 996 589          | 3 895 172          |
| <b>Non-current liabilities:</b>          |       |                    |                    |
| Financial liability                      |       | (968 271)          | (769 256)          |
| <b>Current liabilities:</b>              |       |                    |                    |
| Trade and other payables                 | 25    | (5 983 813)        | (4 718 895)        |
| Net US Dollar exposure                   |       | <b>(1 486 402)</b> | <b>(1 425 261)</b> |
| <b>Euro exposure:</b>                    |       |                    |                    |
| <b>Current assets:</b>                   |       |                    |                    |
| Trade and other receivables              | 14    | 1 030              | 14 878             |
| Cash and cash equivalents                | 15    | 96 633             | 85 023             |
| <b>Non-current liabilities:</b>          |       |                    |                    |
| Trade and other payables                 | 25    | (43 961)           | (7 774)            |
| Net Euro exposure                        |       | <b>53 702</b>      | <b>92 127</b>      |
| Net exposure to foreign currency in Rand |       | <b>(1 432 700)</b> | <b>(1 333 134)</b> |

\*The RBL is a dollar denominated loan with an interest rate based on the Libor + a premium.

The Group is therefore not exposed to the currency risk arising from this loan as the loan and the revenue generated by PetroSA Ghana Limited are based on the same currency

### Exchange rates

The following closing rates were applied at the reporting date

|                                    |       |       |
|------------------------------------|-------|-------|
| Rand per unit of foreign currency: |       |       |
| US Dollar                          | 14.57 | 11.83 |
| Euro                               | 16.36 | 14.58 |

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2019 (continued)

### 43. Financial instruments and risk management (continued)

#### Forward exchange contracts

Certain forward exchange contracts have been entered into for the purposes of managing foreign currency risk. The net market value of all forward exchange contracts at reporting date is calculated by comparing the forward exchange contracted rates to the equivalent market foreign exchange rates at reporting date. The present value of these net market values are then calculated using the appropriate currency specific discount curve.

2019

|                                     | Contract rate | Market rate | Contract foreign currency amount | Contract Rand amount | Fair value of contract |
|-------------------------------------|---------------|-------------|----------------------------------|----------------------|------------------------|
| <b>Imports – goods</b>              |               |             |                                  |                      |                        |
| Forward exchange contracts          | 14.438        | 14.587      | 68 670                           | 991 457              | 1 001 689              |
| <b>Other liabilities</b>            |               |             |                                  |                      |                        |
| Buy Euro – expiry 12 April 2019     | 16.414        | 16.298      | 144 906                          | 2 378 487            | 2 361 632              |
| Buy Euro – expiry 26 September 2019 | 18.226        | 16.861      | 36 226                           | 660 255              | 610 807                |
| Buy Euro – 16 April 2019            | 17.844        | 16.311      | 108 679                          | 1 939 268            | 1 772 663              |
|                                     |               |             |                                  | <b>5 969 467</b>     | <b>5 746 837</b>       |

The group measures its market risk exposure by running various sensitivity analyses including 10% favourable and adverse changes in the key variables. The sensitivity analyses include only outstanding foreign currency denominated monetary items and adjust their translation at the period end for a 10% change in foreign currency rates.

The following information presents the sensitivity of the group to an increase or decrease in the respective currencies it is exposed to. The sensitivity rate is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. No changes were made to the methods and assumptions used in the preparation of the sensitivity analysis compared to the previous reporting period.

#### Commodity price risk

Commodity price risk is the risk of fluctuations in our earnings as a result of fluctuation in the price of commodities.

#### Crude oil and coal price

The crude oil price volatility has a significant impact in the following businesses:

- Petroleum products business- the oil price forms part of the key variables that influence the selling price of the product and cost price for sourcing feedstock and finished products.
- Crude oil storage business- the oil price forms part of the key factors that affect the demand for crude oil storage space. The lower price of crude oil encourages drivers to store products at the storage facility with the intention to sell the products when prices increase.

The average crude oil price per barrel was US \$70.8 in the current year and US \$57.5 in the prior year.



# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 43. Financial instruments and risk management (continued)

### Interest rate risk

Fluctuations in interest rates impact on the value of investments and financing activities, giving rise to interest rate risk.

The Group policy with regards to financial assets, is to invest cash at floating rates of interest and to maintain cash reserves in short-term investments in order to maintain liquidity, while also achieving a satisfactory return for shareholders.

There have been no significant changes in the interest rate risk management policies and processes since the prior reporting period.

### Interest rate profile

The interest rate profile of interest bearing financial instruments at the end of the reporting period was as follows:

|                                                                                                     | Note | Average effective interest rate |        | Carrying amount |            |
|-----------------------------------------------------------------------------------------------------|------|---------------------------------|--------|-----------------|------------|
|                                                                                                     |      | 2019                            | 2018   | 2019            | 2018       |
| Variable rate instruments:                                                                          |      |                                 |        |                 |            |
| Assets                                                                                              |      |                                 |        |                 |            |
| Financial assets                                                                                    | 14   | 7.85 %                          | 7.28 % | 167 362         | 153 983    |
| Cash and cash equivalents                                                                           | 15   | 7.42 %                          | 7.62 % | 18 924 575      | 17 186 008 |
|                                                                                                     |      |                                 |        | 19 091 937      | 17 339 991 |
| Liabilities                                                                                         |      |                                 |        |                 |            |
| Other financial liabilities                                                                         |      | 6.05 %                          | 6.35 % | 1 027 036       | 818 673    |
| Net variable rate financial instruments                                                             |      |                                 |        | 20 118 973      | 18 158 664 |
| Fixed rate instruments:                                                                             |      |                                 |        |                 |            |
| Liabilities                                                                                         |      |                                 |        |                 |            |
| Finance lease liabilities                                                                           | 21   | 8.95 %                          | 8.40%  | 1 089 388       | 812 583    |
| Variable rate financial assets as a percentage of total interest bearing financial assets           |      |                                 |        | 100.00%         | 100.00%    |
| Variable rate financial liabilities as a percentage of total interest bearing financial liabilities |      |                                 |        | 48.53%          | 50.19%     |
| Fixed rate financial liabilities as a percentage of total interest bearing financial liabilities    |      |                                 |        | 51.47%          | 49.81%     |



# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2019 (continued)

### 44. Fair value information (continued)

#### Fair value hierarchy

The table below analyses assets and liabilities carried at fair value. The different levels are defined as follows:

Level 1: Quoted unadjusted prices in active markets for identical assets or liabilities that the group can access at measurement date.

Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability. The fair value of these instruments approximates their carrying value, due to their short-term nature

#### Levels of fair value measurements

##### Level 1

##### Recurring fair value measurements

| Figures in Rand thousand                                                 | Note(s) | 2019       | 2018       |
|--------------------------------------------------------------------------|---------|------------|------------|
| <b>Assets</b>                                                            |         |            |            |
| <b>Financial assets mandatorily at fair value through profit or loss</b> |         |            |            |
| Listed shares                                                            | 9       | 160        | 185        |
|                                                                          |         | <b>160</b> | <b>185</b> |

##### Level 2

##### Recurring fair value measurements

| Figures in Rand thousand                                         | Note(s) | 2019          | 2018         |
|------------------------------------------------------------------|---------|---------------|--------------|
| <b>Assets</b>                                                    |         |               |              |
| <b>Financial assets at fair value through profit (loss)</b>      |         |               |              |
| Foreign exchange contracts                                       | 14      | 10 579        | –            |
| Unlisted shares                                                  | 9       | 1 475         | 1 475        |
| <b>Total</b>                                                     |         | <b>12 054</b> | <b>1 475</b> |
| <b>Liabilities</b>                                               |         |               |              |
| <b>Financial liabilities at fair value through profit (loss)</b> |         |               |              |
| Foreign exchange contracts                                       | 16      | (138)         | –            |
| <b>Total</b>                                                     |         | <b>(138)</b>  | <b>–</b>     |

##### Non recurring fair value measurements

| Figures in Rand thousand                                                  | Note(s) | 2019     | 2018           |
|---------------------------------------------------------------------------|---------|----------|----------------|
| <b>Assets held for sale and disposal groups in accordance with IFRS 5</b> |         |          |                |
| PASA assets and liabilities                                               | 16      | –        | 229 460        |
| <b>Total</b>                                                              |         | <b>–</b> | <b>229 460</b> |



# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## 44. Fair value information (continued)

### Highest and best use

A fair-value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The Group has assets and liabilities that are categorised as below.

### Discontinued operations

The Group assets and liabilities under this category are the TSFT assets and liabilities.

## 45. Going concern

The Board is confident that the going concern assumption is appropriate in the preparation of the Group Consolidated Annual Financial Statements for the year ended 31 March 2019. While difficult economic conditions persist, the Board and management continuously review the operational and financial risks of the Group and ensure that appropriate initiatives, strategies and controls are in place to mitigate the risks and their impact on business.

Group profitability is severely challenged due to the declining gas reserves at PetroSA. However, the Group has developed a strategy focused on changing its trajectory. The key issue in the strategy is sustainability of PetroSA, which is focused on converting the refinery feedstock from gas to condensate. Processing condensate will prolong the life of the refinery, but the margins are thin. Therefore, the Group needs to reduce its operational costs to be profitable. As part of the turnaround plan, the Group will also reduce its operational costs by leveraging assets within the Group.

## 46. Events after the reporting period

### Investment in PASA

Subsequent to year end, a new cabinet was announced where the Department of Energy and the Department of Mineral Resources have been combined. This therefore confirms that the transfer of PASA will not take place.

### South Sudan MoU

A Memorandum of Understanding (MoU) has been concluded between the governments of South Africa and South Sudan to jointly participate in South Sudan's oil and gas sector resulting in SFF concluding an exploration and production sharing agreement with the Republic of South Sudan based on a Section 54 Approval by the Department of Mineral Resources and Energy and the National Treasury was duly notified in compliance with this Section of the Public Finance Management Act. The exploration and production sharing agreement has been approved for costs totalling \$48 million (translated to R695 million as at year end) over a 6 year period. This is a non-adjusting post-balance sheet event.

### Cargo dues arbitration

A Cargo dues arbitration award in favour of the counterparty that was appealed by SFF has been resolved. The High Court has decided against SFF and the company resolved to settle the matter with no further appeal. The Judgement was delivered in July 2019 and thus resulted in an adjusting post balance sheet event. The total amount payable by 31 July 2019 is R56.8 million, however only R55.1 million is relevant as at year end. The expenditure (consulting, legal and professional services) has therefore been adjusted by R55.1 million.

### Investment in TSFT

During May 2019 the sale of the equity interest in TSFT was finalised. This is a non-adjusting post-balance sheet event.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2019 (continued)

### 47. Fruitless and Wasteful expenditure

| Figures in Rand thousand                                                          | 2019          | 2018          |
|-----------------------------------------------------------------------------------|---------------|---------------|
| <b>Fruitless and wasteful expenditure</b>                                         |               |               |
| Opening balance                                                                   | 15 884        | 14 340        |
| Expenditure relating to the current year                                          | 4 149         | 14 619        |
| Discovered during the current year but relating to the prior year                 | 26            | 997           |
| Less: Amounts recovered                                                           | (365)         | (24)          |
| Less: Amounts condoned                                                            | (642)         | (14 015)      |
| Less: Investigation concluded that expenditure is not fruitless expenditure       | (6)           | (33)          |
|                                                                                   | <b>19 046</b> | <b>15 884</b> |
| <b>Details of fruitless and wasteful expenditure relating to the current year</b> |               |               |
| Penalties and late cancellation fees for travel and accommodation                 | 81            | 102           |
| Consulting fees incurred in vain                                                  | 2 518         | –             |
| Insourcing of coal                                                                | –             | 4 806         |
| Interest on late payment of suppliers                                             | 1             | 360           |
| Items individually < R50 000                                                      | 48            | 60            |
| Payment to provider for not meeting target and work not yet completed             | 386           | 1 018         |
| Penalties and interest to SARS                                                    | 1 141         | 526           |
| Prescription of duty at source claims                                             | –             | 8 744         |
|                                                                                   | <b>4 175</b>  | <b>15 616</b> |

#### 2019

##### Consulting fees incurred in vain

Transaction costs incurred for the revolving credit facility which was never consummated (AEMFC).

##### Penalties and interest to SARS

Interest and penalties on late payment of payroll related taxes (PetroSA, SFF, CEF and iGas).

##### Interest on late payment to suppliers

Interest paid on late payment of accounts (CCE).

##### Penalties and late fees for travel and accommodation (CEF and SFF)

Penalties related to travel and accommodation

#### 2018:

##### Insourcing of coal

There was a shortfall in supplying Eskom and we had to source coal elsewhere to avoid penalties (AEMFC).

##### Contract cancellation fee

Flight, car rental and accommodation booked for late cancellation of trips by employees and directors (AEMFC, SFF and the CEF). Appropriate action will be taken to recover any losses and address areas where weaknesses in our systems have been identified.

##### Penalty and interest to SARS

Interest and penalties on late payment of pay as you earn – PAYE (the CEF, iGas and SFF).

##### Interest on late payment to suppliers

Interest paid on late payment of accounts (the CEF, SFF and OPCS).



# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

## Payment to provider for not meeting target and work not yet completed

Payment made to service provider for shortfall of employees not attending wellness day function and payments made to supplier for work that was not yet done (prior year recognised in current year) (SFF).

## Prescription of duty at source claims

Duty at source claims due to PetroSA as a result of overland sales could not be recovered due to prescription that amounted to R8.8 million.

## 48. Irregular expenditure

| Figures in Rand thousand                                              | 2019           | 2018<br>Restated* |
|-----------------------------------------------------------------------|----------------|-------------------|
| <b>Irregular Expenditure</b>                                          |                |                   |
| Opening balance                                                       | 2 626 424      | 2 622 524         |
| Expenditure relating to current year                                  | 20 325         | 16 795            |
| Discovered during the current year but relating to the prior year     | –              | 317               |
| Less: Amounts condoned                                                | (2 190 261)    | (4 820)           |
| Prior-year correction of overstatement of irregular expenditure       | –              | (1 847)           |
| Recovered                                                             | –              | (6 084)           |
| Investigation concluded that expenditure is not irregular expenditure | –              | (461)             |
| Removal (s62 of Treasury Instruction 1 of 2018/2019)                  | (2 190 261)    | –                 |
|                                                                       | <b>456 488</b> | <b>2 626 424</b>  |
| <b>Details of irregular expenditure relating to the current</b>       |                |                   |
| Contravention of company policy                                       | 2              | 7 299             |
| Contravention of procurement regulations                              | 20 323         | 2 513             |
| Salary and rental costs without an agreement                          | –              | 7 300             |
|                                                                       | <b>20 325</b>  | <b>17 112</b>     |

## Contravention of company policy and Contravention of procurement regulations

### 2019

#### AEMFC:

Contravention is as a result of non-compliance with applicable laws and regulations in the appointment of suppliers, an amount of R11.8 million was incurred.

#### CEF:

The following expenditure was incurred in contravention of company policy and procurement regulations:

- R8.4 million for the appointment of various law firms relating to the contract review, employee related disputes and other operation related legal opinions.

#### iGas

The supplier charged the entity R 2 000 more than the quotation amount due to double charging VAT. Subsequent to year end the funds have been recovered from the supplier.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2019 (continued)

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### 48. Irregular expenditure (continued)

**SFF:**

A vendor used a different company to quote, but submitted a similar company name for payment for an amount of R20 000.

**2018**

**AEMFC:**

Non-compliance with applicable laws and regulations in the procurement process. This amounted to R0.96 million. Training will be provided to employees.

**CCE:**

Certain components of the plant are still located in Johannesburg, but storage costs were previously not charged by the company that kept them. On 1 March 2017, the company was liquidated and the components were moved to another site and rent became payable. However, there was no rental contract in place between CCE and MBHE African Power (Pty) Ltd. This costs continued in the current financial year until the plant components were moved to George Town.

**CEF:**

The following expenditure was incurred in contravention of company policy and procurement regulations:

- R2.9 million for the appointment of various law firms relating to the contract review.
- R0.011 million relating to an appointment of a catering services company,
- R1.923 million for conferences and seminars, controls are in place to ensure the non-compliance is avoided in future.
- R1.486 was incurred for security related costs
- An amount of R0.800 million for travel related cost such as flights, subsistence and travel allowance payable to employees.

Controls are in place to ensure that we comply with procurement processes at all times.

**PetroSA:**

PetroSA has been carrying salary and rental costs amounting to R7.3 million since July 2012 for an employee placed on secondment, as no secondment contract was concluded with the third party. A secondment contract has been drafted and submitted for signature.

**SFF:**

Procurement process was not followed for licence fees. Corrective action pending.





## Fields in production and under development

|  | Crude<br>oil/condensate<br>MMbbl<br>2019 | Gas Bscf<br>2019 | Crude oil/<br>condensate<br>MMbbl<br>2018 | Gas Bscf<br>2018 |
|--|------------------------------------------|------------------|-------------------------------------------|------------------|
|--|------------------------------------------|------------------|-------------------------------------------|------------------|

### 1. Movement in net remaining proved and probable reserves

|                                 |           |           |           |           |
|---------------------------------|-----------|-----------|-----------|-----------|
| At the beginning of year        | 19        | 77        | 17        | 97        |
| Revisions of previous estimates | –         | 9         | 4         | –         |
| Production                      | (2)       | (22)      | (2)       | (26)      |
| Additions                       | –         | 1         | –         | 6         |
|                                 | <b>17</b> | <b>65</b> | <b>19</b> | <b>77</b> |

### 2. Proved and probable by type of field

|                      |    |    |    |    |
|----------------------|----|----|----|----|
| Fields in production | 17 | 65 | 19 | 77 |
|----------------------|----|----|----|----|

### 3. Reserves by category

|                                                              |           |           |           |           |
|--------------------------------------------------------------|-----------|-----------|-----------|-----------|
| Proved                                                       | 10        | 40        | 11        | 38        |
| Proved and probable                                          | 17        | 64        | 19        | 77        |
| <b>Total proved and probable reserves<br/>at end of year</b> | <b>19</b> | <b>77</b> | <b>17</b> | <b>98</b> |

*The supplementary information presented does not form part of the consolidated annual financial statements and is unaudited.*

# CEF GROUP CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2019

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### Definition of financial terms

Below is a list of definitions of financial terms used in the annual report of CEF Group:

**Accounting policies**

The specific principles, bases, conventions, rules and practices applied in preparing and presenting annual financial statements.

**Accrual accounting**

The effects of transactions and other events are recognised when they occur rather than when the cash is received.

**Acquiree**

The business or businesses that the acquirer obtains control of in a business combination.

**Acquirer**

The entity that obtains control of the acquiree.

**Acquisition date**

This is the date on which the acquirer obtains control of the acquiree. Active market

A market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

**Actuarial gains and losses**

The changes in the present value of the defined benefit obligation resulting from experience adjustments (The effects of differences between the previous actuarial assumptions and what have actually occurred) as well as the effects of changes in actuarial assumptions.

**Amortisation (depreciation)**

The systematic allocation of the depreciable amount of an asset over its useful life.

**Amortised cost**

The amount at which a financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

**Asset**

A resource controlled by the entity as a result of a past event from which future economic benefits are expected to flow.

**Assets under construction**

A non-current asset which includes expenditure capitalised for work in progress in respect of activities to develop, expand or enhance items of property, plant and equipment, intangible assets and exploration assets.

**Borrowing costs**

Interest and other costs incurred in connection with the borrowing of funds.

**Business**

An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.

**Business combination**

A transaction or other event in which an acquirer obtains control of one or more businesses. Transactions sometimes referred to as 'true mergers' or 'mergers of equals' are also business combinations as that term is used in this IFRS.

*The supplementary information presented does not form part of the consolidated annual financial statements and is unaudited.*



## Definition of financial terms (continued)

### **Carrying amount**

The amount at which an asset is recognised after deducting any accumulated depreciation or amortisation and accumulated impairment losses.

### **Cash and cash equivalents**

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

### **Cash flows**

Inflows and outflows of cash and cash equivalents.

### **Cash-generating unit**

The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

### **Change in accounting estimate**

An adjustment to the carrying amount of an asset, liability or the amount of the periodic consumption of an asset that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

### **Consolidated annual financial statements**

The annual financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries presented as those of a single economic entity.

### **Constructive obligation**

An obligation that derives from an entity's actions where:

- (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
- (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

### **Contingent asset**

A possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

### **Contingent liability**

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

### **Control**

An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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# CEF GROUP CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2019

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### Definition of financial terms (continued)

**Corporate assets**

Assets other than goodwill that contribute to the future cash flows of both the cash generating unit under review and other cash generating units.

**Cost**

The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction, or, when applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other IFRSs.

**Costs to sell**

The incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expense.

**Credit risk**

The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

**Currency risk**

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

**Date of transaction**

The date on which the transaction first qualifies for recognition in accordance with International Financial Reporting Standards.

**Deferred tax assets**

The amounts of income taxes recoverable in future periods in respect of deductible temporary differences, the carry forward of unused tax losses and the carry forward of unused tax credits.

**Deferred tax liabilities**

The amounts of income taxes payable in future periods in respect of taxable temporary differences.

**Defined benefit plan**

Retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' earnings and/or years of service.

**Defined contribution plan**

Post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

**Depreciation (or amortisation)**

The systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount of an asset is the cost of an asset, or other amount substituted for cost, less its residual value.

**Derecognition**

The removal of a previously recognised asset or liability from the statement of financial position.

**Derivative**

A financial instrument whose value changes in response to an underlying item, requires no initial or little net investment in relation to other types of contracts that would be expected to have a similar response to changes in market factors and is settled at a future date.

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## Definition of financial terms (continued)

### Development

The application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before starting commercial production or use.

### EBITDA

Profit/(Loss) from operations before depreciation, amortisation, impairment of assets, investment revenue, fair value adjustments, non-operational foreign gains/losses, income /(loss) from associates, net finance costs and taxation.

### Effective interest method

A method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

### Effective interest rate

The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

### Employee benefits

All forms of consideration (excluding share options granted to employees) given in exchange for services rendered by employees or for the termination of employment.

### Equity instrument

A contract or certificate that evidences a residual interest in the total assets after deducting the total liabilities.

### Equity method

A method in which the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the share of net assets of the investee. Profit or loss includes the investor's share of the profit or loss and other comprehensive income of the investee.

### Events after the reporting period (Subsequent events)

Those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

- (a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and
- (b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

### Exchange difference

The difference resulting from translating a given number of units of one currency into another currency at different exchange rates

### Expenses

The decreases in economic benefits in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

### Fair value

The amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction.

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# CEF GROUP CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2019

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### Definition of financial terms (continued)

#### **Fair value less costs to sell**

The amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

#### **Financial asset**

Any asset that is:

- (a) cash;
- (b) an equity instrument of another entity;
- (c) a contractual right (i) to receive cash or another financial asset from another entity; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- (d) a contract that will or may be settled in the entity's own equity instruments and is (i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include puttable financial instruments classified as equity instruments in accordance with paragraphs 16A and 16B of IAS 32, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 16C and 16D of IAS 32, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.

#### **Financial asset or liability at fair value through profit or loss**

A financial asset or financial liability that is classified as held for trading or is designated as such on initial recognition other than investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

#### **Financial instrument**

A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### **Financial liability**

Any liability that is:

- a) a contractual obligation (i) to deliver cash or another financial asset to another entity or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
- (b) a contract that will or may be settled in the entity's own equity instruments and is (i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Also, for these purposes the entity's own equity instruments do not include puttable financial instruments that are classified as equity instruments in accordance with paragraphs 16A and 16B of IAS 32, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 16C and 16D of IAS 32, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.

As an exception, an instrument that meets the definition of a financial liability is classified as an equity instrument if it has all the features and meets the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D of IAS 32.

#### **Financial risk**

The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

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## Definition of financial terms (continued)

### **Floating production storage and offloading unit**

A floating vessel used by the offshore oil and gas industry for the production and processing of hydrocarbons, and for the storage of oil.

### **Foreign operation**

An entity that is a subsidiary, joint arrangement or branch of the reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

### **Functional currency**

The currency of the primary economic environment in which the group operates.

### **Going concern basis**

The assumption that the entity will continue in operation for the foreseeable future. The financial statements are prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

### **Government grants**

Assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.

### **Highest and best use**

The use of a non-financial asset by market participants that would maximise the value of the asset or the group of assets and liabilities (eg a business) within which the asset would be used.

### **Held-to-maturity investment**

A non-derivative financial asset with fixed or determinable payments and fixed maturity where there is a positive intention and ability to hold it to maturity other than:

- (a) those that the entity upon initial recognition designates as at fair value through profit or loss;
- (b) those that the entity designates as available for sale; and
- (c) those that meet the definition of loans and receivables.

### **Immaterial**

If individually or collectively it would not influence the economic decisions of the primary users of the annual financial statements.

### **Impairment loss**

The amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.

### **Impracticable**

Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

### **Income**

Increase in economic benefits in the form of inflows or enhancements of assets or decreases in liabilities that result in increases in equity, other than those relating to contributions from equity participants.

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# CEF GROUP CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2019

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### Definition of financial terms (continued)

#### **Interest in other entity**

For the purpose of IFRS 12, an interest in another entity refers to contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees. It includes the means by which an entity has control or joint control of, or significant influence over, another entity. An entity does not necessarily have an interest in another entity solely because of a typical customer supplier relationship.

#### **Interest rate risk**

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

#### **Joint arrangement**

An arrangement of which two or more parties have joint control, which is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

#### **Joint operation**

A joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

#### **Joint venture**

A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

#### **Key management personnel**

Those persons having authority and responsibility for planning, directing and controlling the activities of the Group ie. the members of the Board of Directors of CEF SOC Ltd and the CEOs /equivalent of the operating subsidiaries and the holding company.

#### **Lease**

An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

#### **Legal obligation**

An obligation that derives from a contract, legislation or other operation of law.

#### **Liability**

A present obligation of the entity arising from a past event, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

#### **Liquidity risk**

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

#### **Loans and receivables**

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- (a) those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- (b) those that the entity upon initial recognition designates as available for sale; or
- (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

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## Definition of financial terms (continued)

### Market risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

### Material

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

### Minimum lease payments

Payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor including in the case of a lessee, any amounts guaranteed by the lessee or by a party related to the lessee or in the case of a lessor, any residual value guaranteed to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

### Net assets

Net operating assets plus cash and cash equivalents.

### Net realisable value

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. Net realisable value refers to the net amount that an entity expects to realise from the sale of inventory in the ordinary course of business. Fair value reflects the amount for which the same

inventory could be exchanged between knowledgeable and willing buyers and sellers in the marketplace. The former is an entity specific value; the latter is not. Net realisable value for inventories may not equal fair value less costs to

### Operating lease

A lease where the lessor retains substantially all the risks and rewards incidental to ownership of an asset.

### Other comprehensive income

Comprises items of income and expense (including reclassification adjustments) that are not recognized in profit or loss and includes the effect of translation of foreign operations, cash flow hedges, available-for-sale financial assets and changes in revaluation reserves.

### Owner-occupied property

Property held by the owner or by the lessee under a finance lease for use in the production or supply of goods or services or for administrative purposes.

### Parent

An entity that controls one or more entities.

### Past service cost

The change in the present value of the defined benefit obligation for employee service in prior periods resulting from a plan amendment (introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by the plan).

### Post-employment benefits

Employee benefits (other than termination benefits) that are payable after the completion of employment.

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# CEF GROUP CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2019

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### Definition of financial terms (continued)

#### Presentation currency

The currency in which the annual financial statements are presented.

#### Prior period error

An omission from or misstatement in the annual financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that was available when annual financial statements for those periods were authorised for issue and could reasonably be expected to have been obtained and taken into account in the preparation of those annual financial statements.

#### Prospective application

Applying a new accounting policy to transactions, other events and conditions occurring after the date the policy changed or recognising the effect of the change in an accounting estimate in the current and future periods.

#### Proved reserves

- quantities of petroleum anticipated to be commercially recoverable from known accumulations from a given date forward under the following conditions: Discovered, recoverable, commercial and remaining.
- Means the amount of petroleum which geophysical, geological and engineering data indicate to be commercially recoverable to a high degree of certainty. For the purposes of this definition, there is a 90% chance that the actual quantity will be more than the amount estimated as proved and a 10% chance that it will be less.

#### Proved and probable reserves

- Proved and probable reserves are quantities of petroleum anticipated to be commercially recoverable from known accumulations from a given date forward under the following conditions: Discovered, recoverable, commercial and remaining.
- Means proved reserves plus the amount of petroleum which geophysical, geological and engineering data indicate to be commercially recoverable but with a greater element of risk than in the case of proved. For the purposes of this definition, there is a 50% chance that the actual quantity will be more than the amount estimated as proved and probable and a 50% chance that it will be less.

#### Recoverable amount

The amount that reflects the greater of the fair value less costs to sell and the value in use that can be attributed to an asset or cash generating unit as a result of its ongoing use by the entity. In determining the value in use, expected future cash flows to be derived from the asset or cash generating unit are discounted to their present values using an appropriate discount rate.

#### Related party

A person or entity that is related to the entity that is preparing its financial statements.

- A person or a close member of that person's family is related to a reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity; or
  - is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- An entity is related to a reporting entity if any of the following conditions applies:
  - The entity and the reporting entity are members of the same group.
  - One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - Both entities are joint ventures of the same third party.
  - One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

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## Definition of financial terms (continued)

- The entity is controlled or jointly controlled by a person identified in (a).
- A person identified in (a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

### Research

The original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

### Reserves under appraisal

Comprise quantities of petroleum, which are considered, on the basis of information currently available and current economic forecasts, to be commercially recoverable by present producing methods from fields that have been discovered but which require further appraisal prior to commerciality being established.

### Residual value

The estimated amount which an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

### Restructuring

A programme that is planned and controlled by management, and materially changes either the scope of a business undertaken by an entity or the manner in which that business is conducted.

Applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.

### Retrospective restatement

Correcting the recognition, measurement and disclosure of amounts as if a prior period error had never occurred.

### Tax base

The tax base of an asset is the amount that is deductible for tax purposes if the economic benefits from the asset are taxable or is the carrying amount of the asset if the economic benefits are not taxable. The tax base of a liability is the carrying amount of the liability less the amount deductible in respect of that liability in future periods. The tax base of revenue received in advance is the carrying amount less any amount of the revenue that will not be taxed in future periods.

### Temporary differences

The differences between the carrying amount of an asset or liability and its tax base.

### Transaction costs

Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, i.e. those that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

### Useful life

The period over which an asset is expected to be available for use or the number of production or similar units expected to be obtained from the asset.

### Value in use

The present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

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## NOTES

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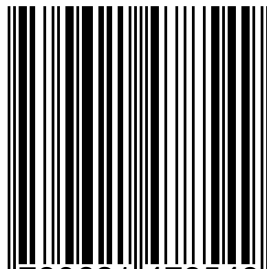
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ISBN 978-0-621-47854-9



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