INTEGRATED ANNUAL REPORT

2017/18

CEF Group of Companies


CEF
House


CEF
Group of Companies

ABBREVIATIONS AND ACRONYMS

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

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PART 1

PART 2

ABOUT THIS REPORT

Scope

The primary purpose of this integrated report is to provide strategic and tactical context to the CEF Group's business operations and how it creates value for a wide range of stakeholders through its mandate. These include providers of financial capital, joint venture partners, suppliers, customers, communities, Parliament and our Shareholder.

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 2017 to March 2018 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 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, and the inputs, processes and output involved in achieving it.

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 capitals. 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 2017/18 integrated report, annual financial statements and supplementary information on 28 August 2018.

PART 1

Section 1

YEAR IN REVIEW – 2017/18

“This report should be read in conjunction with the detailed annual financial statements presented on pages 149 to 246. 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.”

PERFORMANCE HIGHLIGHTS

For a holistic view of the CEF Group business performance, this report should be read in conjunction with the detailed annual financial statements presented on pages 149 to 246. This report reflects the CEF Group business performance in line with its Corporate Plan and other yearly targets in the pursuit of the primary objective of ensuring security of energy supply within the confines of **strategic themes.** As the implementing arm of the Department of Energy (DOE), the CEF Group plays a vital role in supporting the delivery of the broad objectives of government as outlined in the National Development Plan (NDP). We are driven by the following key drivers that underpin delivering value:

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

REVENUE	EBITDA	OPEX	CAPEX	CASH BALANCE
R11.65 billion	R880.5 million	R2.6 billion	R1.136 billion	R17.1 billion

Human Capital

- Employee value proposition initiatives began at CEF SOC with implementation of the Integrated Talent Management (ITM) Strategy and framework
- As of 31 March 2018, the CEF Group had 1862 employees, with 27% being women;
- **R10 494 659.29** invested in youth development, including sponsorships.

Capital Projects and Investments

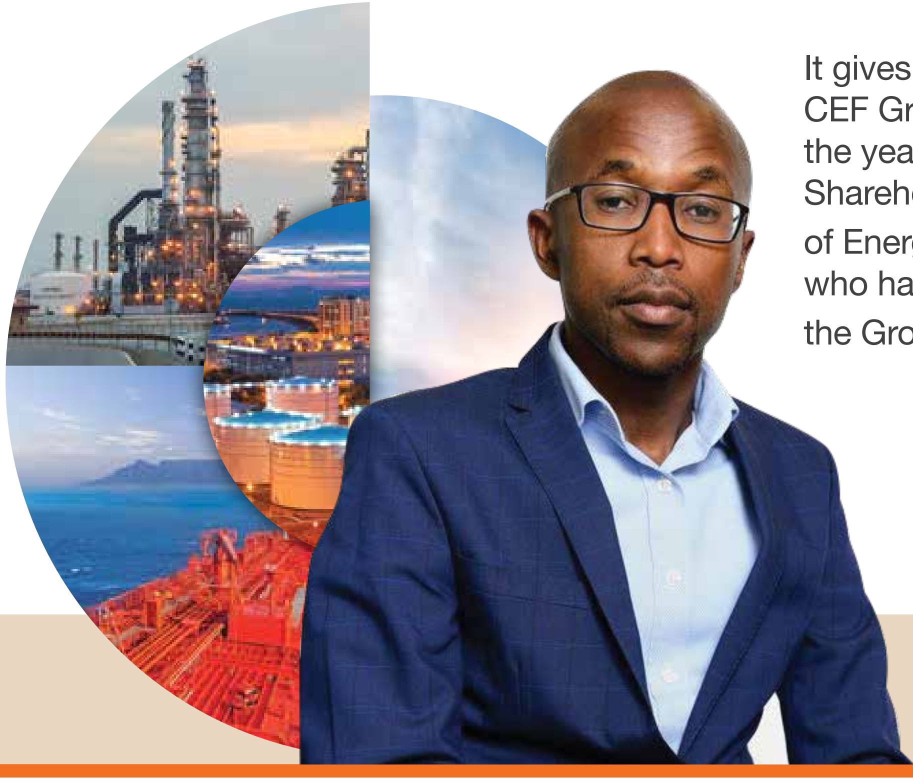
- Our 25% equity interest in Republic of Mozambique Pipeline Investments Company (Rompco) delivered a dividend of R346 million versus a target of R132 million.
- The volume increased at PetroSA Ghana, from 891 767 barrels to 1.6 million barrels.
- Successful partial statutory refinery coming in below budgeted costs.
- SFF and Transnet National Ports Authority (TNPA) have agreed on the technical studies to be undertaken to facilitate the amendment of the Saldanha Bay Terminal Operator Agreement.
- The first delivery of coal out of Chilwavhusiku to Eskom was achieved on 28 March 2018. This is a new investment by AEMFC.
- A total of 198 000 tons was mined from the newly opened Vlakfontein East block from December 2017

Corporate Social Responsibility

CEF Group corporate social investment (CSI) for the 2017/18 period amounted to R92 million. This represents a significant contribution towards the various CEF Group social developmental programmes that support various courses.

Safety

The Group safety record improved slightly from the previous financial year. There were no fatalities in the CEF Group for 2017/18, attributable to numerous interventions by management to change the **safety culture** through targeted programmes in the business operations.



It gives me great pleasure to submit the CEF Group Integrated Annual Report for the year ended 31 March 2018 to our Shareholder, the Honourable Minister of Energy, and all our key stakeholders who have an interest in the success of the Group.

Mr L Makasi

"It is envisaged that this review will define a new Group Strategy and a new operating model, clarity on where to operate and how, whilst articulating our strategic relevance. The process will include an exploration of potential benefits of a Group Shared Services."

The mandate of the CEF Group as a key state-owned entity (SOE) 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 Energy (DoE) Strategy as well as the objectives of the National Developmental Plan (NDP). As the CEF Group, our mandate is to ensure commercial viability, which, in turn, enables us to deliver on our developmental mandate.

We need to reflect on the CEF Group business performance against a backdrop of what can be regarded as a very tumultuous and challenging year driven by both external and internal forces. As the CEF Group, we have had to contend with a number of key strategic challenges that threatened the short-, medium- and long-term sustainability of the business. During the year under review, key priority focus areas were the sustainability of the Group, which entailed dealing with the PetroSA abandonment liability and finding plausible solutions for the depleting feedstock at PetroSA, whilst addressing operational efficiency and the management of limited cash resources. Other areas were governance and leadership, and the need to stabilise these for the effective running of the Group and the streamlining of key decisions.

The current challenging global and domestic trading environment is extensively recognised across all sectors and the CEF Group, as with many organisations, is increasingly under pressure to improve business performance and shareholder value.

Oil prices have once again had an impact on the performance of the Group with PetroSA and another of our subsidiaries, SFF, experiencing contrasting impacts as a result of the significant increase in the oil price.

After the tragic events at our GTL Refinery last year that resulted in two fatalities and the rising number of lost time injuries (LTI) due to the nature of our business operations, we have prioritised safety in the Group, with PetroSA taking a lead with biweekly 'Stand down' and other initiatives for improving the safety culture. We view the loss of life as extremely regrettable, as it causes untold suffering for family and friends of the deceased. It also reflects negatively on our operating standards and the value we place on safety.

In our quest to become a high-performance organisation, we have activated a number of initiatives in our employee value proposition and in our bid to attract and retain the required skills, whilst building a capable leadership base. We continue to actively manage safety, health, environment and quality (SHEQ) across our business operations and share best practices.

Key questions about our strategic relevance and long-term sustainability continue to reverberate in the CEF Group community, as do discussions about the Group's ability to respond effectively to market changes. This is against a backdrop of a Group that operates in the rapidly evolving energy environment steeped in complexity, volatility and uncertainty. It is in this context, made more complex by our our own strategic challenges, ineffective governance systems, inability to capture synergies and limited growth, that we have launched a Group Strategy review process.

It is envisaged that this review will define a new Group Strategy and a new operating model, clarity on where to operate and how, whilst articulating our strategic relevance. The process will include an exploration of potential benefits of a Group Shared Services. When complete, the review will enable us to revise our current corporate plans to reflect the new Group Strategy and associated plans.

I am pleased to report that steady progress has been made to stabilise the Group 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. Chief among these was the removal of the PetroSA Board and the installation of an interim Board to oversee the turnaround of PetroSA.

We have also prioritised appointments to the other subsidiary boards to build better alignment and Group cohesion.

We acknowledge the need for and commit to improving controls and accountability, and instituting consequence management for various transgressions at SFF Association.

Financial performance

Profit/loss after tax

During the 2017/18 financial year, the Group generated a net profit of R354 million, which was higher than budget (loss of R670 million) by R1.024 billion as a result of improved profit margins, deferment of capital projects, higher Rompco dividends and higher interest income.

The CEF Group Corporate Plan for the next five years is designed to focus the Group on a growth trajectory and consolidate the Group's strategic relevance, whilst delivering on the mandate of security of energy supply. The Corporate Plan is meant to drive key strategic and operational business initiatives, while contributing to the growth of the economy by sustaining and creating jobs and pursuing other developmental objectives.

CHAIRPERSON'S STATEMENT (CONTINUED)

Board and governance

The current CEF Board is well balanced and has a wealth of experience. It is committed to guiding the Group through its strategy execution phases as we build a stronger CEF Group. The Board's skills set ranges from finance, legal, oil and gas, trading, policy and licensing, to project management.

Acknowledgements

I sincerely wish to thank our Shareholder, the Honourable Minister Radebe, for his continued faith and trust in me as the Group Chairperson, and for always engaging me and the Board to provide guidance and direction.

I acknowledge my fellow directors on the CEF Board, and the Group senior leadership team under Acting Group CEO, Mr Godfrey Moagi, for having provided leadership during this transitional period and for helping us to deliver on a number of key initiatives. The CEF Board's appreciation goes, too, to the chairpersons and board members of the boards of PetroSA, SFF, IGas, AEMFC and PASA. and their executive teams.

We could not have progressed without the efforts of our great and dedicated employees across the Group, who continue to persevere during these uncertain times. Thank you to each team member – your commitment and loyalty are greatly appreciated.

Our external stakeholders, customers, suppliers, industry regulators and advisers have been patient and supportive and, for that, we owe them much.

In the new financial year, the Group will continue to prioritise the key objectives identified in the 2018/2019 Strategic Plan, with the added impetus of the revised Group operating model that will also ensure seamless delivery of the Group Strategy for the long-term sustainability and growth of the Group.

I leave you with the insightful words of Barack Obama: "Change will not come if we wait for some other person, or if we wait for some other time. We are the ones we've been waiting for. We are the change that we seek."

Mr L Makasi
Chairperson of the Board CEF Group

GROUP CHIEF EXECUTIVE'S REPORT

During the financial year, the Group underwent a strategy and operating model review. With the help of Boston Consulting Group, the Board approved a strategy that will see the CEF Group become more efficient and profitable. The review will streamline our operations and governance processes, identify key growth area and ensure that it is nimble and effective.

Mr MG Moagi

"The Group generated a net profit of R354 million during the 2017/18 financial year versus a net loss of R621 million in the prior year. SFF generated R241.5 million profit, and AEMFC generated R64.9 million profit during the period. PetroSA generated a loss of R382.3 million. iGas generated a net profit of R348.9 million after tax."

CEF Operating Environment

The year under review has seen a steady increase in the global oil price on the back of the Organisation of Petroleum Exporting Companies (Opec)/Non-Opec Declaration of Cooperation. The commitment of the parties of the agreement has seen the oil price recover from the significant low ranges brought about by US shale gas production. Going forward, crude oil prices are likely to continue to rise, driven mainly by a sustained global economic recovery and strong global oil demand led by China, India and the US. The rand value was R13.3209 against the US dollar during the 2017/18 financial year and continued its rally against its major trading currencies during the fourth quarter of 2017/18, appreciating by 15% from R/$14.03 (budget) to R/$11.96 (actual).

The developments convinced Moody's rating agency to maintain South Africa's investment grade credit rating and revised the ratings outlook from negative to positive, thereby securing the country's place in Citi's World Government Bond Index. The Organisation for Economic Cooperation and Development (OECD) has revised the expected GDP growth rate for South Africa upward to 1.9% in 2018, and 2.1% in 2019 – higher than the growth rate currently targeted by National Treasury. There was a major drop in the cost of producing clean energy. Both solar and wind power have undergone an annual average percentage drop in cost of production in the mid to high teens. Declines are likely to continue over the next decade.

The Group generated a net profit of R354 million during the 2017/18 financial year versus a net loss of R621 million in the prior year. SFF generated R241.5 million profit, and AEMFC generated R64.9 million profit during the period. PetroSA generated a loss of R382.3 million. iGas generated a net profit of R348.9 million after tax.

This is due mainly to additional dividend pay-out from Rompco and to the improvement in the gross profit margin; cost reduction; higher interest earned. The Group continues to implement cost-saving measures, particularly at PetroSA.

The performance of the Group shows steady increase in the revenue contribution of all the subsidiaries, although PetroSA remains a major contributor. The performance of the Group despite the volatile environment is an indication of the strength of its underlying business.

Governance

During the financial year, the Group underwent a strategy and operating model review. With the help of Boston Consulting Group, the Board approved a strategy that will see the CEF Group become more efficient and profitable. The review will streamline our operations and governance processes, identify key growth areas and ensure that it is nimble and effective.

The subsidiaries in the Group often had overlaps in their mandates and the review provided clarity and succinct roles for each subsidiary, and will ensure that the Group is the priority and that each subsidiary makes a contribution to the Group's performance. In the year under review, the Group sought to rectify the governance lapses that led to some challenges in the past. The approval of the strategy provides an opportunity for the Group to design and implement an appropriate structure and identify key skills sets to deliver on its mandate to be fit for purpose and efficient in execution.

Risk and Governance Management

In our quest to strengthen and embed risk management, we have begun a Board-sponsored programme to ascertain the Group Risk Maturity Index, with targeted action plans to take us to the desired maturity level where risk management forms the core of all business activities. This is reflected in the Group Corporate Scorecard for the upcoming financial period.

All Group meetings now start with a values and a risk management dialogue so that best practices can be shared across the Group. We have initiated a risk compliance exercise, with key outputs citing key owners for execution. Group risk reporting is shared with the Shareholder as part of our quarterly business reporting mechanism. To further strengthen risk and governance, the Group CEOs Forum, Information Technology (IT) Steering Committee and a Risk Forum have been activated to drive a number of oversight functions. Parallel with these has been the setting up of similar working groups with the DoE to ensure a seamless thread through all activities.

Our Precious Asset: Employees

Our employees are the cornerstone of our business performance and sustainability. Investing in our employees remains a top priority to ensure we create value and long-term sustainability. During 2017/18, the Group experienced prolonged acting in key roles, particularly at executive level. This has compromised our ability to deliver on our strategy. However, plans are afoot to fill all vacant positions and the position of Group Chief Financial Officer has already been filled. We have also undertaken a number of initiatives to attract the best talent and make CEF an attractive place for our staff to work and develop their careers.

The CEF Group employee headcount decreased between 31 March 2017, at 1 976, to March 2018, at 1 862, which includes permanent and fixed-term employees. This was mainly due to PetroSA driving cost savings and the executive management decision to place on hold the recruitment of support function vacancies pending the completion of the Group business operating model review project.

Youth Development

The CEF Group maintained a strong focus on training and developing employees at all levels, investing R10.4 million on training activities by financial year end. This training spend benefited 1 218 employees, 223 of whom are youth, including talent pipeline – interns, apprentices, graduates in training (GIT), bursary holders, in-service training participants. Talent pipeline development-related funding included bursaries, travel, salaries and stipends.

Financial Performance: Profit/ Loss after Tax

For the year ended 31 March 2018, the Group's overall financial performance results were above target, with a net profit after tax of R354 million, compared to a net loss after tax of R621 million in the prior year. The substantial improvement is largely attributable to the improvement in the gross profit margin, cost reduction, higher interest earned and reduction in the rehabilitation liability.

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. 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.

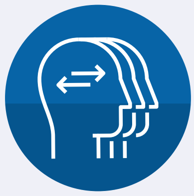
Future Outlook

The CEF Group is faced with serious challenges but we believe we are ready to deal with the challenges and build exciting future for the group. The Government of South Africa needs state-owned enterprises (SOEs) to play a meaningful role in our economy. Therefore, the country still requires the CEF Group to contribute to energy sustainability. During the 2018/19 financial year, the Group will focus on executing its strategy in the key focus areas of energy sustainability, commercial viability, clean governance and transformation.

Energy sustainability is focused on energy security, energy equity and environmental sustainability. As part of energy sustainability, the CEF Group will focus on energy security pertaining to liquid fuels, by resolving the matter relating to strategic stock and supply of fuel to strategic markets. As part of energy equity, the CEF Group will focus on reducing the cost of energy by expanding its market share in coal supply through developing projects and acquiring strategic coal assets. The energy sustainability pillar will be addressed through our participation in clean fuel, natural gas and biofuel.

Commercial viability is focused on profitability, liquidity and solvency. It is vital for the CEF Group because the group is classified as schedule 2 in terms of the PFMA. As such an entity, the Group is expected to fund its commercial and developmental mandate from the cash generated from operations, debt from financial market and banks, and equity, which should come from levies. However, currently the CEF Group is not receiving levies, thus it has to rely on cash from operations and debt to fund its programmes. To improve its commercial viability, the Group will need to reduce its cost base, improve operational efficiency, and diversify its customer mix to earn higher margins. Further to strengthening the current business, the Group needs to explore other profitable growth opportunities within the energy value chain.

The third pillar of our Group Strategy is clean governance. The Group has been besieged by governance lapses, which resulted in its incurring irregular transactions and also impairing assets. To minimise irregular transactions, fruitless and wasteful expenditure, and impairment of assets, the Group will focus on bolstering governance processes and making sure each one of us take accountability. It will also review the delegation of authority to empower staff.



The fourth pillar of the Group Strategy is transformation. Given the injustices of the past, the Group will implement a transformation programme to ensure that previously disadvantaged groups will participate in and benefit from the energy sector. The Group will continue to invest in skills development through the upstream training trust and other empowerment initiatives.

Conclusion

The CEF Group is still solvent and liquid. Its solvency ratio is 63% total assets and 37% total liabilities. The debt for the CEF Group is comprised of the rehabilitation provision, interest-bearing debt (external funding, cash invested and held on behalf of others) and non-interest-bearing debt (payroll related, amounts owed to suppliers, tax liabilities etc). Liquidity is above the target of 2:1. Based on liquidity and solvency, the CEF Group has headroom to grow its investment portfolio by deploying its cash reserves to sustenance, growth and diversification projects.

I want to take this opportunity to thank the CEF Board under the chairmanship of Mr L Makasi for its support and guidance during the year.

Mr MG Moagi
Acting CEF Group Chief Executive Officer

CEF GROUP AT A GLANCE

The CEF SOC Ltd is a State Owned national energy utility entity, reporting to the Department of Energy (DoE) as its Shareholder. Our mandate is determined by the Central Energy Fund Act, No. 38 of 1977 (as amended), which directs the CEF Group to contribute to national security of energy supply through the acquisition, generation, manufacture, marketing or distribution of oil, gas, coal, renewables and alternative primary energy resources, as part of South Africa's energy mix.

CEF SOC Ltd

CEF SOC is the holding company of the CEF Group of companies. The primary functions of CEF SOC is to provide oversight, monitoring and evaluation over its subsidiaries in line with sound corporate governance requirements. As a holding structure it is responsible for providing strategic leadership, driving business performance in a coordinated manner and facilitating business development and growth initiatives, financial management and other strategic alignment functions of the Group

The Energy Projects Division (EPD) of the CEF SOC focuses on the renewable energy sector. As part of the broader strategic intent, and as directed by the Shareholder to diversify South Africa's energy mix, the EPD is expected to grow to a fully-fledged subsidiary within the planning horizon to 2022. In the long term, this will result in improved security of supply and enhance social and environmental benefits.

The CEF SOC also administers and manages the Equalisation Fund and the Central Energy Fund on behalf of the DoE and National Treasury for the collection and administration of Petroleum Products levies.

Vision

The CEF's vision is to be a leading integrated energy company that provides national sustainable energy solutions for South Africa. This way the CEF contributes to national energy security.

Mission

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

Values

In all its dealings with stakeholders and in its business relationships, the CEF Group is committed to the following values:

Sustainability: The CEF Group commits to conduct all its activities in an environmentally and financially responsible manner, with no harm to the environment and the CEF Group stakeholders.

Integrity: The CEF Group commits to conduct all its dealings in an ethical and honest manner, and according to the highest corporate governance standards.

Professionalism: The CEF Group commits to uphold principles of efficiency, effectiveness and sound financial management.

Respect: The CEF Group commits to treat all its stakeholders in a fair and transparent manner while embracing the principles of ubuntu.

Communication: The CEF Group commits to communicate with all stakeholders openly, fairly and on time. All conflicts will be resolved using the best conflict resolution methods, with the relevant legal and statutory parameters.

The CEF Group's purpose

The CEF's purpose is to:

1. Strengthen our role as an integrated energy company in oil, gas, coal, renewables and alternative primary energy resources, holding a significant and influential market share across the entire value chain – thereby ensuring security of energy supply and a diversified energy mix for the country;
2. Be a profitable and sustainable Group of companies that is aligned with and seamlessly delivers on the CEF mandate;
3. Have effective organisational and governance structures in place that improve operational efficiency and decision-making;
4. Have a highly skilled workforce to meet the demands of current and future complex project execution;
5. Provide thought leadership in energy policy development and other energy initiatives; and
6. Contribute to security of energy supply (in liquid fuels and gas) and support the deployment of new energy technologies in the country.

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
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
CEF Act, No. 38 of 1977	Draft regulations regarding the Mandatory Blending of Biofuels with Petrol and Diesel, 2012
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	
International Financial Reporting Standards (IFRS)	

CEF GROUP AT A GLANCE (CONTINUED)

Our 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 Doe. The CEF Group also exists to support government's broader strategic objectives in line with the National Development Programme 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.

Each subsidiary has its own board of directors, which is appointed by and is accountable to the CEF Board of Directors.

CEF GROUP AT A GLANCE (CONTINUED)

PetroSA

PetroSA operates an Upstream business unit for the exploration and production of oil and gas and a balanced Integrated Midstream facility that includes petroleum products, a gas-to-liquids (GTL) refinery and the marketing of petroleum products.

AEMFC

AEMFC is responsible for the exploration and production of coal, primarily to supply Eskom. In addition, as directed by the Executive Authority, the company partners with other private sector mining industry entities in licensed acreage.

CEF SOC through Energy Projects Division (EPD)

The EPD is mandated to develop, finance and invest in Renewable Energy technologies on behalf of the CEF Group. The projects may be solely developed by the CEF or in partnership with credible global renewable and alternative energy industry players in South Africa and the rest of sub-Saharan Africa.

iGas

iGas holds a 25% equity investment in the Republic of Mozambique Pipeline Investments Company (Rompco), which operates a cross border 865 km gas transmission pipeline that ships gas from Mozambique to markets in Mozambique and South Africa. iGas is focused on the development of gas infrastructure and the marketing and sale of gas in Southern Africa.

SFF

SFF manages liquid fuel infrastructure and strategic crude oil stock and provides oil pollution control services, with operations in Milnerton, Saldanha and Ogies.

PASA

PASA exists to contribute to the energy resources of the country by promoting, licensing and regulating the exploration and production of the country's natural oil and gas resources through sustainable development. This includes advanced efforts for extension of South Africa's Extended Continental Shelf Claim project.

CEF GROUP AT A GLANCE (CONTINUED)

Global Footprint

Through PetroSA, the Group has an equity interest in acreage for the exploration and production of oil and gas on the west coast of Ghana, in partnership with successful global industry players. In addition, it has an equity interest in GTL. F1 AG, a process licensor of long-fibre thermoplastics (LFT) technology in Germany. Through iGas, the Group has an equity interest in the gas pipeline from Mozambique to South Africa, in partnership with industry.

Group Value Chain

Upstream Oil & Gas

PetroSA
- Exploration & Production (All indigenous oil & gas prospects)
• Ghana

PASA
Promotion, Licensing and Regulating the exploration and production of the country's natural oil and gas resources.

- Exploration
- Field Development
- Production Operations

Acquisition of exploration rights and search for hydrocarbons below earth's surface

Developments of oil fields and extraction of hydrocarbons from reserves

Raw Crude/ Gas

Mid Stream

SFF
- Trading
- Shipping
- Logistics

PetroSA
- Gas
- Petroleum Project Development

EPD
Investments in Renewable Energy Projects

iGas
- Gas Pipelines
- LNG Terminals

- Transportation
- Processing
- Storage & Distribution

The movement & storage of hydrocarbons using pipeline & ships & value chain maximisation & Renewables initiatives

Feedstock

Downstream

PetroSA
GTL Refinery Operations

- Manufacturing
- Refining & Petro-Chemicals
- Wholesale & Marketing
- The refining, processing and blending of hydrocarbons to make fuels & chemical products

PetroSA
Marketing and supply of finished products to end users to fuel economic activity

"The CEF Group value chain is our catalyst for value creation"

AEMFC – Mining/coal – in support of Power Generation

CEF GROUP GOVERNANCE AND LEADERSHIP STRUCTURE

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).

Mr Luvo Makasi (34)	**Mr Mojalefa Godfrey Moagi (56)**	**Ms Gosetseone Florence Leketi (45)**	**Mr Jim Besnaar (43)**	**Mr Tseliso Maqubela (53)**
was appointed the Chairperson of the CEF Group of Companies in 2016. Over the last nine years, Mr Makasi has been instrumental in leading a number of high-profile projects in energy, transport and the oil and gas sector. He has extensive professional experience in the legal sector, which includes expertise in commercial and corporate law, litigation, advisory services, regulation and investigation. He holds an LLB from the University of Western Cape.	was appointed the Acting CEF Group CEO in 2016. 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. He is also the Chairperson of AEMFC. He holds Senior Executive Programmes (Wits and Harvard), BCom (Hons) and BCom.	was appointed 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.	was appointed 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.	was reappointed 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).

6

Ms Mekateko Molope (46)

was appointed a non-executive director on the CEF Board in 2015. She is an attorney in private practice. She founded Molope Attorneys in 2007. She was an acting Magistrate in Gauteng district courts from 2012 to 2014 and is currently a member of the Social and Ethics Committee and the Governance and Nominations Committee. She holds a BProc and an LLB.

7

Advocate Lindiwe Mtunzi (48)

was appointed a non-executive director of the CEF Board in 2015. An advocate by profession, she has held senior positions in the regulatory sector and is a compliance consultant to various entities. She serves as a member of the Governance and Nominations Committee, Human Resources Committee and Board Audit Risk Committee. She holds a BLuris and LLB.

8

Mr Neville Mompati (56)

was appointed 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.

9

Mr Lufuno Makhuba (37)

was appointed 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).

CEF GROUP CEOS REPORT

Mr Mojalefa Godfrey Moagi

Position: CEF Group Acting CEO and SFF Acting CEO

Age: 56

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

Appointed: June 2016
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.

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 Kholly Zono

Position: PetroSA Acting CEO

Age: 48

Qualifications: MBA, MDP, MTech (Chemistry), BSc (Hons) Chemistry, BTheo

Appointed: October 2016
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.

Mr Sizwe Madondo

Position: AEMFC CEO

Age: 55

Qualifications: MBA, BSc (Hons), BSc and Postgraduate Diploma in Marketing

Appointed: 2007
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.

5

Mr Mohsin Seedat

Position: Acting iGas Chief Operating Officer (COO)

Age: 42

Qualifications: BSc Engineering Hons (Industrial), Graduate Diploma in Engineering (GDE) Engineering Management

Appointed: February 2017
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.

6

Ms Lindiwe Portia Mekwe

Position: Petroleum Agency South Africa (PASA) Acting CEO

Age: 46

Qualifications: LLM, LLB, BProc

Appointed: October 2013
PASA 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.

CEF GROUP EXECUTIVE

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).

Mr Mojalefa Godfrey Moagi

Position: CEF Group Acting CEO and SFF Acting CEO
Age: 56
Qualifications: Executive Programmes (Wits & Harvard), BCom (Hons), BCom

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, setting up a new trading book, including governance and compliance processes for the business to manage risks He is also the Chairperson of AEMFC.

Mr Lufuno Makhuba

Position: Group CFO
Age: 37
Qualifications: CA(SA), Senior Management Development Programme; BCom Hons (Accounting Sciences), BCom (Accounting Sciences)

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.

Dr Phindile Masangane

Position: General Manager (GM): EPD
Age: 46
Qualifications: PhD (Chemistry), MBA, BSc

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.

Mr Mohsin Seedat

Position: iGas COO
Age: 42
Qualifications: BSc Engineering Hons (Industrial), GDE in Engineering Management

Mr Seedat is responsible for the execution of our gas and gas infrastructure mandate, management of our investment in Rompco and other strategic engagements to ensure that, through iGas, the Group becomes a catalyst for developing gas and gas infrastructure. He has proven experience in engineering, project management, engineering design, research and development, and project financing.

Mr Abdul Haffejee

Position: Company Secretary
Age: 46
Qualifications: B Proc, Associate of Chartered Secretaries, Admitted Attorney

As the Group Company Secretary, Mr Haffejee 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 & Partners, Mr Haffejee has a wealth of experience in contract management, company secretariat, corporate governance, legal advisory, compliance and risk management.

Ms Mapula Modipa

Position: GM Corporate Services
Age: 52
Qualifications: MBA, Senior Executive Programme, BA Social Sciences

Ms Modipa is responsible for driving the Group Human Capital Strategy and the creation of a high-performance Group of companies in support of Group Strategy in a coordinated manner across the value chain. Her human resources experience spreads across various industries, including mining, academia, healthcare and energy. She has proven experience in human resources management, leadership development, talent management, labour relations, negotiations and business advisory.

Mr Sakhiwo Makhanya

Position: GM: Group Strategy and Subsidiary Management
Age: 43
Qualifications: MBA (Business Strategy and Entrepreneurship), Postgraduate Diploma (Advanced Project Management, Sales and Marketing and Mastering Finance)

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.

Mr Thabani Khanyile

Position: Group Chief Audit Executive
Age: 54
Qualification: Certified Internal Auditor, BCom, Fellow of the Institute of Internal Auditors

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.

Mr Vukani Khulu

Position: Group Stakeholder Advisory
Age: 46
Qualification: MBL, Postgraduate Diploma (Marketing and Supply Chain), BSc (Chemistry and Applied Chemistry)

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.

Mr Skheto Maluleke

Position: Group IT
Age: 48
Qualification: Postgraduate Diploma (Business Management), BSc, Advanced Diploma (Project Management), IT Diploma

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.

Section 2

BUSINESS OVERVIEW AND STRATEGY

> Global economic growth generally leads to high demand for energy and it is true for weak economic growth. Technological developments determine the intensity of energy consumption (more efficient engines or power plants may lower demand for energy). In the short run, the energy infrastructure determines what types of energy sources may be used for energy production. Investment in energy infrastructure requires sizeable amounts of cash.

OPERATING ENVIRONMENT

Our operating environment covers oil and gas, mining, renewables, tankage and gas infrastructure, and is driven by the global supply and demand for energy fundamentals that impact on our business. At the macro level, the demand for and supply of energy are determined largely by:

- Global economic growth
- Technological development
- The price of various energy sources
- The energy policy of the country (energy security, geopolitics and environmental policy) and other new discoveries
- Energy transition shaking up parts of the global energy system and
- Developmental requirements, including population growth.

These factors are interrelated (the energy policy of a government will often determine the supply, demand and price for various energy sources, its economic policy may influence economic growth etc) and characterised by regional differences (different patterns of supply and demand for energy in countries such as the Middle East and the different levels of growth in Asia and Africa).

Energy supply is influenced heavily by the world's uneven distribution of energy resources and their proximity to developed economies. Fossil fuels deposits, which account for approximately 82% of the global energy consumption, are restricted to certain geographical areas. Close to 60% of the proven reserves of fossil fuels are, thus, situated in the Middle East. This influences the rate of investments, which are often high, and other strategic partnership arrangements, which are vital for the long-term success of organisations in the energy sector.

Global economic growth generally leads to high demand for energy and it is true for weak economic growth. Technological developments determine the intensity of energy consumption (more efficient engines or power plants may lower demand for energy). In the short run, the energy infrastructure determines what types of energy sources may be used for energy production. Investment in energy infrastructure requires sizeable amounts of cash.

As a result of all of the abovementioned elements, the energy sector where we operate as the CEF Group is characterised by long lead times, capital intensive, risky projects, volatile and sensitive to geopolitical tensions; a great degree of uncertainty and overall operational complexity. These industry dynamics shape the internal and external perspectives of our Group Strategy in relation to growth, risk appetite, funding, strategic partnerships and overall business performance as the CEF Group.

Industry Trends

Nine large-scale shifts in the global energy system have set the scene for the global energy outlook.

1. The rapid deployment and falling costs of clean energy technologies: Growth in the solar photovoltaics (PV) capacity in the previous year was larger than for any other form of generation. Since 2010, costs of new solar PV have come down by 70%, wind by 25% and battery costs by 40%.

2. The growing electrification of energy, where the spending by the world's consumers on electricity, approached parity with their spending on oil products, with the rising force among worldwide end users or energy making up a projected 40% of the rise in final consumption by the year 2040. This is against the backdrop of industrial electric motor systems on power demand.

3. The rise of distributed energy resources (DERs) and the increasing sophistication of demand-side response (DSR) technologies continues to grow as part of the energy landscape. This is due largely to how they broaden consumers' options for sourcing and managing energy.

4. The shift to a more service-oriented economy and cleaner energy mix in China, the world's largest energy consumer.

5. The resilience of shale gas and tight oil in the US, cementing its position as the biggest oil and gas producer in the world, even at lower prices.

6. Global economic growth at an average rate of 3.4% per year, and a population that is expanding against the backdrop of urbanisation that drives megacities are key forces that underpin a number of energy-planning scenarios.

7. Improvements in efficiency (technology, operations, planning) play a huge role in taking the strain off the supply side – without them, the projected rise in final energy use would be greater.

8. Growing signs that the energy industry is on the cusp of growth in the development of technologies such as big data, the industrial internet of things, and even artificial intelligence. These technologies are not confined to the electricity generation industry, but are used in upstream oil and gas exploration and production.

9. These shifts come at a time when traditional distinctions between energy producers and consumers are being blurred and a new group of major developing countries led by India moves towards centre stage. They are also critical in shaping the CEF Group short-, medium- and long-term strategic framework as part of our broader Group Strategy review process.

Economic Environment

South Africa's economic growth outlook improved slightly during the reporting period, following a year of recession and policy uncertainty. The economy benefited from strong growth in agriculture, higher commodity prices and improved investor sentiment. As is in most developing economies, economic growth is supported by external demand and a recovery in commodity prices. This is against the backdrop of the country's increasing unemployment rate – 27.7 % in the third quarter of 2017.

Commodity Prices

During the period under review, we saw a rebound in commodity prices over the past year in response to increased global demand and declining inventories. Crude oil prices rose to an average price of US$65/barrel and non-oil commodity recovered from the lows of previous years. This is due partly to higher demand from China and India and coal prices averaging US$95/ton. These trends have resulted in an improved near-term outlook for commodity exporters in the country, but have other consequences for our operations in feedstock options at our GTL Refinery as well as revenues from stored crude.

Innovation

With the increase in competitive intensity across the energy sector, the accelerated pace of business and the globalised nature of many companies, the CEF Group senior management is constantly challenged to improve growth targets. This is a constant struggle in trying to balance the tensions that exist between defending the existing positions (core business) and creating new profitable growth through new business developments and innovations. Thus, we have included Innovation as a key performance measure in our new Group scorecard. This is done to enable us to deliver a consistent stream of market successes via successful businesses and products, and improved processes that continuously translate these into economic value. This will enhance our competitive advantage and sustain the Group's growth ambitions.

Regulatory Environment

The energy sector regulatory environment continues to evolve in response to a number of internal and external forces. Key among these is the need to build the required certainty to support future investments and overall economic recovery. To this end, we continue to work very closely with the Shareholder to influence key industry policies and build regulatory capacity.

Exchange Rate

The strengthening of the rand by 10.6% against the US dollar during 2017, reaching R12.38/US$ at year-end, improved investor confidence in domestic political developments. Foreign exchange volatility impacts our GTL Refinery and storage business, where input costs and key contractual agreements are US Dollar-based.

Responding to Negative Price Sentiments:

The nature of our business operations is such that we are sensitive to price movements, especially negative price sentiments. To effectively manage negative price sentiments, we follow a three-tiered strategy:

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

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

3. Timely execution of these strategic initiatives across the value chain.

Outlook for South Africa

South Africa's economic growth outlook has improved in recent months, following a year of recession and policy uncertainty. GDP growth of 1% is expected for 2017, up from 0.7% projected in the 2017 Medium Term Budget Policy Statement (MTBPS), and is forecast to reach 2.1% by 2020. The improved outlook flows from strong growth in agriculture, higher commodity prices and an emerging recovery in investor sentiment. Although global risk factors remain elevated, the world economy continues to provide a supportive platform for South Africa to expand trade and investment. World economic growth is at its highest level since 2014 and continues to gather pace. GDP growth is rising across all major economies. The International Monetary Fund (IMF) forecasts global growth of 3.7% in 2017 and 3.9% in 2018.

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 as a result of domestic constraints. This is reflected in low levels of private investment, persistently high and rising unemployment, and declining real per capita income. These factors, in turn, have undermined the sustainability of public finances and narrowed the scope for economic transformation. 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.

Ghana Outlook

Ghana, in which the CEF Group has commercial interests, is one of Africa's new oil powers in the Gulf of Guinea, with current output at 126 000 barrels of oil per day (bopd). Ghana's industry has advanced at a steady pace in recent years despite a drop in international oil prices driven primarily by a surge in market conditions and technological advancements.

In its first decade, Ghana's petroleum industry has experienced a highly volatile price environment that has remained below US$65/barrel since mid-2015. Yet, since the discovery of the Jubilee oil field in 2007, Ghana's industry has seen three offshore projects come on-stream. With initial challenges solved, such as the maritime border dispute with Côte d'Ivoire, the industry will retain its position as a key driver of growth in the domestic economy. This is expected to generate revenue for the national government as gas production comes on-stream, to alleviate a long-standing electricity shortage.

PetroSA Ghana Ltd is a wholly owned subsidiary of PetroSA. PetroSA Ghana Ltd is party to the Deepwater Tano and West Cape Three Points Petroleum (WCTP) agreements, as well as the Jubilee Unitisation and Unit Operating Agreement, and has working-interest partnerships with recognised independent oil companies such as Tullow Oil, Kosmos and Anadarko, as well as with Ghana National Petroleum Corporation (GNPC).

Ghana's macroeconomic performance improved in 2017 after a difficult 2016. The country's economy expanded for the fifth successive quarter in September 2017, at a rate almost double that of 2016, according to World Bank reports. Oil and gas, as well as agriculture, will remain the engine of growth and jobs creation, with the service sector expected to bounce back, with fiscal consolidation beginning to pay off. To sustain fiscal consolidation efforts, two areas are particularly important over the medium-term – domestic resource mobilisation and expenditure controls.

The inflation rate is likely to fall to the Bank of Ghana's medium-term target range of 6% to10%. The country's heavy reliance on primary commodities, including cocoa, gold, and oil — all prone to volatility in international commodity prices — creates uncertainty about its actual future paths for growth, inflation, export receipts and domestic revenue.

Outlook for Mozambique

Economic performance and outlook

Mozambique continues to be constrained by the effects of the 2016 hidden-debt crisis. Real GDP growth decelerated to 3.7% in 2017, down from 3.8% in 2016 and 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. Growth is expected to remain relatively flat at around 3% in the medium-term.

Inflation has eased to 7%, supported by a more stable currency, the metical, and falling food prices. Post-El Niño agricultural output growth contributed to this trend, as did lower food inflation.

Debt levels remain unsustainably high. External debt declined from 103.7% of GDP at end-2016 to an estimated 85.2% by end-2017, due mainly to the appreciation of the metical. In the meantime, central government domestic debt levels have increased due to budget financing needs. Mozambique continues to be in default of its Eurobond and the two previously undisclosed loans. The government has launched discussions with creditors on a possible restructuring, but this process will probably take time to bear fruit.

Due to infrastructure improvements and rising international prices, minerals exports will be the main contributor to growth in the next couple of years. The discovery of large natural gas reserves in the Rovuma Basin has positioned Mozambique as an exciting investment opportunity in Africa. Despite the country's current debt conundrum, the projected economic boom associated with the development of the gas sector is expected to have multiple positive externalities for the rest of the economy, and provide numerous opportunities for firms looking to expand into Mozambique, potentially bringing foreign direct investment (FDI) to over 40% of GDP, in line with 2013 levels. Through the iGas investment in Rompco, the CEF Group plays a critical role in bringing gas from the Pande and Tamane onshore gas-fields through a 865km high-pressured gas pipeline, and has created a number of commercial opportunities for further South Africa and Mozambique strategic commercial cooperation.

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. With the existence of operating environment strategic challenges, the Group is pushing for a more-resilience approach perspective. This approach is necessary to protect our short-, medium- and long-term commercial position. Lessons learnt from previous projects at a subsidiary level have provided valuable insight for doing things much better and more efficiently, whilst improving our systems and processes.

Therefore, our diversification strategy rests on the following pillars:

Portfolio Diversification Pillar	Strategic Rationale
Continued derisking of the Group	The ongoing bid to derisk the Group in line with changes in our internal and external operating environment, by exploring means such as strategic partnerships to capture value.
Optionality	The ability to create space to explore various options as and when then 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.
Income stream and contribution diversification	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.	

A well-diversified portfolio provides reasonable protection under normal market conditions. We believe that our approach to diversification works because, in general, asset classes, being unique, do not move perfectly together, the core reasons including:

- 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 risk is smaller than the combined risks of the individual portfolio.

We use a number of tools that help us assess the strategic fit and relevance of various initiatives and projects as part of an integrated approach for strategic and sustainable project portfolio selection. Diversification enables the CEF Group to reduce the risk of its portfolio without sacrificing potential projected returns from a group perspective. It is, thus, that various entities that make up the CEF Group have their own mandates that are derived from the CEF mandate that guide each entity's responsibility in terms of delivery.

The 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 as part of its planning process. It is the Group's view that these initiatives will significantly improve the Group's sustainability and growth agenda. Additionally, the Group will further execute a number of developmental initiatives as part of its core mandate.

All of these sit with each specific portfolio pool.

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 through strategies such as market entry, product development, 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 engineering, infrastructure, policy, corporate social investment programmes, job creation, education and other collaborative initiatives with a number of stakeholders.

An efficient portfolio has the least possible risk for a given return and, in the long run, will allow the Group to pursue other investment risks if its mandates calls for it.

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 through **security of supply**, and access to acceptable (affordable) energy in Africa. The CEF Group is a system of interdependent business activities and coordination to capture synergies across the value chain is of vital importance to give us the required competitive edge in the delivery of our mandate.

The Group's current business model design is to be the driving force behind Group growth through an effective deployment of the company's resources and capabilities to capture new market opportunities. The degree of any organisation's integration is constrained when the activity system is highly complex, whereas for a given level of complexity the degree of organisation modularity is constrained by the decomposability of the activity system. For this reason, the CEF Group actively manages interdependencies across the value chain so that inputs that can have the desired impact are effectively converted through the various complex **transformation processes** to deliver the desired outcomes, whilst producing value-adding outputs.

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.

Exploration	Mine and Field Development	Mining Production	Storage and Trade	Processing and Refining	Marketing
• The determination of the profitability of projects • Evaluation and design • Seismic acquisition processing and interpretation • Finding, identifying and evaluating economically viable coal deposits • Exploration drilling • Conduct renewable energy feasibility studies	• Reservoir modelling • Well design, drilling and completion • Production modelling • Separation systems • Treatment systems needed to preserve the environment • Establishing the necessary infrastructure to access deposits via shafts • Material stripping • Optimise renewable energy portfolio, and mergers and acquisitions	• Drilling-related engineering services • Bringing oil/gas to the surface • Ongoing field development • Production and maintenance • Transportation and fractionation • Extracting coal from underground and open mines • Transporting of mined mineral resources to plants • Lifecycles cost management	• Storage terminals • Bunkering services • Trading • Gas pipeline transportation • Liquefaction • Coal storage heaps in line with environmental regulations • Mechanised loading/ unloading systems • Pollution control • Storage technology partnerships	• Crude/gas refining and processing • Fractionation of crude oil into petroleum petrochemical products • Products blending • Washing coal to specified grade for delivery to Eskom power stations	• Wholesale and marketing to end-users • Industrial use • Gas-to-power • Industrial power generation • Leveraging renewables profitability for industrial development

How we add value

Portfolio Diversification Pillar	Strategic Rationale
• Through our renewables programmes, we support the government's initiatives towards energy mix diversification, cleaner energy sources and affordable cheap alternatives for South Africa. • Our GTL Refinery produces products from indigenous hydrocarbons, thus reducing the burden on imported feedstock, which has an impact on the balance of payment. • 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 infrastructure developments, we bring more gas into South Africa in support of key industrial activities.	Group risk management and a focus on safety.

While at the core of the CEF Group's business performance is financial return, due to the nature of its reporting standards, there are inputs other than financial and manufactured resources, such as human, intellectual, natural and social, whose output has an impact on stakeholders and the resources used by the Group at large.
Strategic integrated thinking requires all these factors to be considered holistically, such that we can understand,

and make decisions based on, the overall impact it has on all our stakeholders and generally on society, the environment and the economy. As part of our initiatives to strengthen oversight monitoring and evaluation in our business performance management processes, we have begun to put together a framework that will assess the impact of strategic objectives and help us prioritise key activities. This will enable management to develop a better understanding of the social, fiscal, environmental and economic impacts of our activities, while remaining commercially viable. In a world of significant global changes, constant flux and limited resources, the CEF Group, in its normal day-to-day business operations, uses key resources at its disposal to deliver on its mandate.

Inputs	Outcomes	Outputs	Impacts
The CEF Group uses the following capital inputs: • **Human capital**: Our people have the necessary skills to develop business strategies, processes and systems that run our business • **Equipment**: Key equipment on our mines, the GTL Refinery, plants, pipelines, storage tanks all generate revenue • **Land**: Our land is the source of our operations, as it holds key hydrocarbon deposits as feedstock, which we convert to create value • **Buildings**: Our buildings and other infrastructure are strategically located to give access to our markets, stakeholders and customers • **Material**: Our specialised material enables us to produce key products for our markets • **Information**: Our integrated systems allow us to share and use information in a meaningful way that gives us the competitive edge and the knowhow • **Financial**: Our financial resources enable us to invest in growth projects and key developmental objectives in support of broader NDP objectives	Often, it can be challenging to interrupt day-to-day tasks to bring the bigger picture back into focus. However, the strategic planning outcomes ensure that we prioritise the right objectives – this is driven by our strategic outcomes thinking, which provides clarity on the following in terms of delivering on Group objectives. • How we define success – the results of our combined services. • How we know for sure when success has been achieved. • How we know, halfway through our programmes, that we have enough resources to achieve the success we have defined. Our programme outcomes are statements of what the Group expects in delivering on its strategic objectives: To operate optimally, to generate sustainable financial returns, and to demonstrate the value created to stakeholders, which informs the Group's strategic relevance	In an industry driven by long lead times, the primary factors that distinguish outcomes are time and measurability. Our strategic outcomes measurement is a process of documentation through evaluative actions taken some time after project or initiative completion. Key outputs from our business operations are the following: • The production of synthetic fuels from offshore gas at one of the world's largest 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 • Energy supply, primarily through the mining and supply of coal for the generation of electricity, and securing other resources that will provide energy for the future, including key minerals for beneficiation in the energy and steel value chain • Gas from Mozambique • Feasibility studies • Policy inputs • Securing of strategic stocks for the country	Through strategic integrated thinking, the CEF Group manages the impact of its business activities and maximises efficiencies in the use of inputs to reduce and mitigate effects on the environment, communities and stakeholders in a holistic manner. This requires a coordinated approach right across our value chain. Thus, we have prioritised key initiatives at our operational sites to ensure a continuous loop of operational efficiency and learning.

STRATEGIC OUTLOOK

The CEF Group Strategy provides the strategic pillars, key focus areas in the delivery of its mandate and a roadmap to the desired end state. Group Strategy, which is articulated in **Vision 2025**, is what makes the corporate whole add up to more than the sum of its strategic entities. The CEF strategy intent seeks to be in line with and contribute to the realisation of the DoE strategy, the Mid-Term Expenditure Framework (MTEF), as the CEF is the implementing arm of the DoE. CEF programmes will be firmly in line with those of the Shareholder.

The strategic intent rests on four key pillars that form the basis of all the Group's strategic and operational initiatives, as identified by the Board during a number of strategic workshops between 2010 and 2013 to find long-term sustainable solutions for the Group. In subsequent years, the Group held a number of strategy sessions to review its strategic trajectory in line with internal and external changes, which have reaffirmed our strategic pillars.

These four pillars are:

Strategic Objective	Objective Delivery
Commercial viability	To have a commercially sustainable and operationally profitable organisation through improved project investment, strategic resource allocation and portfolio management.
Governance excellence	To implement and adhere to standardised, simplified and robust governance structures and procedures that enable effective operation of the CEF Group, and improve oversight, monitoring and evaluation.
Collaborative operating environment	To collaborate with SOEs and government departments to enable delivery of the NDP, and improve operational excellence and efficiency.
Developmental interactions	To contribute meaningfully to development in Africa in energy, sustainability, skills development and corporate social investment.

To give effect to the delivery of the Group's strategic objectives, to deal with strategic challenges identified and to exploit opportunities in the market, the CEF Vision 2025 Strategy will coordinate initiatives for reaching the long-term desired end state. The Vision 2025 Strategy articulates the strategic imperative that will underscore the Group's strategic relevance. As we operate across the entire energy value chain, we have two levels of strategy: Subsidiary level (or competitive) strategy and corporate (or company-wide) strategy. Our subsidiary competitive strategies entail how we create competitive advantage and value in each of the businesses where our entities operate across the value chain. From an oversight perspective, this helps focus the Group on what businesses we should be in and how the centre will manage the diverse business entities.

To support the execution of the Vision 2025 Strategy, an overarching strategic roadmap was developed to break the Group's strategic initiatives, projects and programmes into three distinct phases (stabilise, grow and lead). The roadmap helps to focus the Group's resources, finances and human capital towards a defined desired end state, and thus improve business performance delivery. The roadmap also drives key focus areas for the planning horizon to achieve Group Strategy delivery.

Group Key Strategic Focus Areas

1	2	3	4	5
Growth and sustainability	Strategic partnerships and stakeholder management	Governance and risk management	Innovation, technology and business excellence	Strategic leadership and people agenda

Strategic Outlook and Energy Landscape, Trends and Potential Developments

	Global	Regional	Local
Renewables	Increasing appetite for renewable energy driven by lower levelised cost of electricity and environmental considerations (~$370Bn in 2017)	Growing renewable energy generation (22TWh generated in 2016), but still room for further investments	Renewables receiving political push, but need to be bigger priority to become significant (currently <5% of generation)
Upstream	Energy mix transitioning toward natural gas (NG) as a source of cheaper and cleaner energy (2% growth per annum), reducing reliance on coal (no growth)	Energy mix transitioning toward NG as source of cheaper and cleaner energy (2% growth per annum), reducing reliance on coal (no growth)	Negligible local gas resources, potential for collaboration with neighbours and infrastructure development
Refining	Efficiency and scale improvements of global refineries putting pressures on smaller refiners	Limited refining output (~50kbpd in Nigeria, Angola) leading to significant import of products; major future shift in Nigeria	Local refineries increasingly uncompetitive (forecasted utilisation < 65%), barring large investments; rise in imports

The various developments in the energy landscape present numerous opportunities, risks and threats and thus require a different approach if we are to pursue or mitigate their effects in the CEF Group. The constant volatility, uncertainty, complexity and ambiguity in our operating environment can be responded to only through agile and adaptive responses. The ever-changing realm of strategy means that the CEF Group must deal with newer forms of competitive behaviour and newer business models. To be winners in the business of tomorrow, the Group will need to be efficient in identifying and anticipating market shifts, and managing complex and multi-company systems. The need for shorter cycles and faster reaction time is greater as the pace of change is rapid and only companies that can adapt to it will succeed. The art of execution is one of the core drivers of competitive advantage in the energy sector and truly successful companies strategise in a manner that drives improvement in the critical areas identified for success, whilst creating value for shareholders and stakeholders.

Strategic Rationale for the Group Strategy Review

- During the third quarter of the previous financial year, the CEF Group commissioned a reputable global strategy management consulting company to undertake a comprehensive Group Strategy review in response to external and internal forces that were rapidly undermining the strategic relevance of the Group
- The CEF Group Strategy evaluation is as significant as strategy formulation because it threw light on the efficiency and effectiveness of the Group's comprehensive plans in achieving the desired results. It also allowed us to assess the appropriateness of the current strategy in today's dynamic world, with socio-economic, political and technological innovations. Most importantly, it helped us ask critical questions pertaining to the Group's strategic relevance and areas where we can play an impactful role in delivering on our mandate. Besides the external changes, the review was driven by the fact that CEF exists in a complex government landscape in the energy sector. Key drivers were the Group's current position, which can be summed up as follows:
  - Legacy mandate and mission are unclear and misaligned, and, therefore, the Group Strategy is not cohesive
  - Exposure to a single asset and an imbalanced portfolio
  - Suboptimal investment of the Group's cash resources, which are low risk leading to low returns and loss of more attractive investment opportunities
  - Incongruent governance structures
  - Group capability in strategic execution
  - Upstream abandonment liability and dwindling feedstock reserves
  - Weak product placement strategy
  - Squeeze on cash reserves to fund key strategic projects
  - Group value creation – synergies are not being leveraged across the CEF Group. Instead, subsidiaries duplicate and compete against each other
  - Business model – CEF lacks a clear strategy but has many potential opportunities/poor portfolio strategy and alignment.

OUR RISK MANAGEMENT PROCESS – EMBEDDING RISK IN OUR BUSINESS OPERATIONS

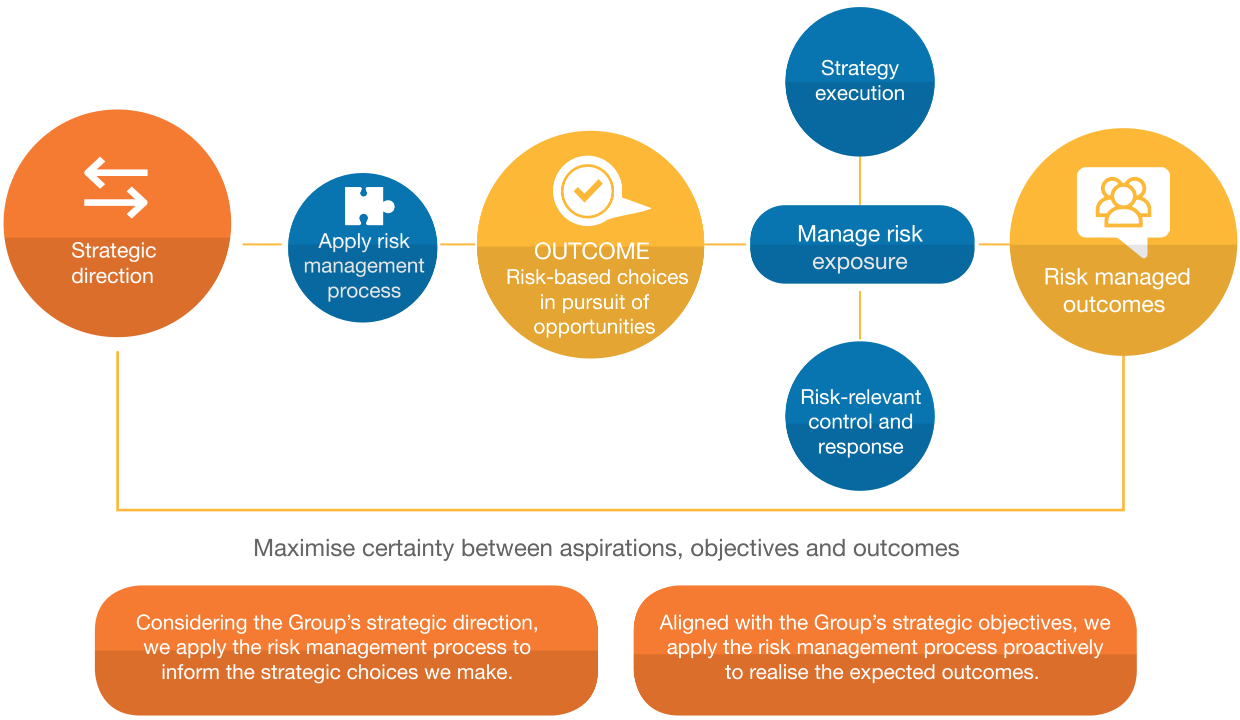
Our Risk Management Approach

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.

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

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



The CEF Group continued to operate in challenging market conditions in which low commodity prices prevailed, driven mainly by a slowing global economy and oversupply. Furthermore, increased low-cost supplies from global demand continue to drive commodity prices downwards, further constrain investment appetite and, thus, curtail growth. 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 Journey

CEF's risk management plan for the 2017/18 financial year detailed enterprise risk management (ERM) objectives, associated activities and initiatives. The themes for the 2017/18 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 of and information system for risk management processes by:

- Conducting an ERM maturity assessment for the Group to establish the baseline
- Implementing risk management software for capturing and reporting
- Conducting ERM training for employees;
- Standardising the reporting template;
- Developing the Group compliance universe
- 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.

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

Risk governance	Board of Directors and Risk and Audit Committee Ensure the risk culture (tone at the top) Approve the risk appetite Ratify the key components of the ERM maturity index Discuss enterprise risks with executive management Approve ERM policies	**Technology** Provide real-time dashboards to oversee risks Facilitate risk escalations

Risk resources and management	**Executive management** Define the risk appetite Evaluate proposed strategies against risk appetite Capacitate risk and compliance function	**Enterprise risk management** Create common ERM framework Provide direction on applying framework Implement and manage technology systems Provide guidance and training Aggregate risk information Monitor risks and mitigation plans	**Internal audit** Provide assurance on ERM processes Provide assurance on the controls and the mitigation plans for the risks	Make monitoring and reporting easier Support timely maintenance and pre-empt problems
Risk ownership	**Business units** Take business-appropriate risks Identify and assess risks Respond to risks Monitor risks and report to risk management Support risk and compliance management			

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.

The Risk Committee, a committee of the Board, 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; and
- 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 2017 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‘s 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

From our Group risk assessment, we have identified 12 strategic risks, which we have grouped into the following four risk categories. The Board and management continue to monitor the implementation of risk mitigation plans for these risks.

Figure below: Strategic risk categories – risk description, root causes and risk mitigation plan

Risk Category 1. FINANCIAL SUSTAINABILITY		
Risk description: The financial sustainability of the CEF Group is under threat **Root causes**: 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	**Residual exposure:** Extreme	**Risk mitigation plan:** 1. Implementation of the Group turnaround recommendations 2. Develop and implement a Group operating model and diversification strategy 3. Secure strategic partnerships to leverage partner funding and skills 4. Request the deferment of pre-funding of the abandonment liability 5. Develop a CEF Group funding plan for strategic projects

Risk Category 2. SECURITY OF SUPPLY		
Risk description: The CEF Group may not be able to effectively fulfil its mandate of supporting the DoE in ensuring security of energy supply for the country **Root causes:** 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	**Residual exposure:** High	**Risk mitigation plan:** 1. Implementation of feasibility survival options for the feedstock 2. Increase condensate processing to 18 000 barrels per day 3. Increase efficiencies in trading department (import finished product) 4. Develop emergency response plan 5. Implementation of partnership strategy for oil and gas investment 6. Strengthen visibility upstream to create confidence in the exploration sector 7. Develop strategic stock policy

Risk Category 3. HUMAN CAPITAL		
Risk description: The CEF Group may not have adequate skills and experience to implement strategic projects required for the financial sustainability of the Group **Root causes:** Bad publicity currently being received may create the perception that the CEF Group is not the 'employer of choice'	**Residual exposure:** High	**Risk mitigation plan:** 1. Develop a cohesive brand strategy 2. Develop the employee value proposition 3. Develop an integrated talent pipeline and sourcing strategy 4. Targeted recruitment 5. Communicate sustainability of the business 6. Enhance the leadership development programme 7. Develop an employee engagement strategy 8. Develop and implement a workforce plan

Risk Category 4. CORPORATE GOVERNANCE/OPERATING MODEL		
Risk description: The CEF Group governance and operating model is cumbersome and impacts on effective and efficient decision making **Root causes:** Each subsidiary has an autonomous Board of Directors, which requires approvals of key decisions.	**Residual exposure:** Moderate	**Risk mitigation plan:** 1. Sharing of resources across the Group 2. Develop and implement a Group operating model to leverage synergies 3. Review, develop and obtain approval for appropriate working governance structures 4. Inculcate a Group-wide management mindset/'One CEF' 5. Establish a Board forum to deal with issues of misalignment 6. Develop and implement a Group investment policy and procedure (gated approach)

Section 3

VALUE CREATION

"Value is created not only within the traditional boundaries of the CEF Group, but crosses organisational and geographical boundaries by connecting various value drivers, many of which are intangible."

VALUE CREATION

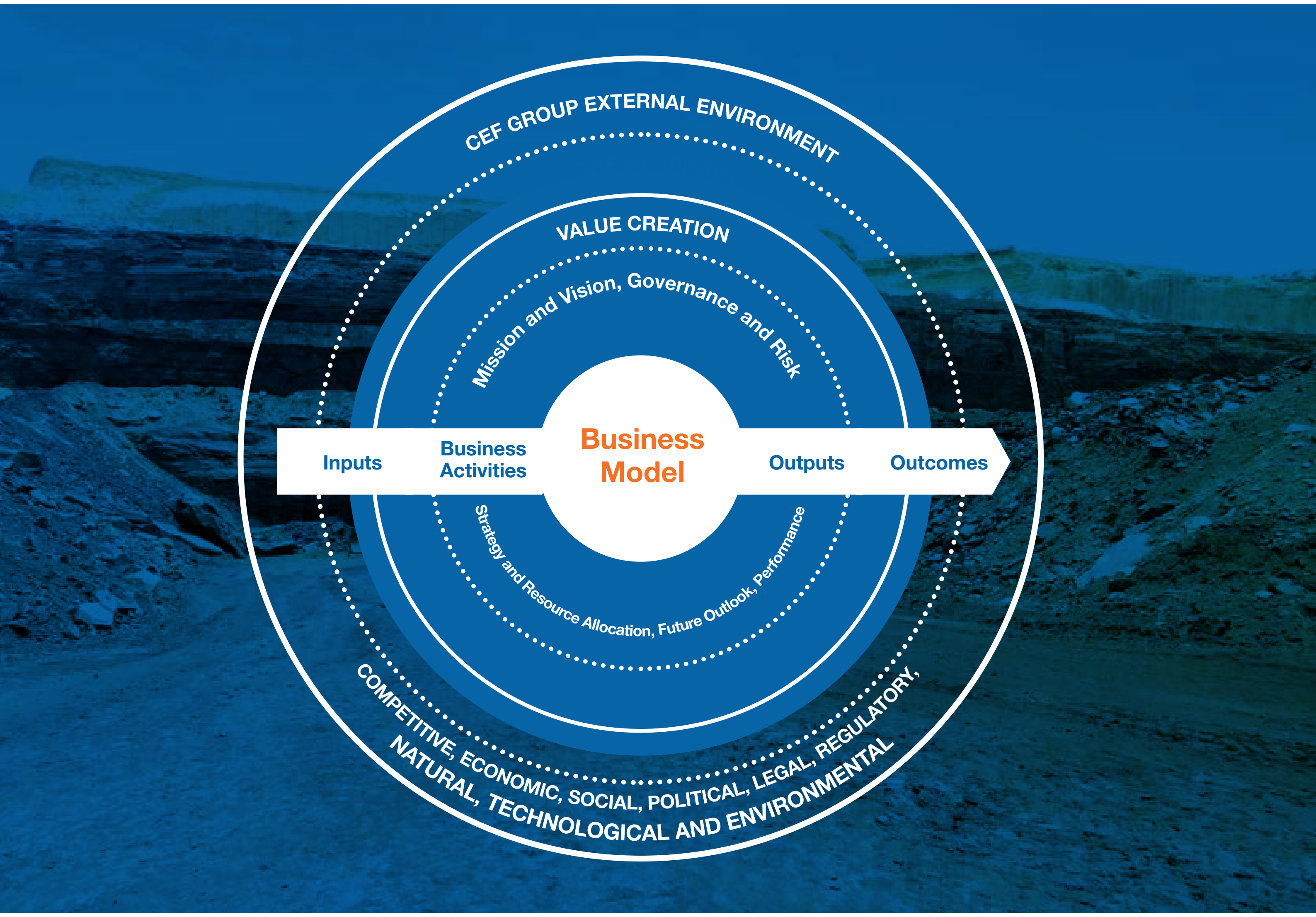
Value is created not only within the traditional boundaries of the CEF Group, but crosses organisational and geographical boundaries by connecting various value drivers, many of which are intangible. This requires reputable information to inform good decision making and a clear strategy and business 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 strategic decisions made in allocating 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.



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 'One CEF' Group. Our human capital investments programmes covered later in this section bear testimony to this.

Inputs	Core Activities	Outputs	Outcomes
The business requires a safe, healthy, engaged, innovative and high-performing workforce with expertise and right experience to grow the business A diverse and representative leadership team demonstrating value-driven behaviour Employees:1 976 Learners and apprentices: 87	Exploration Development of projects Manufacturing of fuel Distribution of fuel Coal extraction Construction of gas infrastructure Transmission of gas Storage of crude oil Regulation	The Group is in the business of production and trade of the following: Petroleum products Petrochemical products Coal The Group further conducts the following: Oil pollution control Mineral regulation and licensing Rental of crude oil storage tanks Transmission of gas	Employee benefits: R1.2 billion

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 Capital: R33 billion	Exploration Development of projects Manufacturing of fuel Distribution of fuel Coal extraction Construction of gas infrastructure Transmission of gas Storage of crude oil Regulation	The Group is in the business of production and trade of the following: Petroleum products Petrochemical products Coal The Group further conducts the following: Oil pollution control Mineral regulation and licensing Rental of crude oil storage tanks Transmission of gas	Income: R13 billion Operating profit/(loss) before depreciation, amortisation, impairment of assets, investment revenue, fair value adjustments, income/(loss) from associates and net finance costs (EBITDA): R880 million Cash generated from operations: R2.47 billion

Natural Capital

The Group's definition of natural capital incudes 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 We require gas, oil, coal for production of petroleum and petrochemical products Further to the above, water, land, air and energy are required in the process of conversion of mineral reserves into finished products	Exploration Development of projects Manufacturing of fuel Distribution of fuel Coal extraction Construction of gas infrastructure Transmission of gas Storage of crude oil Regulation	The Group is in the business of production and trade of the following: Petroleum products Petrochemical products Coal The Group further conducts the following: Oil pollution control Mineral regulation and licensing Rental of crude oil storage tanks Transmission of gas	Gas production: 2.313 million barrels Crude oil/condensate production: 3.973 million barrels Coal: 1.6 million tons

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 Technically skilled and experienced employees and external experts The CEF Group's business processes and management systems	Exploration GTL Distribution of fuel Coal extraction Construction of gas infrastructure Storage of crude oil Regulation	The Group is in the business of production and trade of the following: Petroleum products Petrochemical products Coal The Group further conducts the following: Oil pollution control Mineral regulation and licensing Rental of crude oil storage tanks 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 Property, plant and equipment that operate efficiently, reliable and assist the Group to comply with industry regulations	Exploration GTL Distribution of fuel Coal extraction Construction of gas infrastructure Storage of crude oil Regulation	The Group is in the business of production and trade of the following: Petroleum products Petrochemical products Coal The Group further conducts the following: Oil pollution control Mineral regulation and licensing Rental of crude oil storage tanks Transmission of gas	Petroleum product sales: 1.6 billion litres Coal sales of: 1.4 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. Sustained investor and shareholder confidence Strong engagement with employees and recognised unions Effective and timely communication with internal stakeholders, customers, suppliers and industry sector Positive relationships with government and regulators	Exploration GTL Distribution of fuel Coal extraction Construction of gas infrastructure Storage of crude oil Regulation	The Group is in the business of production and trade of the following: Petroleum products Petrochemical products Coal The Group further conducts the following: Oil pollution control Mineral regulation and licensing Rental of crude oil storage tanks Transmission of gas	Tax paid: R180 million CSI: R92 million BEE spend: R3.2 billion

Section 4

GROUP PERFORMANCE

"Outlined below is the CEF Group performance summary for the year ended 31 March 2018. A detailed report is contained in the CEF Group annual report."

CEF Group Performance against Target 2017/18

KPA	KPI	Measure	Weight	Target (FY17/18)	Score	Status
Commercial Viability (35%)	**Financial Sustainability**	Profitability	15%	- R670 million	3	FY 2017/18 actual net profit/(loss) = R354 million
		Solvency	5%	55:45	3	FY 2017/18 Debt: 12%, Equity: 88% as per National Treasury guidelines
	Growth Projects	Milestones	10%	70%	2.14	Much progress was made on the growth projects and the score is based on the average score for the KPIs
		Market share	5%	1%	1	During the 2017/18 year, there was never a time when the market share was measured on its own as an initiative with a weight of 5%. Instead it was understood that progress with initiatives (projects) and success with the milestones for each project will ultimately result in a market-share improvement in the outer years of the planning period to 2022. Hence the weight of 15% for the measure 'Growth Projects' applies uniformly to the initiatives with the understanding that progress will ultimately start to increase market share.

KPA	KPI	Measure	Weight	Target (FY17/18)	Score	Status
Developmental Agenda (20%)	**Strategic Projects**	Developmental and Social Impact	15%	3 Commence the implementation on SWH repair and replace Concept studies Migration plan to be drafted and agreed upon. Revised S54 approval for the migration. Physical incorporation Develop iGas concept note for participation in shale gas	2.25	The solar water heater programme is now being undertaken by the IPP Office. EPD did the groundwork for this project Most initiatives of Phakisa such, as roadshows, attending the International Gas Union Council in Tokyo and strategic environmental assessment (SEA) engagements were for earlier in the year and were achieved Migration plan remains on hold, but deliberations are continuing with DoE and IPP Office Ministerial pronouncements inform our understanding of the shale gas opportunity
	Transformation	BEE Scorecard	5%	Level 6	1	The measured entities met their quantitative targets The Group target of a level 6 rating was not met as different entities were at different levels PetroSA was at level 7 and this is the biggest entity in the Group

KPA	KPI	Measure	Weight	Target (FY17/18)	Score	Status
Governance (10%)	**Governance Model**	Group Governance Index	5%	3	2.33	Phase 1 of the work is completed. There are still 2 phases to be concluded during 2018/19 Further work of the Group operating model will proceed in 2018/19
	Internal Controls	Risk Maturity Index	5%	40%	3	Maturity assessment level established for individual entities The roadmap to achieve the desired maturity is included in the ERM plan for the new year, which includes key elements of governance, risk assessment, reporting, monitoring and optimisation
		Audit Opinion	5%	Unqualified	3	Unqualified audit opinion

KPA	KPI	Measure	Weight	Target (FY17/18)	Score	Status
Enabling Internal Environment/ Operational Excellence (25%)	**Operational Excellence (technology, knowledge, innovation, business process)**	Operational Excellence Index	5%	3	2.67	A formal knowledge management system is being implemented (policy, strategy, processes, technology). The rollout of SharePoint will proceed in 2018/19
	Human Capital	HPO Index	10%	3	3	Development of the competency framework is completed and is being socialised with leadership The CEF Leadership Development Programme is in progress The bulk of the workforce plan beyond laying the groundwork will be carried forward in the remainder of the planning period Interventions to realise a uniform employee value proposition for the CEF Group are currently on hold, but will proceed in 2018/19
	SHEQ	SHEQ Index	5%	3	2.33	All entities performed well for environmental safety 0 fatalities for SFF, 0 for AE, 0 for PetroSA. The Group, however, did not meet its target because of safety incidents at PetroSA
External operating environment (10%)	**Stakeholder management**	Brand equity (Prominence Index)	5%	3	2	Although the work started slowly, it gained momentum and will proceed in the remainder of the planning period
		Stakeholder and Communications Index	5%	3	2.25	All initiatives for the Stakeholder and Communications Index are continuing in the next year
Total			**100%**		2.43	
Achieved (3)						
Partially completed (2)						
Not achieved (1)						

ENGAGING WITH OUR STAKEHOLDERS

The CEF Board has prioritised protecting the company's reputation through the management of relationships with its stakeholders. The stakeholder engagement plan is the process of communicating and working with stakeholders to meet their needs and expectations, and to address issues as they occur. 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. The CEF Board identified key aspects of stakeholder engagement that needed to be managed during 2017/18 and delegated the management of these aspects to the CEF Executive Management.

Several stakeholder engagements were held with DoE, independent power producers (IPPs), the National Energy Regulator of South Africa (NERSA) to obtain their buy-in and approvals on a number of projects:

- Our corporate plan approvals,
- Clarity on Clean Fuel 2 implementation,
- Clarity on liquid fuel security of supply issues, and refinery capacity
- To profile iGas as a designated SOC to participate in gas IPP
- To profile CEF as a designated SOC to participate in the renewables programme.

Other government departments approached were:

- Department of Mineral Resources to engage on the new Mineral and Petroleum Resources Development Act (MPRDA) Bill
- National Planning Commission to give comments on 2030 Energy Plan revision
- The Department of Trade and Industry (dti) on industrialisation and Black Industrialists Programme
- Department of Environmental Affairs on the decommissioning provision rollout.

In our effort to pursue growth and diversify our income stream, the Group has adopted a strategy of working very closely with key SOEs to be the preferred supplier of their energy needs through the provision of a number of products.

The CEF approach to supply its products to mainly government departments and SOEs has intensified with the following potential customers for either fuels, gas renewables or coal being engaged;

- Commercial customers
- Eskom (fuel, coal)
- Transnet (fuel, gas)
- ACSA/SAA (fuel)
- SAPS (fuel)
- Department of Defence and Military Veterans (fuel and storage)
- Department of Public Works (renewables)
- Department of Human Settlement (renewables)
- Department of Basic Education (renewables)

The CEF approach to provide security of supply of fuels to mainly essential government departments and SOCs has intensified, to align it for better service delivery and assistance with fuel supply where necessary. CEF is participating in the Liquid Fuel Charter Council to spearhead the transformation of the oil and gas sector, with draft codes having been released in March 2018.

It is against this background that the 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 2017/18, R91 764 474.50 was spent in support of these 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 Group's 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.

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 DoE is CEF's only shareholder. The department provides directives to CEF Group business	Regular meetings, e-mail communique, 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 communique, 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 communique, briefing sessions as well as financial reports	Return on investment and Information share

Continuing to Create Value through our People and Develop High-performance Culture

Human capital remains a critical enabler in the delivery of the CEF Group Strategy, thus it 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) through people and culture. The human capital strategy is premised on the understanding that intellectual capital, i.e. the talent, skills and knowhow of our people, is the engine behind the value creation for the organisation. The HPO identified pillars reflected in the diagram below remain relevant in attaining HPO status.

High Performance Organisation Pillars:

- **Aligned organisational brand**

  Redesign the employer brand to resonate with employees and potential employees to differentiate ourselves from competitors and position the Group as an employer of choice.

- **Empowered and empowering leadership**

  Facilitate aligned leadership that shares common values, that is effective and goes deep within the organisation.

- Engaged high-calibre employees Developing and retaining the most capable employees.

- **Integrated structures, policies and systems**

  Ensuring structures, processes, policies and systems that reflect the Group's strategic focus.

- **Impact measurement of key metrics**

  Articulate and demonstrate the return on investment of the function and measure the improvement and progress in key human capital metrics.

In the past financial year, significant progress was made in the implementation of initiatives relating to some of the HPO pillars. The initiatives included the approval of six human resources group policy and frameworks, initiation of the leadership development programme for executive and middle managers, developed a Group shared services business case and value proposition, integrated talent management that was approved and being implemented, and creation of leadership stability at executive level across the group. Over the next three years, emphasis will remain on the implementation of HPO-aligned initiatives, while leading the journey towards high performance within the context of the new operating model that is currently underway. Table 1 below outlines the 2017/18 Group human capital objectives aligned to the Group corporate plan.

Table 1: 2017/18 Group human capital objectives

Leadership competency framework and DNA: • The Wits University Leadership Programme started in Q2 2017/18, with 10 Exco members attending the Executive Leadership Development Programme and 17 middle managers attending the Management Advance Development Programme. Both programmes will run for 12 months. • Competency framework integration into the Wits Leadership Programme for CEF has been completed and will be socialised with leadership.
Continue to drive towards a common Group human resources platform (systems, processes and policies): • Six CEF Group human resources policy frameworks have been approved by the CEF Board and implementation will be rolled out in the new financial year. • These policies will be used as a Group framework from which subsidiaries will customise their own policies according to their environments. • Group shared services feasibility report and proposal has been completed and socialised through various governance structures. The business case has been submitted to the Board for consideration and approval. Shared services work is being integrated into the Group business operating model review process.
Implementation of ITM Strategy and framework • Personal mastery and leadership coaching were completed as part of the Wits Leadership Programme. • Skills audit started in Q4 2017/18 to ascertain the existing CEF skills profile, which will inform the various initiatives of the ITM(say something about the Talent board and its intention • Talent Sourcing Strategy has been approved by Exco, although the related programmes were implemented earlier on (GIT programme and secondment of resources across the Group).
Creation of CEF Group brand as an employer of choice: • HR has started the initiative to create an employee value proposition. This project is currently focused on reviewing the total rewards philosophy and ensure alignment to best practice to position CEF as an employer of choice. A remuneration company has been appointed to support this project. • Exco approved BBBEE human resources pillars strategy as a commitment to drive transformation within CEF. HR has established statutory forums, i.e. employment equity (EEF) and skills development (SDF) forums including compliance and reporting thereon. • Promote staff retention within the AEMFC by maintaining lower staff turnover (fewer resignations due to attractive benefits of our competitors).
Fill vacant leadership positions and stabilise organisation • Only 37% of current leadership positions have been filled, mainly core business roles. This was impacted by the issued moratorium during Q2 2017/18 that the recruitment of all support roles across all levels must be placed on hold due to the ongoing • Vacant executive roles are either filled by incumbents in an acting capacity or seconded within the organisation to ensure business continuity. The Group continued to share support services as far as possible to minimise the HR impact when the operating model and shared services kick in.

Group Employee Profile

The CEF Group employee headcount decreased between 31 March 2017, which was 1 976, when compared to March 2018, which is standing at 1 862. 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 including attraction and attrition

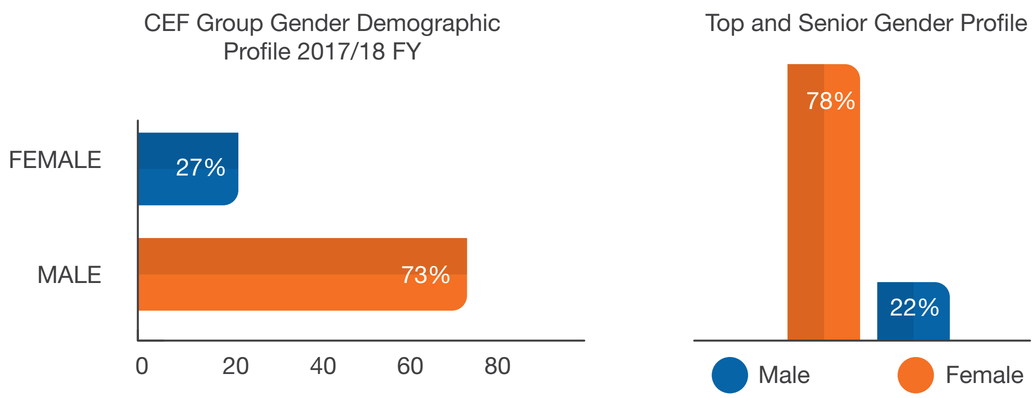
Number of employees at 31 March 2018	2017/18
Headcount at 31 March 2017	**1 976**
	262
Add:	(148)
Appointments (inclusive of PetroSA short-term contractors)	(134)
Less: broken down as follows	
Resignations (inclusive of PetroSA contractors whose contracts were not renewed)	
Deaths	(1)
Dismissal	(2)
Retirements	(8)
Retrenchments (voluntary severance packages)	(0)
Disability	(3)
Total headcount at 31 March 2018	**1 862**

The Group overall talent attrition rate at 2017/18 year end was 3%, which is low compared to market trends. However, the number of female employees who exited the Group is a cause for concern. Out of the 148 terminated employees during the reporting period, 28 were female from different levels. The CEF Group's overall female demographic percentage remained low throughout 2017/18, at 73% males versus 27% female (refer to Diagram 2 below). The attrition rate of females, which is at 46%, is a serious cause for concern. Initiatives have been put in place for the 2018/19 financial year to address reasons for resignations gathered in the exit interviews, in addition to making all efforts to attract suitable qualified and competent female candidates.

Diversity Progress in the Group

Female representation in the Group – which is at 27% – is below the national economically active population (EAP) target of 44.8 %. The Group regressed in its efforts to address gender diversity in 2017/18 as articulated in the paragraph above. The diagram below illustrates the trend as at 31 March 2017/18.

Diagram 1: Gender demographics



The CEF Board directed management to prioritise the appointment of competent female candidates in most of the positions in the Group to close the gender gap at all levels and meet the targets. This indicated that going forward, the commitment to increase demographic diversity will be driven from the top structures of the group. Table 3 below illustrates that there are gaps between national EAP and the CEF Group profile and also at each subsidiary profile and provincial EAP.

Employment Equity and Skills Development

It is acknowledged that EE and SD were previously not addressed or managed in a coordinated manner and, therefore a holistic view within the Group was not monitored and attained. In Q2 2017/18, a Group EE training/workshop was conducted to kick start alignment.

CEF Group entities are at different stages of compliance to the Employment Equity Act (EEA) and SD legislation and the workshop acknowledged that this made the achievement of Group EE targets difficult. The workshop proposed the following interventions for management and HR in particular:

- CEF has appointed EE and SD committee members in 2017/18.
- Group EE and SD committee must be formed and chairpersons of the respective EE/SD committees will be members of the Group Committee. This is to ensure that the Group transformation agenda is cascaded and implemented across the organisation.
- A Group transformation specialist will be appointed to ensure that the five-year transformation objectives and agenda are achieved – focusing on all BBBEE pillars, especially EE, SD, social economic development, preferential procurement and supplier development.
- A Group EE plan will be developed that will be cascaded to the subsidiaries, with targets aligned to 50% women in top management, 25% youth at professional level and more than 2% of people living with disabilities (PWD) employed.
- Each entity will develop a BBBEE plan, which will inform the target EE/SD plans.
- Create a mechanism and avenue to continuously train graduates (e.g. GIT/learnership) and employees to access benefits of the Sector Education and Training Authorities (Setas) and also contribute towards the developmental mandate of CEF.

Table 3: CEF Group demographic profile versus national EAP figures

Race	EAP Target	CEF Group 31/03/2018
African	77.4%	54%
White	9.9%	16%
Coloured	10%	28%
Indian/Asian	2.7%	2%

The CEF Group demographic profile is below national EAP targets by 23% (African) and 0.7% (Indian), while it is above the EAP for white and coloured groups, by 6.1% and 18% respectively.

Table 4: CEF Group demographic profile versus national and provincial EAP figures

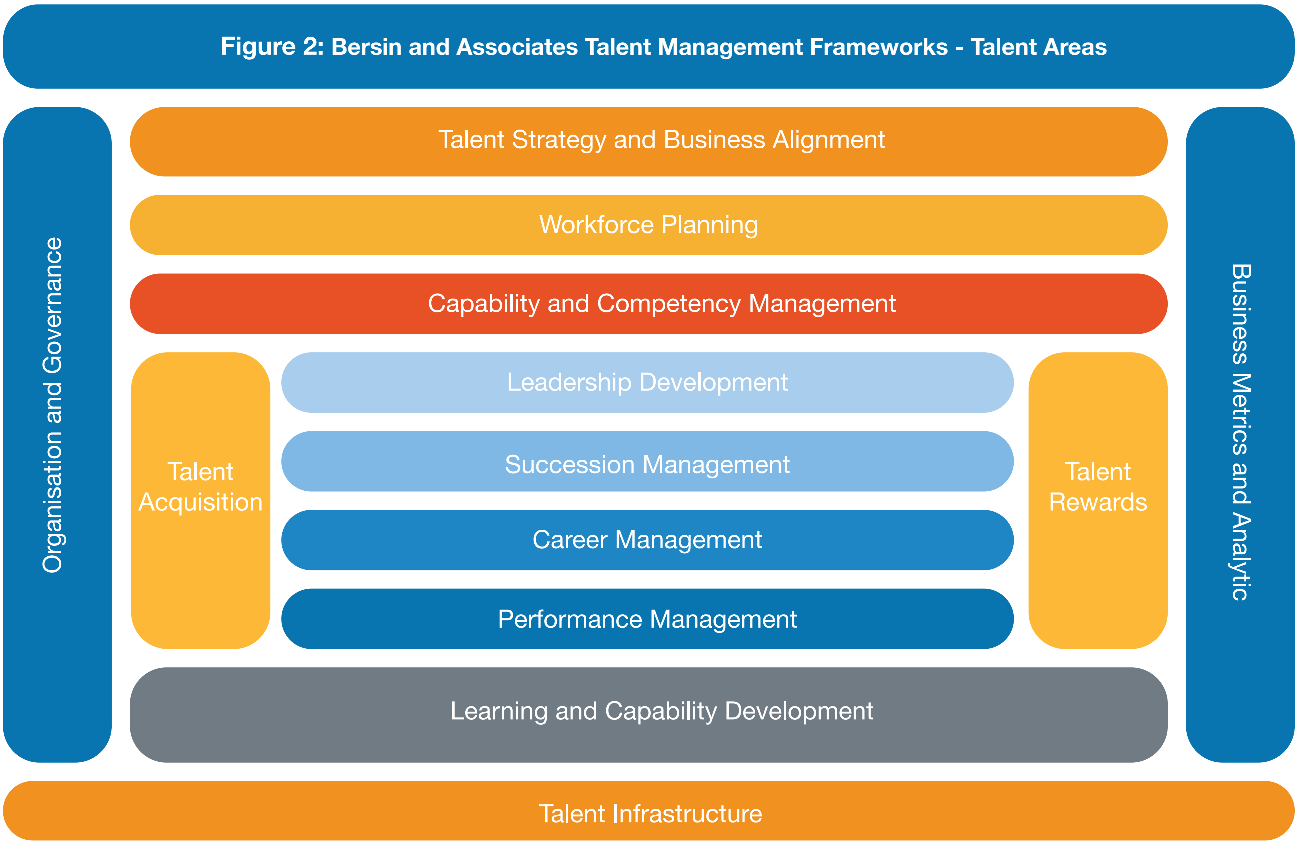
Entity	Male				Famele				Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Group	37%	22%	1%	12%	17%	6%	0%	4%	100%
National	42.8%	5.3%	1.8%	5.3%	35.1%	4.5%	1.0%	4.2%	100%
CEF SOC	47.6%	1.2%	4.9%	2.4%	36.6%	1.2%	1.2%	4.9%	100%
GP-EAP	44.8%	1.7%	1.8%	7.9%	35.2%	1.3%	1.1%	6.3%	100%
PetroSA	29%	26%	1%	15%	16%	7%	1%	4%	100%
SFF	29%	33%	1%	10%	19%	6%	0%	2%	100%
WC-EAP	19.9%	26.2%	0.4%	8.2%	16.1%	22.5%	0.1%	6.6%	100%
AEMFC	79%	0%	0%	1%	20%	0%	0%	0%	100%
MP-EAP	51.0%	0.2%	0.6%	3.5%	42.1%	0.1%	0.1%	2.5%	100%

The Group's demographics are influenced largely by the Western Cape EAP profile, mainly for coloured and white population groups. PetroSA and SFF both contribute a larger portion of the Group employee population. Table 4 above illustrates the comparison of provincial EAP per race and gender versus the various entities' profiles. When compared to the Western Cape EAP profile, both PetroSA and SFF demographic gaps are either negligible or non-existent, meaning that the focus should be mainly on improving women, youth and PWD diversity targets.

Integrated Talent Management

Our ITM philosophy outlines a holistic approach of how the Group manages its talents, including strategic workforce planning, recruiting, development, performance management, leadership planning and development, training, compensation and retention. It is through this process that the Group is able to rapidly and effectively respond to business needs through its talent. Various aspects of ITM are covered under different pillars of the HPO strategy.

Diagram 2: ITM model outlined by Bersin & Associates, 2010



ITM Framework

ITM is a key initiative in the 'empowered and empowering leadership' HPO pillar focused on a broader talent management strategy:

1. Leadership development
2. Performance management
3. Workforce planning
4. Succession planning
5. Training and development
6. Talent sourcing.

The above are interlinked to produce a strong leadership bench within the organisation required to drive the CEF Strategy. An instrument such as talent boards (Executive Management and managerial levels) is critical in ensuring that there is a commitment and an understanding from Board to management levels, and that organisational results are achieved through talent/people. The talent boards are a transparent vehicle to manage and grow talent succession pools. The critical decisions for individuals will include performance, compatibility, engagement and potential for growth.

The talent boards' mandate is to:

1. Review all proposed individuals earmarked for succession by various divisions, based on performance, compatibility, engagement and growth potential.
2. Provide input and consultation on strategic talent initiatives within the organisation and in the broader energy sector, with an emphasis on our leadership needs analysis outcomes.
3. Recommend performance enhancement interventions and assess the feasibility thereof.
4. Provide advice, feedback and recommendations to the leadership of CEF and human resources on the development and implementation of policies and programmes for identified individuals.

The talent boards will implement talent review sessions to increase the culture of talent discussion at all levels within the group, with the main focus on people and their development plans aligned to the organisational strategic direction and growth. ITM hopes to drive accountability and to ensure that CEF employs fit-for-purpose talent to achieve desired growth objectives. Talent reviews must be ongoing, year-long processes that provide line of sight to talent and culture at all levels of the company. They are also a mechanism to retain and attract talent, which will include elements such as:

- Differentiation using the 'nine-block', showing an overall look at each team's ratings. While there is a natural distribution, we do not force distribution.
- Succession and development plans for key leadership and domain expertise roles.

- Focused selection of high-potential talent for specific courses that are required to drive the strategy of the organisation, which may include leadership development.
- In some cases, promotion decisions.
- A look at diversity from a current leadership and pipeline perspective.

Attraction

In October 2017, the Board directed CEF and its subsidiaries to prioritise the recruitment process of executive vacancies, focusing mostly on CEO, COO and CFO vacant roles. The human resources committees of various boards conducted interviews and recommended to their boards the preferred candidates for roles that are within the scope of the board to appoint (CEO, CFO and Company Secretary etc). There was traction in some entities, with the CEF Group CFO, GM Corporate Services, PetroSA COO, CFO and AEMFC GM Finance being filled. Recruitment started in the last quarter of the financial year for all vacant executive positions and the process was at different stages at year end. Appointment of the CEF Group Chief Operations Officer and Business Development Officer was finalised in Q1 of the new financial year.

A moratorium was, however, issued in Q3 2017/18 to halt the permanent recruitment of all support functions pending the completion of the operating model review process and shared services projects.

Continuing to Drive Skills and Youth Development

The CEF Group maintained a strong focus on training and developing employees at all levels, by investing **R10.4 million** on training activities by 2017/18 year end. This training spend benefited 1 218 employees, 223 of whom are youth, including talent pipeline (interns, apprentices, GIT), bursary holders, in-service training participants and employees below the age of 36 years. Talent pipeline development-related funding includes bursaries, travel, salaries and stipends. Tables 6 and 7 below reflect the 1 055 talent pipeline participants profile and associated costs.

Table 6: Talent pipeline programmes number

Area	Female	Male	Total youth (18 to 35 years) 2017/18
Apprenticeships	12	28	40
Graduates in training, interns	26	15	41
In-service training	3	3	6
Total	41	46	87

Table 7: Skills development for employees and talent pipeline participants

Area	Number of beneficiaries	Rand value
Total spent on education and training for employees	1 055	4 018 163.94
Incentive funding for training (centre of excellence stipend, bursars allowance)	58	1 041 317.68
Bursaries	18	291 790.06
Work-exposure programmes (GIT, interns, in-service training)	87	5 143 387.61
Total	**1 218**	**10 494 659.29**

Developing Leadership Capability

Leadership is the key driver to create momentum, from determining and influencing culture through to day-to-day standards of operation. It is, thus, critical to have aligned leadership and establish a CEF-way of leading, i.e. CEF leadership DNA/competency, which is effective and applicable throughout the organisation. The CEF Group leadership model is geared towards changing mindsets and behaviours to deliver the strategic agenda of the Group. Results across the Group are achieved through integrated efforts of people, processes and systems.

In line with the above, a partnership between Wits Business School and CEF was forged to deliver the leadership development programme, resulting in the launch of the 12-month pilot programme. The main goal of the programme is to set the tone of desirable culture through leadership behaviours, value orientation and sustainable employee engagement.

Segmentation

The programme is split into two segments:

- Senior leadership development (SLD) for executives
- Management leadership development (MLD) for senior managers and all people managers.

The new world of work requires leaders to reconfigure the set of skills, knowledge and behaviours that they will need to be effective in the future. Leaders will need to access and develop all dimensions of their 'being' to develop the skills required. Against the context of the future world of work, the session on personal effectiveness will give leaders:

1. An understanding of the components of personal mastery and the different dimensions of the 'whole-being' person.
2. An awareness of, and insight into, their areas of strength and areas of development across personal mastery factors and whole-being dimensions.An understanding of how their personal mastery factors and their whole-being dimension integrate to develop resilience and emotional regulation.
3. Tools and practices to develop personal mastery and whole-being dimensions.

The personal mastery factors are:

1. Self-acceptance
2. Acceptance of reality
3. Directed passion
4. Curiosity
5. Impact on others
6. Global connectedness.

Based on 'leading from the inside out' principles, the session on personal mastery serves as a catalyst to create a state of learning readiness and as a framework within which the remainder of the programme can be delivered.

Employee Relations Climate

The Group continued to experience a healthy employee relations climate, with 63.6% of its employee being unionised. The various entities have experienced a high level of grievances, varying from alleged unfair labour practices pertaining to salary disparities, unpaid bonuses, promotions to sexual harassment. The below table expands on these.

Table 8: CEF Group employee relations matters

Disciplinary	13
Grievance	18
Commission for Conciliation, Mediation and Arbitration (CCMA), bargaining council and labour court referrals	20
Total	51

Three matters were referred to the labour court during the year:

1. PetroSA matter was concluded on 8 December 2017 and judgment was in favour of the company, with costs.
2. Two other PetroSA matters (unfair dismissal and non-renewal of fixed-term contract) are awaiting court set-down dates.
3. The unfair labour practice case brought by an ex-fixed term contractor is scheduled to be heard in May 2018.

AEMFC

AEMFC recognised the Association of Mineworkers and Construction Union (AMCU) in early 2017. However, the union raised a dispute regarding its membership numbers. The dispute was resolved through the CCMA, where a membership audit was undertaken in Q3 of 2017/18 to verify AMCU numbers. The audit revealed that National Union of Mineworkers (NUM) membership was higher, which compelled the recognition agreement discussions to move to NUM.

PetroSA

During the period under reporting, the Labour Relations Act Section 189A Notice was withdrawn and the CCMA-facilitated restructuring process was terminated during Q2 2017/18. The Board approved the request by management to confirm employees from Task 12 and below in operations and support functions as per agreement with organised labour and also to fulfil operational requirements. To maintain stability, 120 fixed term contractors' positions (welding, boilermaking, painting, cladding, insulation and electrical) were converted into permanent roles within the operations divisions, with the exclusion of FTC positions for project-related work. PetroSA had to undertake a scheduled maintenance shutdown and management obtained Board approval to pay employees participating in this project incentives for successful completion.

The payment performance conditions were:

- zero fatalities
- no more than three lost time injuries
- adherence to planned schedule
- successful commissioning of plant and
- achievement of cost savings on the budget.

SFF

SFF maintained stable relationships with its bargaining unit and had an uneventful year in terms of labour climate. The organisation was compelled to review the Oil Pollution Control division due to the expiration of an oil spill management contract between TNPA and SFF. There were no job losses as a result of this restructuring process. During the period under review, more employees were booked off for stress-related illnesses and the human resources team noted that morale was low. Many SFF employees retired, at age 65 or younger. There was also an increase in the number of employees on temporary disability.

Our Approach to Remuneration

The CEF remuneration philosophy strives to promote the organisation's high-performance culture to achieve sustainable growth and become an employer of choice. Our philosophy emphasises the fundamental value of all our employees and their role in attaining sustainable growth through fair and balanced remuneration practice. At the same time, the organisation adopts proactive rewards and remuneration strategies, aimed specifically at attracting, retaining and motivating employees. To achieve this, remuneration packages need to be both internally and externally competitive, catering for individual and company needs. The principle of performance-based remuneration is one of the cornerstones of the remuneration policy and is underpinned by sound governance principles that are reviewed periodically to drive alignment with changes in remuneration trends and practices. We ensure that fair and market-related remuneration practices are applied, with a balance between employee satisfaction and creation of a high-performance culture. To that end, CEF's remuneration policy has been designed to:

- Differentiate reward based on meritocracy to drive high-performance culture
- Attract, motivate and retain high-calibre talent to drive business success
- Compete for talent in an increasingly competitive labour market, through ensuring that remuneration compares satisfactorily with market realities
- Creation of a high-performance culture where consistently good or excellent performance is rewarded
- Remunerate individuals differentially, based on their market value, competence and level of performance
- Manage the total cost of employment.

To achieve the above, the company's policy is based on the following principles:

- Competitive pay levels: CEF is committed to paying packages that are competitive relative to the labour market.
- Pay for performance: Remuneration practices reward key employees for the contribution they make to the entity.
- Internal equity: Remuneration differentiation between employees fulfilling roles of equal value is based on criteria that are fair and objective, and conform to legislation.
- Cost management: CEF will manage the total cost of employment for all employees.

- Benefit flexibility: CEF will offer a selection of benefits, which are at least in line with best local practices, but bearing in mind that it is a responsible corporate citizen
- Remuneration that is non-discriminatory.
- Being competitive to attract and retain key skills, by providing market-related remuneration structures, benefits and conditions of service.
- Positioning executive remuneration to best practice and structuring pay mix to include guaranteed and variable remuneration (short- and long-term incentives) and rewards and recognition programmes.

Salary Increases Implemented in 2017/18 at CEF Group Entities

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 budget per entity and how salary increases were implemented per entity.

Table 8: 2017/18 salary budgets per entity

Entity	Allocated Salary Bill Budget	Approved Salary Increase Mandate	Application of Approved Increase %
CEF SOC	R76.3 million	7.5%	5.3% based on April 2017 Consumer Price Index (CPI) plus 2.2% performance factor
SFF	R94.9 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	R54.7 million	7.5%	Bargaining unit received 7% increase across the board
			Non-bargaining unit received 7% increase
PetroSA	R903.8 million	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 2017/18 period:

1. CPI at end-April 2017 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 2017/18
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 2017/18 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. CEF SOC, as a holding company, has a mandatory oversight role over its subsidiaries. During the financial year under review, CEF exercised a much tighter and more coordinated oversight role on its subsidiaries, with a much more focused approach to business performance resulting in the Group performance rating increasing to 80.00% (2017/18) compared to the 68% (2016/17).

During the 2017/18 financial year, CEF led a number of initiatives aimed at improving overall Group strategic alignment, coordination and strategic guidance. The CEF Group initiated an exercise to reduce costs, eliminate duplications and find smarter and better ways of doing business that do not erode Shareholder value. The identification of various cost buckets in the Group was part of this process. Great opportunities to further streamline costs will emerge with the review of the Group operating model and the adoption of a shared services model.

Due to financial constraints, PetroSA offered its employees – excluding certain executives – gratuity payments of R13 128.44 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 of R15 565.38 to all employees involved in the project.

Table 9: Group remuneration report for all employees, including executives

Group Remuneration	2017/18 (Figures in rand)	2016/17 (Figures in rand)
Guaranteed remuneration	1.14 billion	1.1 billion
Bonus	93 million	95.8 million
Other incentives (retention/sign on bonus)	469 659	18 million
Long-term incentive plan	0	428 000
Total remuneration	**1.24 billion**	**1.2 billion**

The 2017/18 Group remuneration bill reflected in Table 9 above showed a slight increase compared to the previous year. This was due to a tight cost reduction drive during the year. As a result of its financial constraints, PetroSA paid its employees gratuity amounts instead of performance bonuses and most of its 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 9 total remuneration did not take into account the leave provision costs of the Group, which will be reflected in the AFS. A total of R93 million was paid in bonuses and gratuity amounts during the period under review across the Group for all employees.

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 44 of the AFS. Non-executive directors receive a fixed rate per hour as engagement fees for CEF Group business-related meetings.

Remuneration of Non-executive Directors and Group Executive Management	Remuneration		Bonus and Incentives	
	2017/18	2016/17	2017/18	2016/17
Non-executive directors	13 million	13.7 million	N/A	N/A
Executive members	66.7 million	78.8 million	17.5 million	20.5 million
Total remuneration	**79.7 million**	**92.5 million**	**17.5 million**	**20.5 million**

CORPORATE SOCIAL INITIATIVES

In pursuit of the vision of becoming a significant player within the energy sector, the CEF Group remains committed to sustainable development. We aim to align our corporate objectives with our performance as a corporate citizen. It is against this background that the CEF Group implements initiatives to advance the quality of life of historically disadvantaged communities central to the Group's CSI philosophy. During 2017/18, **R91 764 471.50** was spent in support of these development initiatives, covering community development, education, environment, health and sustainable development.

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

- Broad-based impact in previously disadvantaged communities;
- Positive enhancement of the Group's 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 B-BBEE scorecard; and
- Alignment with the CEF Group's corporate values.

CEF SOC				
INITIATIVE	**BRIEF DESCRIPTION**	**DATE**	**CATEGORY**	**AMOUNT**
School shoes campaign	The initiative provides school shoes to needy learners from disadvantaged provinces. The handover was successfully initiated in Northern Cape and Eastern Cape, with the final leg scheduled for Limpopo in the new financial year	April 2017 to March 2018	Education	R606 793.50
Branded solar lights	CEF was approached by DoE to provide solar lamps to schoolchildren from Mbizana as part of Steve Biko memorial celebrations	May 2017	Education	R130 484
Youth in energy dialogue	The dialogue engaged youth professionals, investors, experts and entrepreneurs on how the youth can be empowered to be more involved in the energy sector. This is an initiative that the Ministry of Energy uses to sensitise the industry of its role in alleviating the challenges of young people through energy-related initiatives	June 2017	Education	R10 000
Alexandra blankets initiative	An emergency relief fund was set up to buy blankets for Marlboro residents whose shacks were gutted by fire on 15 July 2017	July 2017	Social relief (donation)	R10 000
Funeral assistance for Soshanguve families	Following an official request from the DoE, an emergency donation was made to assist with funeral arrangement of the families of five children who died after a high-mast light ring collapsed in Soshanguve, north of Pretoria on 4 November	November 2017	Social relief (donation)	R125 000
TOTAL				**R882 277.50**

CORPORATE SOCIAL INITIATIVES

African Exploration Mining and Finance Corporation				
INITIATIVE	**BRIEF DESCRIPTION**	**DATE**	**CATEGORY**	**AMOUNT**
Relocation of 24 households	Relocation of 24 households from farm areas to Phola Extension 35 where there are fully serviced sites with paved roads, electricity and water reticulation	2017/18	Infrastructure	R11 572 726
Phola township road upgrade	The connection of the Phola township community to the electricity grid	2017/18	Infrastructure	R74 871
Training of local farming community	The training of local citizens in code 14 truck driving learners and drivers licensing to allow them to be employed in local mines as drivers	2017/18	Education	R103 553
Procurement from Nkangala	Coal transportation from various transporters	2017/18	Business support	R65 131 064
TOTAL				R76 882 214

PetroSA				
INITIATIVE	**BRIEF DESCRIPTION**	**DATE**	**CATEGORY**	**AMOUNT**
Early childhood development (ECD) centres	Provided more than 1 540 ECD learners up to the age of five with a secure learning environment and proper educational learning equipment in Mossel Bay and surrounding areas through the establishment of 21 communal ECD centres	July 2017	Education	R1.500 000
Educational infrastructure	Developed the infrastructure of classrooms, administration and ablution facilities at Maseleni Primary School in Dutywa and classroom facilities at Humansdorp Primary School in Humansdorp, both in the Eastern Cape. Developed a sick bay and converted three smart classrooms at Siyazingiza Primary School in Gugulethu, Western Cape. Unused furniture was also donated through PetroSA's shared services	2017/18	Education	R5.600 000
Alma Clinic	Added a new dental unit at Alma Clinic to give the community access to improved dental care	2017/18	Health	R3 000 000
D'Almeida Clinic	The donation to the D'Almeida Clinic will enable the community to access comprehensive primary healthcare cover, most notably paediatric, women's and maternal healthcare; treatments for minor illnesses, HIV/Aids, tuberculosis, chronic diseases and disability; occupational health and physiotherapy	2017/18	Health	R3.900 000
TOTAL				R14 000 000

Section 5

CORPORATE GOVERNANCE

> 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.

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 Accounting Officer. The mandate is encapsulated in the terms of reference of Internal Audit, which and 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.

The CEF IAS is due for a quality assurance review by the IIA during the latter part of 2018, the last review having taken place in 2013, when it received general compliance results.

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 MoIs of the 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 by the Minister of Energy as set out in 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 its takes cognisance of the skills, gender and race mix required on the Board, during the recruitment and selection process in order 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.

Communicating with Directors

Serving on an SOE, the directors are constantly briefed by way of 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 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 by 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 provides 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 finalised after consultation with the external auditors and has been 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.

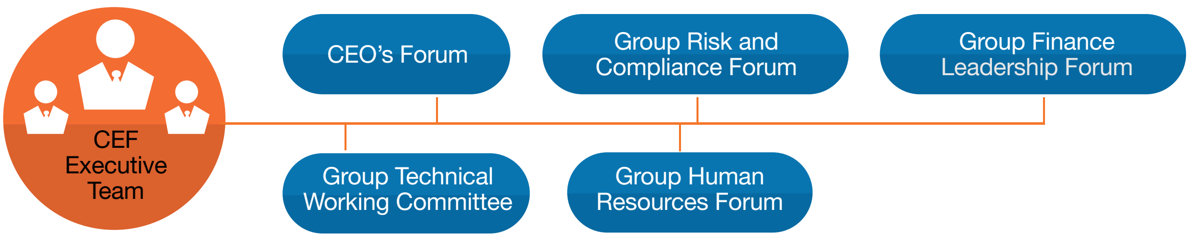
Key Board Attributes	
Significant leadership experience in legal, project management, corporate governance, policy formulation, trading, oil and gas, renewables, corporate finance, and refinery operations	80% independence
Substantial experience in some of the directors in working for global entities and leading large and complex businesses	
Strong independence	Well-balanced Board tenure
Detailed Board induction process	
Strategic support and ongoing board development with leading independent institutions	

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 by the CEO 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 responsibilities and the Group CEO is accountable to the Board for the execution of his 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 streamlines 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	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: Formulates a collaborative human-capital agenda that will support group operations in a cohesive, relevant manner; aligns the human-capital mandate in the CEF Group through coordination of efforts; identifies and manages areas of convergence, and eliminates duplication of policies and processes.

Section 6

OPERATIONAL PERFORMANCE

> The successful development of this resource has the potential to transform the national energy economy of South Africa. To that end, we intend to move with speed to fast-track the finalisation of exploration rights applications so that South Africa can maximise its chances of reaping the benefits from shale gas exploration and exploitation.

AEMFC

AFRICAN EXPLORATION
MINING AND FINANCE
CORPORATION SOC LTD

AEMFC is a major subsidiary of the CEF Group. It was established as a state-owned mining company 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. This includes key minerals for beneficiation in the energy and steel value chain.

Economic Regulation and Regulatory Reform

The AEMFC Bill was published in 2015 and is awaiting approval by Parliament to formally ratify the establishment of AEMFC by an Act of Parliament. The company owns various prospecting and mining rights across the country in pursuit of its mandate.

Financial Performance

The business is capital intensive and that poses a challenge in financing projects to increase the entity's capacity to supply energy. Those charged with governance have their finger on the pulse in raising capital for projects under a feasibility study to move to the next phases until they become fully operational. As a holding company, CEF has also supported the company financially in this financial year to pursue further mining opportunities, including acquisitions and incorporated joint ventures with black-owned and -managed mining companies.

Turnover: R458 million
EBITDA: R102 million
ROCE: 8.5%

Non-financial Performance

The detail below is a summary of the company performance for the year, against its predetermined objectives agreed with the CEF SOC in the Shareholder's Compact*.

Material Projects under Study

- The Vlakfontein Mine Extension is underway, with the mining of other blocks (starting with the Vlakfontein East Block in December 2017) from which coal has been sold to Eskom. Further blocks will follow in the ensuing financial years.
- The Klippoortjie Mine is at feasibility stage and awaiting finalisation of the regulatory approvals and surface rights access/acquisition. The company continues to make the necessary presentation to the departments of water and sanitation, environmental affairs and mineral resources to speed up approvals.
- The T Project mine commissioning is at capital-raising stage and structuring is underway to take advantage of opportunities, including supplying Eskom and other available industries that are showing a keen interest.
- As part of the company's growth strategy, two strategic acquisitions have been acquired in collaboration with black-owned entities and are being operationalised. First coal was supplied to Eskom in December 2017 and these operations continue to ramp up to a steady state. Further, there is growing interest from various other black-owned entities to collaborate with AEMFC for further acquisitions within the resources market in diversified minerals.
- Other diverse exploration and mining rights owned by the company continue to be developed through various stages to provide a platform for further growth and sustainability.

*(*The detailed report is contained in the individual company annual financial report that is available in respective entities and/or CEF SOC, the DoE, Parliament and NT)*

iGas

iGas

iGas SOC is a major subsidiary of the CEF Group. The company's key focus is facilitating the use of natural gas in South Africa through the development and execution of strategic bulk natural gas infrastructure projects.

Economic Regulation and Regulatory Reform

iGas assets are its investments in natural gas pipelines, which are regulated under the National Energy Regulator Act. This Act overarches the Gas Act 2004 and the Gas Regulation Act. The amendments of the Gas Act of 2004 have started and relate largely to a licensing framework for regasification infrastructure and mandating the Minister of Energy to make determinations on the required infrastructure.

Financial Performance

iGas's primary source of income is the dividends it receives from its 25% shareholding in the Rompco pipeline.

Turnover: R346 million (Dividend income)
EBITDA: R360 million (including dividend income)
ROCE: 9.8%

Non-financial Performance

Detailed in the iGas annual financial report is a summary of the company performance for the year against its predetermined objectives agreed with the CEF SOC in the Shareholder's Compact*.

Material Projects under Study

As part of the government's Operation Phakisa, iGas has led the development of the Phased Gas Pipeline Network project. During the year under review, the Council for Scientific and Industrial Research was appointed to undertake a strategic environmental assessment for the routing of gas pipelines across South Africa connecting various potential sources and supply areas. iGas has also been developing options for liquefied natural gas (LNG), receiving infrastructure and associated pipelines in the ports of Richards Bay and Coega in line with the proposed LNG-to-power programme being developed by the DoE's IPP office.

iGas participated with its fellow CEF subsidiary PetroSA in a study on LNG supply to the PetroSA GTL Refinery in Mossel Bay, which was presented to the PetroSA Board.

*(*The detailed report is contained in the individual company annual financial report that is available in respective entities and/or CEF SOC, the DoE, Parliament and NT)*

PASA

PASA is an SOE incorporated in 1999 which, in terms of the PFMA, is a Schedule 2 listed entity reporting through its shareholder CEF to the DoE. The Agency receives its mandate from the MPRDA, which is the principal statute that governs the regulatory function of government on mineral and petroleum resources and is administered, through presidential proclamation, by the Department of Mineral Resources. The mandate of PASA is the promotion and regulation of the upstream petroleum industry in South Africa, both onshore and offshore. PASA is responsible for administering the petroleum section of the MPRDA. Furthermore, PASA's mandate includes receiving, maintaining, storing, interpreting, evaluating, adding value to, disseminating or dealing in all geological or geophysical information relating to petroleum.

In light of this mandate, the Agency plays a very important role in attracting investment to South Africa and ensuring the long-term sustainability of the industry in a responsible manner. The success of the industry will have a major impact on the future economic growth of the country through significant investment and the creation of many jobs. Without proper management, the industry could fail to perform to its potential. This would be a great loss to the country and its citizens. Recent research has indicated that South Africa has the potential for significant oil and gas reserves.

Economic Regulation and Regulatory Reform

The Mineral and Petroleum Amendment Bill was initially passed by Parliament in 2015 but was then sent back to lawmakers by the President owing to concerns over its constitutionality. The Bill is currently being considered by the National Council of Provinces (NCOP).

Financial Performance

The nature of the business is regulatory and, therefore, funded through government allocations. The allocation is significantly below the amount requested from National Treasury. To ensure the long-term sustainability of the company, we are preparing for its new reality, hence the financial results below*.

Turnover: R45.1 million (excluding the allocation of R87.1 million)
EBITDA: R96 million
ROCE: 15.4%

Non-financial Performance

Detailed below is the summary of the company performance for the year against its predetermined objectives agreed with CEF SOC in the Shareholder's Compact*.

The 2017/18 financial year was satisfactory for PASA. It continued to remain steadfast in realising its mandate, whilst facing a number of strategic and operational challenges, which adversely affected its operations. Key among these was the pending finalisation of the Mineral Petroleum Resources Development Amendment Bill and the Agency's funding reality. PASA has launched an aggressive campaign to drive operational efficiencies and accountability across the value chain. It has also identified a number of revenue-generation ideas for the next financial year. Whilst still at the very early stages, these initiatives seem somewhat promising.

Material Projects under Study

Shale Gas Play

The southern main Karoo Basin is considered to be the most prospective area for shale gas, with a possible estimation of 205 trillion cubic feet of gas technically recoverable as reported by PetroSA. The successful development of this resource has the potential to transform the national energy economy of South Africa. To that end, we intend to move with speed to fast-track the finalisation of exploration rights applications so that South Africa can maximise its chances of reaping the benefits from shale gas exploration and exploitation. The Minister of Mineral Resources has published a notice in terms of the Promotion of Administrative Justice Act to invite comments from persons who may be materially and adversely affected by a decision on the three shale gas applications for exploration rights to make written representations which will be taken into consideration when making a final decision on whether to grant or refuse the applications in question.

The evaluation of shale gas has continued during the period in review, incorporating expanded basin modelling, seismic mapping and revised resource assessments of the shale gas play for the south-central Karoo Basin. The integrated report entitled 'Shale Gas Assessment of the Karoo Basin, South Africa' was completed and published. The shale gas atlas of information and subsequently the resource inventory was updated with estimates of prospective shale gas resources, applying deterministic and probabilistic techniques for all target shale formations.

Coalbed Methane Play

The evaluation of the coal bed methane (CBM) resource potential of the main Karoo Basin and associated coalfields continued. Technical progress reports documenting the regional CBM potential for the Highveld and Ermelo coalfields were completed and atlases of information for these plays were compiled. The resource inventory was updated incorporating estimates of gas initially in place resources for each coalfield evaluated. The assessment of the CBM resource potential for the Tuli Basin was also completed this year, culminating in a published map product, and the resource inventory was updated.

Gas Hydrates

The technical evaluation of gas hydrates of the frontier offshore continued. This year, the focus was on identifying and interpreting bottom simulating reflectors from seismic data for the Bredasdorp Basin. The project produced a technical progress report and associated map work showing the spatial extent of the gas hydrate stability zone for this region of the Outeniqua Basin.

*(*The detailed report is contained in the individual company annual financial report that is available in respective entities and/or CEF SOC, the DoE, Parliament and NT)*

PetroSA

PetroSA SOC is a major subsidiary of the CEF Group. The primary function of the company is exploration for and production of oil and gas, refining operations, converting gas and gas condensate to liquid fuels and petrochemicals and the marketing thereof.

Economic Regulation and Regulatory Reform

The company trades its petroleum and petrochemical products as regulated by Petroleum Products Act, No 120 of 1077, as amended by the Petroleum Products Amendment Act, No 58 of 2003 and its Regulations. The construction of platforms and the refinery causes damage to the environment and the company ensures this is properly managed. Both MPRDA (for off-shore oil and gas production assets) and National Environmental Management Act 107 of 1998 (for the refinery and onshore pipelines) require operators to rehabilitate the environment when assets are retired. In terms of MPRDA requirements, the National Environmental Management Act 107 of 1998 has promulgated financial provision regulations that require the company to review, assess and adjust its financial provision before February 2024.

Financial Performance

The 2017/18 financial year was crucial for PetroSA, since it started to implement its strategic turnaround plan. Business performance was underpinned by a roadmap to facilitate the long-term sustainability of the organisation. Focus has been on the implementation of interventions to manage both short- and long-term challenges. These include the following:

- Reliable operation of its GTL Refinery at a low gas throughput rate of 80Knm3, while increasing the condensate processing capacity to 18 000 barrels a day
- Successful execution of the statutory refinery shutdown
- Improvement of logistics capability to reduce the feedstock costs
- Ensuring that the life of field is achieved in the plan through the successful restart of the FO10 well
- Implementation of a new organisational structure
- Execution of the partnership strategy to facilitate access to the potential offshore gas reserves and the development of the West Coast blocks
- Implementation of the downstream market entry through both organic and inorganic growth
- Shedding of non-core assets
- Management of the abandonment liability
- Cost reduction and resource optimisation to facilitate better cash management.

Despite the challenging environment, PetroSA performed better than plan, with a net loss of R382 million against a budgeted loss of R1.1 billion. This was driven by a better-than-plan refinery contribution and the Ghana investment performance being higher than anticipated due to higher crude oil prices, which have been supported by higher investment returns from higher-than-plan cash reserves. Efforts to manage cash have also yielded results as costs have come in below budget due to the revised shutdown methodology and deferment of some capital expenditure commitments. Revenue and sales targets were, however, not achieved due to lower production volumes as a result of operational challenges at the refinery, lower sales of manufactured products, lower hospitality sales and lower purchased product sales.

The performance was also impacted by volatility in global and local economic markets, operational challenges and low feedstock levels at the GTL Refinery. The refinery's gross margin contribution was better than plan despite lower production arising from liquid feedstock challenges impacting the quality of diesel at the beginning of the year, the delay in the operation of the Single Point Mooring (SPM) after the shutdown and the fire incident in the last quarter of the financial year. Efforts to preserve cash through better working capital management, capital expenditure efficiency and deferment, and better sourcing strategies have yielded a better-than-plan cash position. At the close of the reporting period, the group had a cash balance of R2.3 billion. This amount excludes the encumbered cash of R2.1 billion, made up of R1.7 billion ring-fenced for abandonment and R487 million restricted to cover guarantees. Total assets amounted to R15.5 billion inclusive of cash.

Turnover: R10.4 billion
EBITDA: R443 million
ROCE: -2.5%

Non-financial Performance

In Q4, safety performance deteriorated as a result of several lost time injuries (LTIs). A lost time injury frequency rate of 0.78 (against a plan of 0.35) was recorded, which impacted negatively on the Q3 actual of 0.69. A total of 17 LTIs were recorded during the year. An executive management and Board drive continues to improve the safety culture of the organisation. PetroSA continued to operate in an environmentally sustainable manner and all operations remained fatality-free. There were seven environmental incidents reported during the year.

During the period under review, the refinery was operated at a 1 reformer and 1 synthol train mode. Cumulative total production from the GTL Refinery was 21% below budget (6.286 million barrels actual versus 7.965 million barrels budget). This was due largely to several plant operational challenges, reduced yoho condensate processing from May 2017 to mitigate the diesel quality challenges with wax formation and lower gas processing at the reformer units.

The alkylation unit (which produces the components for petrol) was decommissioned in March 2018 due to a fire incident caused by a seal failure on one of the pumps, which reduced petrol production in March. Organisational focus throughout the year remained on the sustainability of PetroSA, with special attention on the feedstock challenge in both condensate and gas availability. The FO10 well intervention was conducted successfully and brought back online in March 2018. The well is currently flowing and has produced about 1 Bcsf. Monitoring of the well performance will be the focus of the organisation for the next few months to better evaluate the potential of the well and the reservoir.

The planned shutdown of the refinery was successfully completed based on the revised shutdown plan designed to enable the efficient operation of the refinery and cost management. The shutdown is vital to the role that is played by the refinery, firstly to ensure the safe operation of the plant, and furthermore, in the sustainability of the PetroSA business. The revised shutdown work was achieved at a better-than-plan cost at R98 million against a budget of R133 million. Major successes achieved in this shutdown included integrity assurance, safety, savings realised and reduced capital outlay. The lowlights were missed mechanical completion dates and challenging commissioning. The FA platform and the Gasloop shutdown will be implemented in the next financial year.

The feasibility study of the Enhanced Condensate Processing (ECP) Project was completed in June 2017. The project received Board approval in March 2018 to proceed to the FEED phase subject to CEF and other approvals.

This project offers alternative feedstock options and presents a viable solution for the refinery in the event that gas feedstock to the GTL Refinery is no longer available.

The organisation continues to work with SFF to resolve the logistics infrastructure project. The SFF management is expected to review and consider the implementation of the Milnerton storage facility in the next financial year. However, an alternative feedstock, which can be loaded into mid-range vessels has also been identified which, subject to a test run, will be introduced in the next financial year.

An interim Board was appointed in June 2017, which has revised the mandate of the organisation and provided a strategic direction that has been adopted by the organisation. However, implementation of the organisational structure will be effected only in the first quarter of the next financial year in line with the direction provided by the Board. The section 189 process was discontinued, thus no voluntary retrenchments were implemented in the financial year. However, the organisation continued to optimise its resources to facilitate efficient utilisation.

In line with the new strategy, upstream and downstream initiatives will be pursued in the next financial year through the partnership strategy. The organisation has started work on the repositioning of its upstream activities to facilitate the management of the abandonment liability and to enable the better execution of upstream initiatives.

The organisation continued to pursue its transformation targets and has performed well on preferential procurement, achieving 95% compared to a target of 70% to 80%. However, the B-BBEE status for the organisation still remains poor at Level 7 and is likely to get worse in the next financial year due to limited spending on enterprise and supplier development (ESD) initiatives. A budget to enable the execution of ESD initiatives has been included in the budget of the next financial period, which will be complemented by the development of a B-BBEE intervention plan.

*(*The detailed report is contained in the individual company annual financial report that is available in respective entities and/or CEF SOC, the DoE, Parliament and NT)*

SFF

The SFF Association non-profit company (NPC) is a strategic petroleum reserves agency of the Republic of South Africa and is a major subsidiary of the CEF Group. The primary function of SFF is to procure and store fuels that are or may be of strategic importance to the country. SFF owns and operates the biggest crude oil storage facility in the southern hemisphere, where crude oil reserves are stored on behalf of the state and any unutilised storage capacity is leased to the market. The revenues earned from leasing unutilised storage capacity are the only source of income and enable SFF to manage the storage infrastructure and government-owned crude oil strategic reserves at no cost to the Republic of South Africa.

Economic Regulation and Regulatory Reform

The tariffs that SFF charges the market for the storage and handling of crude oil at its facilities are regulated by the Petroleum Pipelines Act 60 of 2003. The terminals are classified as national key points in terms of National Key Point Act 102 of 1980 and, therefore, comply with the highest security protocols.

Crude oil is a pollutant and there is always a risk of accidental discharge into the environment. All our facilities, however, comply with the prescripts of the National Environment Management Act 107 of 1998 and related regulations and, as a result, there were no environmental incidents during the period under review. Risk monitoring and mitigation are embedded in all SFF's operations. Where the residual environmental risks are above the risk tolerance, SFF has created sufficient financial provisions that are audited annually to cater for liabilities that may be incurred by the entity. The handling and storage of crude oil are potentially hazardous activities and all SFF crude oil storage facilities are classified as major hazard installations in terms of the Occupational Health and Safety Act 85 of 1993. To ensure compliance with the Act and its regulations, the facilities are audited every five years by independent experts and recertified by the Department of Labour. In addition, SFF conducts legal compliance audits for all its facilities every second year. The pollution control activities of SFF are regulated by the South African Maritime Safety Authority Act 5 of 1998 and subsidiary regulations promulgated under this Act. All maritime assets owned and operated by SFF, boats and oil recovery equipment, must comply with the provisions of this Act.

Financial Performance

During this reporting period, the oil storage market was in a contango structure for barely three months as at the resumption of Q2 (July), our customers started to exercise their exit clause in the storage contracts, indicating their intention to offload their crude oil. The above negatively impacted on our revenues, as this year's revenues were 20% below the previous year's revenues. This year's actual revenues were 24% below budgeted revenues. This turn of fortunes signals a change from the upward swing of our revenues of the past three years. Whilst the overall total operating costs might depict a picture of costs having ballooned over the past four financial years, the reality is that if special items such as bad debts provisions, stock provisions and effects of strategic stock sale are excluded, then a positive picture emerges, a picture of an organisation that has embedded the culture of not only cost containment, but cost compression if one takes into account effects of cost inflation – the nominal operating costs of the 2017/18 financial year in comparison to the previous financial years were below the 6% ceiling of the South African Reserve Bank inflation target.

Financial Position

The company remains in a robust financial position as evidenced by a solvency ratio of 2.8:1 i.e. for every R1 owing, the company has R2.8 worth of assets to cover that liability. The company is also liquid, as current assets are 2.5 to current liabilities.

Cash-flows Generated

The net cash generated from operations in the year under review was R800 million, only R200 million shy of R1 billion, which reflects an entity that is growing its top line, managing its costs and diligently collects from its debtors.

Turnover: R640 million
EBITDA: R372 million
ROCE: 2.3%

Non-financial Performance

Detailed below is the summary of the company performance for the year against its predetermined objectives agreed with CEF SOC in the Shareholder's Compact*.

Zero Harm to People and the Environment

It is SFF's objective to achieve its goals without harming people or the environment. During the year under review, the business had no work-related fatalities and there were no incidental discharges of pollutants to the environment. Although the business achieved the targeted DIFR of less than 1.2, there was one disabling injury that resulted in the loss of manhours. The employee has recovered and is back on duty.

Building Tomorrow's Business

The business of SFF is to assist in the storage of fuels that are or that may be of strategic importance to the country. These activities are, however, not for gain, but in the communal interest of the Republic. The country's financial constraints, however, mean that SFF can assist only if it can generate its own financial resources. Intertwined with the security of supply objective, therefore, is the necessity to grow commercial businesses that will enable SFF to fund the country's needs for security of crude oil and petroleum products supply. SFF has launched two initiatives to secure future cash flows into the entity:

i. Development of a business case to construct and operate an LPG loading and offloading facility, and
ii. A petroleum products storage and handling facility.

These projects were still at pre-feasibility stage at financial year end, but the objective is to progress them to feasibility and financial close by end of the next financial year ending 31 March 2019.

Ensuring Security of Crude Oil Supply

The 'reason for being' of SFF is to ensure the availability of government-owned stocks of crude oil at all times to supply the South African refining system for an uninterrupted period of 21 days during declared supply emergencies. In addition, SFF has been tasked with developing capability to store and supply the market with refined petroleum products.

The legal deficiencies that were noted by CEF in the 2015 sale contracts concluded by SFF and other third parties have led to a legal challenge by the SFF shareholder on the ownership of the crude oil that was the subject of the sale agreements. However, there is uncertainty on the ownership of the proceeds from sale and the crude oil.

The crude oil in storage is, therefore, not available to SFF to mitigate any crude oil supply risk for the South African refining system and this situation will remain until the resolution of the current legal challenge.

The task of developing the capability to store refined petroleum products in significant quantities nationwide is intricately linked to the promulgation of security of supply strategies or policies as required by the National Energy Act 34 of 2008 in Subsection 17(2). The draft strategic stocks policy was published by the DoE in 2013 and has not been finalised to date. The duties of SFF, pursuant to Subsection 17(1) of Act 34 of 2008, will remain curtailed until the DoE publishes the Cabinet-approved security of supply policy.

Transforming our Society

The transformation of the social and economic environment of our society is at the core of government development goals, which have been incorporated into SFF's strategic objectives. SFF continues to support emerging businesses that supply goods and services to it by providing efficient back-office service and settlement of invoices before due dates. Eligible companies are part of SFF's enterprise supplier development programme and the business continuously strives to increase the number of small businesses that supply services and goods to SFF. In addition to supplier development, SFF continues to transform the gender profile of its workforce by prioritising women during recruitment.

SFF Forward Outlook

The relevance of SFF will continue to be determined primarily by the entity's ability to respond to crude oil and petroleum product supply disruptions in South Africa. This, however, is dependent on SFF's financial resources, sufficient storage infrastructure investment and cost-effective access to refined petroleum products. The accumulation of financial resources required to invest in storage infrastructure for strategic stocks will require the business to continuously spend less than it earns and to increase its sources of income at a rate higher than that of increase of its sources of expenditure i.e. litigation etc. The limited petroleum product storage and import infrastructure presents an opportunity for SFF to invest selectively within the sector. The growing demand for cleaner fuels means that country will remain dependent on imported low sulphur petroleum products. Dependency on imported fuels exposes the country to security of supply risk that SFF must mitigate on behalf of the Republic, but also presents an opportunity to invest in importing and storage infrastructure for clean fuel exclusively. The current financial resources of SFF can, therefore, be leveraged for tomorrow's growth and for the benefit of SFF if the business develops and evaluates sufficient opportunities within infrastructure development.

*(*The detailed report is contained in the individual company annual financial report that is available in respective entities and/or CEF SOC, the DoE, Parliament and NT)*

Section 7

GROUP CFO’S REPORT

“For the year ended 31 March 2018, the Group’s overall financial performance results were above target. The Group reported a net profit after tax of R354 million compared to a net loss after tax of R621 million in the prior year. The substantial improvement is largely attributable to the improvement in the gross profit margin, cost reduction, higher investment income, reduction in the rehabilitation provision and decrease in income tax expenses.”

GROUP CFO's REPORT FOR THE YEAR ENDED 31 MARCH 2018

INTRODUCTION

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

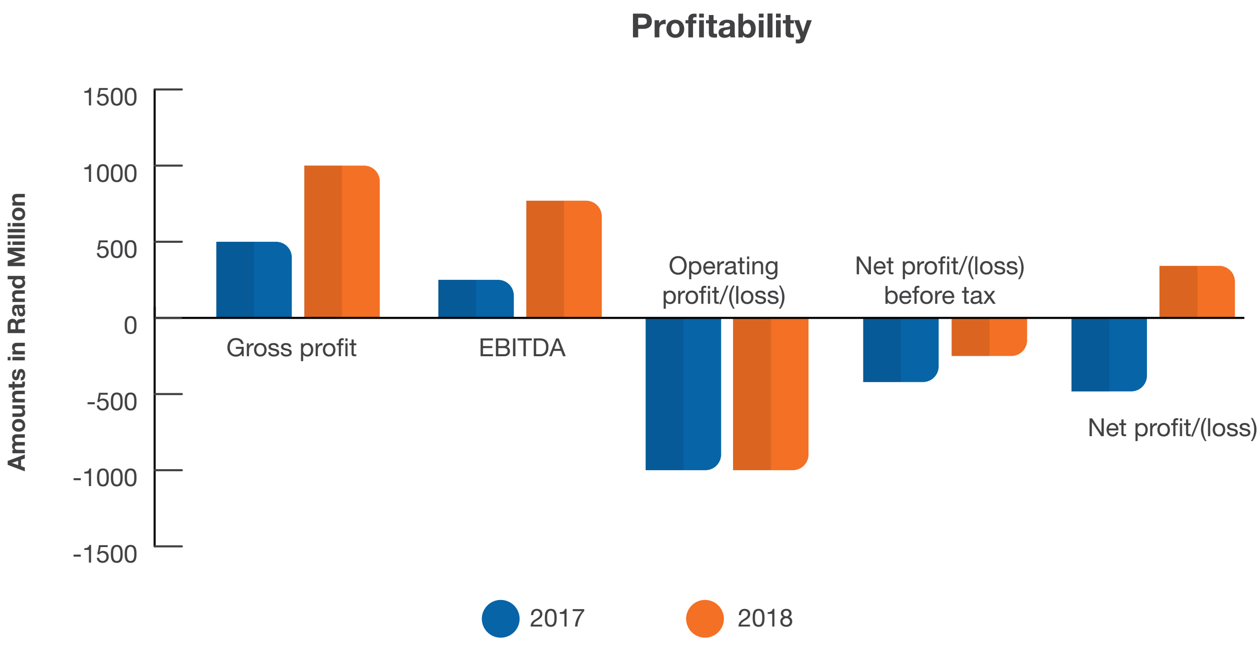
- Net profit after tax of R354 million versus a net loss of R621 million in the prior year;
- EBITDA of R880 million, up by R762 million;
- Cash generated from operating activities of R2.5 billion, up by R1.2 billion

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.

Focus area	Measure	Target	Results
Profitability	Net profit/(loss)	Budgeted net loss of R670 million for the period ending 31 March 2018	The Group reported a profit of R354 million
Liquidity	Current assets/current liabilities	2:1	2.89:1
Solvency	Interest-bearing debt/equity	40% debt: 60% equity	12% debt: 88% equity

FINANCIAL PERFORMANCE SUMMARY



For the year ended 31 March 2018, the Group's overall financial performance results were above target. The Group reported a net profit after tax of R354 million compared to a net loss after tax of R621 million in the prior year.
The substantial improvement is largely attributable to the improvement in the gross profit margin, cost reduction, higher investment income, reduction in the rehabilitation provision and decrease in income tax expenses.

Gross profit

The group's gross profit margin substantially increased, by 102%, from 5% to 10%. The increase is attributable mainly to the improved gross profit margin for PetroSA Ghana and the GTL Refinery. The increase in gross profit is due to the increase in oil price, increased volume and reduction in feedstock costs. The oil price increased by 20% from an average of $48.56, recorded in the 2016/17 financial year, to an average price $57.57 for the 2017/18 financial year. The volume increased at PetroSA Ghana, from 891 767 barrels to 1.6 million barrels. The increase in oil price and volume increase resulted in PetroSA Ghana gross profit increasing from 9% in 2016/17 to 26% in the 2017/18 financial year. Further to the improvement in the PetroSA Ghana gross profit margin, PetroSA South Africa's gross profit margin improved to 1.5% (2016/17: -4%) due the decrease in feedstock costs.

Profit/(loss) before Tax

EBITDA

The Group generated EBITDA of R880 million (8% margin) compared to the prior year of R119 million (1% margin). The substantial increase of R762 million is attributable largely to:

- the higher gross profit margin (adjusted for non-cash items) of R540 million;
- higher other income (adjusted for non-cash items) of R102 million mainly attributable to the duty at source recoveries; and
- reduction in operating expenses (adjusted for non-cash items) of R120 million driven largely by savings in administration costs and deferment/ suspension of exploration and feasibility studies.

Despite the increase in EBITDA, the Group generated an operating loss of R973 million (2016/17: R960 million) due to higher non-cash expenditure, such as depreciation, amortisation, fair valuation movements, foreign exchange losses and impairment. The Group reported total net impairment of R290 million in 2017/18 compared to the net reversal of impairment of R578 million in 2016/17. The net impairment is mainly comprised of gross impairment of R1.9 billion and impairment reversal of R1.7 billion relating to property, plant and equipment.

Gross impairment is mainly attributable to the impairment of Petrosa Ghana assets and GTL refinery by R1.9 billion (2016/17: R620 million). The fluctuations in the commodity prices resulted into the impairment of the West Three Points Block and Deep Water Tano Block held by PetroSA Ghana by R1.5 billion (2016/17: -R444 million). Further to the impairment of PetroSA Ghana assets, the GTL refinery was impaired by R399 million (2016/17: R1 billion) due to the depleting gas reserves.

Reversal of impairment is mainly attributable to the reduction in the rehabilitation provision by R1.7 billion (2016/17: R1.7 billion). The rehabilitation provision has been decreasing over the years due to the softening of the global rig and vessel rates and strengthening of the rand.

Investment income

Investment income is comprised of interest earned on cash invested of R1 billion (2016/17: R943 million) and share of profits from associates of R356 million (2016/17: R300 million). The increase in the interest earned is due to the higher cash generated from operating activities and deferment of major projects.

Finance costs

The finance costs for the Group have increased from R573 million in 2016/17 to R574 million in 2017/18. Finance costs is comprised of:

- notional interest in the rehabilitation provision of R440 million (2016/17: R534 million). The decrease is due to the reduction in the rehabilitation provision;
- interest on the borrowings (RBL) of R47 million (2016/17: R28 million). The increase is due to the lower borrowing costs capitalised of R4 million (2016/17: R20 million);
- interest on the finance lease of R79 million (2016/17: RNIL). PetroSA Ghana entered into a finance lease during the year; and
- other interest of R8 million (2016/17: R9 million).

Profit after Tax

The net profit after tax increased from a loss of R621 million to a profit of R354 million. The increase in the profit is due to reduction in income tax expense, which reduced from R331 million to-R487 million. The reduction in tax expense is due to the decrease in deferred tax expense. The decrease in deferred tax expense is due to the reduction in the carrying amount relative to the tax base. The carrying amount decreased because the property, plant and equipment for PetroSA Ghana was impaired by R1.5 billion.

GROUP CASH GENERATION, UTILISATION, FINANCING AND RETENTION

At 31 March 2018, the Group had cash of R17 billion (R15.6 billion). The cash balance increased by R1.4 billion during the year, attributable mainly to the following:

- cash generated from operating activities of R2.5 billion;
- capital investments of R285 million;
- repayment of external debt of R174 million; and
- effect of exchange rate movement on cash balances of R518 million.

Cash Generated from Operating Activities

Cash generated from operating activities is made up of EBITDA adjusted for net working capital movement, taxes paid, income from equity accounting, net interest paid and dividend received.

Cash generated from operating activities increased from R1.2 billion in 2016/17 to R2.5 billion in 2017/18 due to the increase EBITDA, interest received and dividend received.

Cash Generated from Investing Activities

Cash generated from investing activities decreased from R624 million in 2016/17 to R285 million in 2017/18. Over the past few years, the Group has reduced its capital spending, thus retaining a significant balance of its cash from operating activities. The lower investment rate is due to delays in the procurement of renewable energy projects and the deferral of risky exploration projects.

Cash Flows from Financing Activities

The capital projects for the Group are funded through cash generated internally and external interest-bearing long-term debt. During the year, PetroSA Ghana repaid R38 million towards the finance lease liability and repaid R97 million to the reserve-based lending facility. The Group complies with all the financial covenants of its external borrowings.

Effects of Exchange Rate Movement on Cash Balances

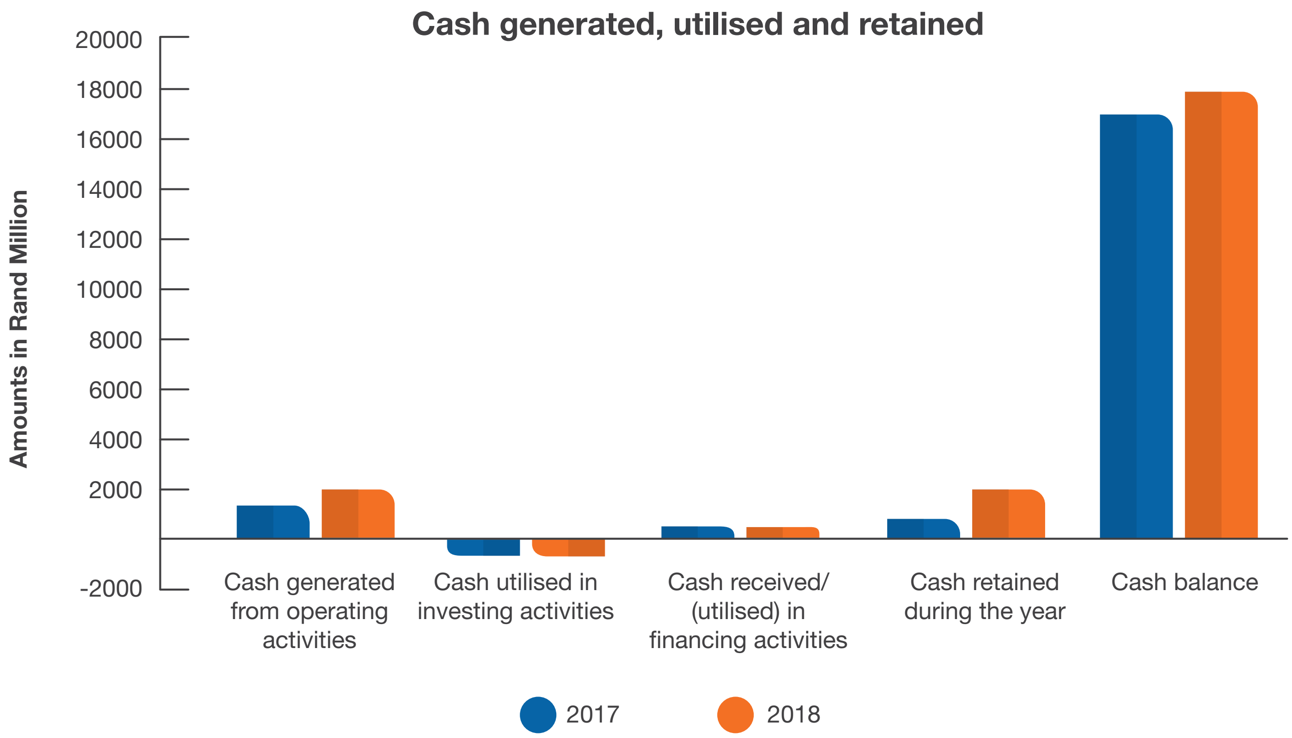
The strengthening of the rand had a negative impact on the cash balance, resulting in a downward adjustment of R518 million in the current financial year. This is attributable mainly to the proceeds on sale of strategic stock, which are held in a foreign account.

Liquidity and Solvency

The Group continues to maintain a positive cash position, achieved through cost reduction, working capital management, low debt financing and resource optimisation. 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.

Below is a graph depicting the cash flow for the Group



FINANCIAL GOVERNANCE

The Group is committed to sound financial governance through compliance by management to the PFMA and by preventing irregular expenditure and fruitless and wasteful expenditure.

The group incurred irregular expenditure during the year of R17 million and the cumulative balance of irregular expenditure is R2.6 billion. The R1.6 billion of irregular expenditure arose in 2013/14, when PetroSA could not comply with the Preferential Procurement Policy Framework Act because it was not feasible to procure feedstock from local suppliers. The balance of R1 billion relating to the irregular expenditure is still under investigation.

As part of corrective measures, we will investigate and take appropriate action to recover any losses and address areas where weaknesses in our systems have been identified.

KEY CHALLENGES AFFECTING THE CEF GROUP

Profitability

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.

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 2018 is R3 481 830 421 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 R8.9 billion, which are currently not fully funded, as there is a shortfall of approximately R5.7 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.

OUTLOOK

Our main focus is to ensure the CEF Group is financially sustainable by improving operating profit margin, liquidity and solvency. This will be achieved through various initiatives, which include reducing operational costs, improving revenue, delivering on cost efficiencies on capital project execution, capital resource reprioritisation and development of a funding model for the rehabilitation liability.

Profitability

Due to the new operating model being piloted at PetroSA, the Group needs to reduce its operational costs drastically to generate a profit. This will be done by consolidating support services and introducing strategic sourcing. In addition to the above initiatives, the Group is reviewing the strategy with its main focus on maximising profits and diversification of revenue.

Liquidity

Further to improving profitability, the Group will be working harder on improving its liquidity, which is likely to be threatened by the implementation of the Financial Provision Regulations, effective from February 2024. We will continue to explore various options to fund the rehabilitation liability and to engage with policymakers to ensure the Regulations do not have an adverse impact on the liquidity of the Group.

Commodity Prices

The global crude oil demand growth continued to be supported by a broad-based economic expansion, especially in the developed world, with global industrial production and trade continuing to accelerate. With the strong demand growth for crude oil, the price of Brent crude oil is expected to remain strong.

CONCLUSION

Despite all our challenges, the CEF Group remains a going concern, meaning that the Group will continue to operate in the foreseeable future. The assertion of going concern is premised on the fact that the Group gearing ratio is low and Group assets exceed liabilities by R13.6 billion. The bulk of our assets are comprised of cash of R17 billion, which is available for use in furthering our mandate. Further to our cash balances, the Group has access to funding facilities because its gearing ratio is 12% debt and 88% equity, which is below the self-imposed ceiling of 40% debt and 60% equity. We believe that cash on hand can be deployed in funding the sustenance projects for the energy business as identified in the Group Strategy.

THANKS AND ACKNOWLEDGEMENTS

My gratitude goes to the finance team, which made sure we produced AFS 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 thank the interim Group CEO for entrusting me with the responsibility of ensuring that the CEF Group is a commercially viable entity that is able to contribute meaningfully to the developmental state.

Mr L Makhuba CA(SA)
Group Chief Finance Officer

GROUP FINANCIAL ANALYSIS

Financial position analysis

Statement of Financial Position as at 31 March 2018		
Figures in Rand thousand		
	2018	Restated 2017
Assets		
Non-Current Assets		
Property, Plant and Equipment	7 421 025	9 764 263
Intangible assets	1 623 770	1 644 393
Investments in Associates	886 094	909 106
Loans to Group companies	36 326	32 829
Other financial assets	165 099	183 572
Repayment	140 726	830
Deferred tax	573 331	334 771
Strategic inventory	996 482	868 830
Total	**11 842 853**	**13 738 594**
Current Assets		
Inventories	1 763 431	1 880 923
Loans to group companies	10 249	-
Trade and other receivables	2 060 813	2 097 403
Prepayments	92 093	103 820
Current tax receivable	12 929	14 931
Cash and cash equivalents	17 186 008	15 694 839
Total	**21 125 523**	**19 791 916**
Non-current assets held for sale/distribution and assets of disposal groups	34 333	88 639
Total Assets	**33 002 709**	**33 619 149**
Equity and Liabilities		
Equity		
Equity Attributable to Equity Holders of Parent		
Reserves	(1 279 897)	(1 320 115)
Retained income	14 870 530	14 765 600
	13 590 633	13 445 485
Non-controlling interest	(1 180)	(1 024)
Total	**13 589 453**	**13 444 461**

Commentary:

Movement in non-current assets

The total non-current assets decreased by R1.9 billion from R13.7 billion to R11.8 billion mainly due to depreciation and impairment of PetroSA Ghana production assets. The gross impairment was R1.9 billion; assets were depreciated by R1.05 billion; the rehabilitation provision was reduced by R1.680 billion (subsequently reversed in property, plant equipment) and assets of R1.1 billion were added during the year.

Net impairment

The total net impairment of non-current assets of R273 million. The balance comprises the following:

- Net impairment of R243 million on property, plant and equipment and intangible assets. The amount is made up of:
  - gross impairment of R1.920 billion mainly attributable to PetroSA Ghana (R1.521 billion), GTL refinery (R399 million). The impairment was mainly driven by the depleting gas reserves feeding the Mossel Bay GTL refinery and fluctuating oil prices. In light of the current commodity prices, the West Cape Three Points block and Deepwater Tano block held by PetroSA Ghana Limited were impaired;
  - reversal of impairment of R1.680 billion mainly due to the reduction in the rehabilitation provision. The rehabilitation provision reduced significantly owing to the softening of global rig and vessel rates and the strong Rand against the USD resulting into the reversal of impairment on Property plant and equipment; and
  - impairment of assets under development by R2.4 million.
- The following loans were fully impaired in the current financial year:
  - Loan to the joint venture (GTL.F1) by R10 million; and
  - Loan to Lurgi, a shareholder in the joint venture (GTL.F1 AG) by R20 million.

Additions

- **Exploration, evaluation and development**

The Group invested cash of R284 million in capital projects. The investment mainly relates to the Jubilee Fields and TEN Fields developments and exploration and evaluation activities at Deep Water Tano and West Cape Three Points blocks. These activities are conducted with the aim to increase production capacity.

- **Production assets**

PetroSA Ghana Ltd, together with its joint venture 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 million.

- **Mining operations**

A payment of R149 million was made to acquire 40% shareholding at African Royal Minerals (Pty) Ltd. The amount was made up of R140 million relating to the purchase of share capital and R9 million towards initial capital for the infrastructure development of African Royalty Minerals (Pty) Ltd. The mine is expected to produce 1 million tons per annum.

Movements in current assets

Current assets increased by R1.3 billion mainly due to the increase in the cash balance.

Net working capital management

The Group takes 72 days to convert the assets into cash, therefore has to maintain a cash buffer for 72 days to fund the operations. The Group pays its creditors earlier than it collects receipts from debtors. Debtors of R90 million (2017: R99 million) mainly from SFF were impaired.

Financial position analysis (Continued)

Statement of Financial Position as at 31 March 2018		
Figures in Rand thousand		
	2018	**Restated 2017**
Liabilities		
Non-Current Liabilities		
Other financial liabilities	770 171	866 846
Finance lease liability	772 899	-
Retirement benefit obligation	177 033	136 274
Other non-current liabilities	66 328	79 863
Deferred tax	1 427 980	1 888 793
Provisions	8 865 852	10 157 761
Total	**12 080 263**	**13 129 537**
Current Liabilities		
Trade and other payables	6 841 297	6 800 163
Other financial liabilities	76 860	88 943
Finance lease liabilities	39 684	-
Current tax payable	29 441	-
Provisions	97 766	137 130
Dividend Payable	229 460	-
Total	**7 314 508**	**7 026 236**
Liabilities of a disposal group	18 485	18 915
Total Liabilities	19 413 256	20 174 688
Total Equity and Liabilities	**33 002 709**	**33 619 149**

Commentary:

Equity

The increase in equity by R145 million from R13.4 billion to R13.6 billion is due to the net profit of R354 million generated in the current year. However, CEF declared the investment in PASA as a dividend in specie of R229 million resulting in the decrease in retained earnings.

Non-current liabilities

Non-current liabilities decreased by R1 billion from R13 billion to R12 billion mainly due to the decrease in the loan (reserve based lending facility), deferred tax liability and provisions.

- **Other financial liabilities**

The balance is mainly attributable to the PetroSA Ghana reserve-based lending facility of R770 million. The facility is revolving and accrues interest at LIBOR plus a margin varying between 3.25% and 4.50%. It is due to mature in February 2022. The facility balance decreased by R97 million in the current financial year.

- **Finance lease liability**

During the financial year, PetroSA Ghana entered into the finance lease agreement for R850 million to acquire production assets. The present value of the lease liability unwinds over the expected life of the lease and is reported within finance costs. The initial lease period is 10 years with an option to renew for an additional 10 years, until life of field. The imputed interest rate is 8.4%.

- **Deferred tax liability**

The deferred tax liability mainly arose from the accelerated capital allowances for property, plant and equipment for PetroSA Ghana. The property, plant and equipment was fairly valued at acquisition of PetroSA Ghana as required by IFRS. The decrease in the deferred tax liability is mainly attributable to the impairment of PetroSA Ghana assets (and related fair value).

- **Provisions**

The balance is mainly attributable to the rehabilitation provision. The provision decreased by R1.3 billion. This is due to the change in assumptions on determination of the provision (refer to above: net impairment).

Current liabilities

Current liabilities increased by R288 million due to the dividend in specie and finance lease liability (as explained above under non-current assets).

- **Dividend payable**

The CEF Board declared the investment at PASA as dividend in specie in terms of Section 46 of the Companies Act during the year. The dividend payable is at fair value of PASA net assets at year end. The transfer has not happened as yet.

- **Trade and other payable**

Included in the trade and other payable balance is the:

◊ provision for the oversale of strategic stock of R790 million, which increased by R59 million due to the increase in the oil price. The change in the value of the liability is driven by the oil price and the exchange rate.

◊ The transfer to the Equalisation Fund of R3.3 billion (2016/17: R3.6 billion). This relates to the proceeds on sale of strategic stock. The change in the value of the liability is driven by the exchange rate.

Profitability analysis (continued)

Statement of Profit or Loss and Other Comprehensive Income		
Figures in Rand thousand		
	2018	Restated 2017
Revenue	11 652 946	11 598 017
Cost of sales	(10 516 391)	(11 037 774)
Gross profit	**1 136 555**	**560 243**
Other income	478 074	342 084
Operating expenses	(2 587 845)	(1 862 601)
Operating profit (loss)	**(973 216)**	**(960 274)**
Investment revenue	1 057 608	943 062
Income from equity accounted investments	356 060	300 280
Finance costs	(573 637)	(572 878)
Profit (loss) before taxation	**(133 185)**	**(289 810)**
Taxation	487 053	(331 010)
Profit (loss) for the year	**353 868**	**(620 820)**

Commentary:

Revenue

Our revenue derived from the following:

- Sale of petroleum products, which constitutes 89% of total revenue;
- Rental of crude oil storage tanks, which constitutes 6% of the total revenue; and
- Sale of coal which constitutes 4% of the total revenue.

Revenue marginally increased by 0.5% due to lower production volumes at the GTL refinery and low sales offtake by customers. Lower production volumes at the GTL refinery are due to declining gas reserves and product (output) quality issues arising from the condensate (input) processed.

Further to the above, revenue from rental of crude oil storage tanks declined due to the strengthening of the rand (rental is US$ dominated) and low efficiency rate than prior year.

Despite the decrease in sales volumes, PetroSA Ghana revenue increased by over 100% due to the increase in the oil price and sales production volumes.

Cost of sales

Cost of sales decreased by 5% due to lower production volumes and reduction in feedstock cost. The feedstock cost decreased due to the forward purchase agreement entered into, securing significant inventory of condensate at more favourable prices.

The increase in PetroSA Ghana revenue and the reduction in production cost resulted in the substantial improvement in the gross profit.

Other income

Other income increased by R136 million to due to duty at source recoveries from customers in the current financial year and increase in coal transport recoveries due to increased coal sales volumes to Eskom. The coal sales volumes increased from 1.4 to 1.6 million tons.

Operating expenses

The increase in operating expenses is mainly attributable to non-cash items, which constitute 33% of the total operating expenses. The Group's net depreciation, amortisation and impairment in the current is R345 million (2017: -R507 million). The gross impairment was R1.9 billion, which is mainly attributable to the impairment of PetroSA Ghana production assets and GTL refinery. The reversal of the impairment was R1.7 billion, which is mainly driven by the decrease in the rehabilitation provision balance. Operating expenses adjusted for non-cash items decreased by R120 million due to cost savings on administration costs and deferment of major projects.

Operating profit/loss margin

The Group generated an operating loss margin of 8% (2017: 8%). The Group continues to generate an operating loss due to high overheads. The gross profit is inadequate to pay for overheads, fund repairs and maintenance of the operating assets, fund social programme and business development, therefore resulting in the operating loss.

Profitability analysis (continued)

Statement of Profit or Loss and Other Comprehensive Income		
Figures in Rand thousand		
	2018	Restated 2017
Revenue	11 652 946	11 598 017
Cost of sales	(10 516 391)	(11 037 774)
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Profit (loss) before taxation	**(133 185)**	**(289 810)**
Taxation	487 053	(331 010)
Profit (loss) for the year	**353 868**	**(620 820)**

Commentary:

Investment revenue

This is mainly attributable to the interest earned on cash invested. The Group holds a higher cash balance. The Group deferred its major capital projects and earned higher dividends than in prior year of R346 million from Rompco, an associate company. The Group earned an average interest rate of 7.6% on cash invested.

Income from equity accounting increased by R56 million from R300 million to R356 million. Income from equity accounting is mainly attributable to share of profits, from Rompco. The increase is due to the higher operating profit generated as a result of favourable price variances and increased capacity/volumes.

Finance costs

More than 75% of the finance costs relates to unwinding of discount on rehabilitation provision. The remaining balance relates to external debt, late payments and interest on cash invested on behalf of third parties.

Taxation

The substantial decrease in taxation by R818 million is mainly attributable to deferred tax credit movements. The deferred tax credit is due to the substantial decrease in the deferred tax liability mainly driven by the impairment of PetroSA Ghana assets.

Despite the decrease in the total tax expense, current tax expense increased by R46 million. PetroSA Ghana recognised local income tax of R56 million (2016/17: R0.00) on profits generated in the current year. The company generated losses in the prior year.

Cash flow analysis (continued)

Statement of Cash Flows		
Figures in Rand thousand		
	2018	**Restated 2017**
Cash flows from operating activities		
Cash generated from operations	1 377 333	327 525
Interest income	1 057 608	1 013 455
Dividends received	348 158	151 520
Finance costs	(134 043)	(142 921)
Tax paid	(180 878)	(111 942)
Net cash from operating activities	**2 468 178**	**1 237 637**
Cash flows from investing activities		
Purchase of property, plant and equipment	(257 240)	(803 975)
Proceeds on disposal of property, plant and equipment	1 920	75 371
Investment in associates/joint ventures	(473)	(8 664)
Purchase of intangible assets	(28 829)	(42 914)
Proceeds on disposal of intangible assets	4 400	1 106
Sale/(Purchase) of other financial assets	(1 803)	161 413
Purchase of property, plant and equipment-Disposal group assets	(2 838)	(6 007)
Net movement from investing activities	**(284 863)**	**(623 670)**
Cash flows from financing activities		
(Repayments)/Additions of other financial liabilities	(108 758)	(302 079)
Finance lease receipts/(payments)	(37 686)	-
Loans to Group companies	(13 746)	
Increase in other non-current liabilities	(13 535)	64 122
Repayment of loans by disposal group	-	(57)
Net cash from financing activities	(173 725)	(238 014)
Total cash movement for the year	**2 009 590**	**375 953**
Cash at the beginning of the year	15 694 839	15 736 342
Effect of exchange rate movement on cash balances	(518 421)	(417 460)
Total cash at end of the year	**17 186 008**	**15 694 835**

Commentary:

Cash generated from operating activities

Cash generated from operations is made up of EBITDA adjusted for investment income, finance costs and working capital movement. EBITDA increased due to the increase in gross profit, other income and decrease in cash operating expenses. The net working capital movement in the current year decreased by R123 million due to increase in prepayments.

Dividends received is mainly attributable to Rompco dividends of R346 million. Dividends received from Rompco were higher than expected due to efficiencies, repatriation of cash from Mozambique and increased capacity (revenue). The increase of R69 million in tax paid is mainly attributable to tax on profits generated by PetroSA Ghana.

Cashflow from investing activities

Included in the additions of property, plant and equipment and intangible assets of R286 million is exploration and evaluation costs for PetroSA Ghana.

Cashflows from financing activities

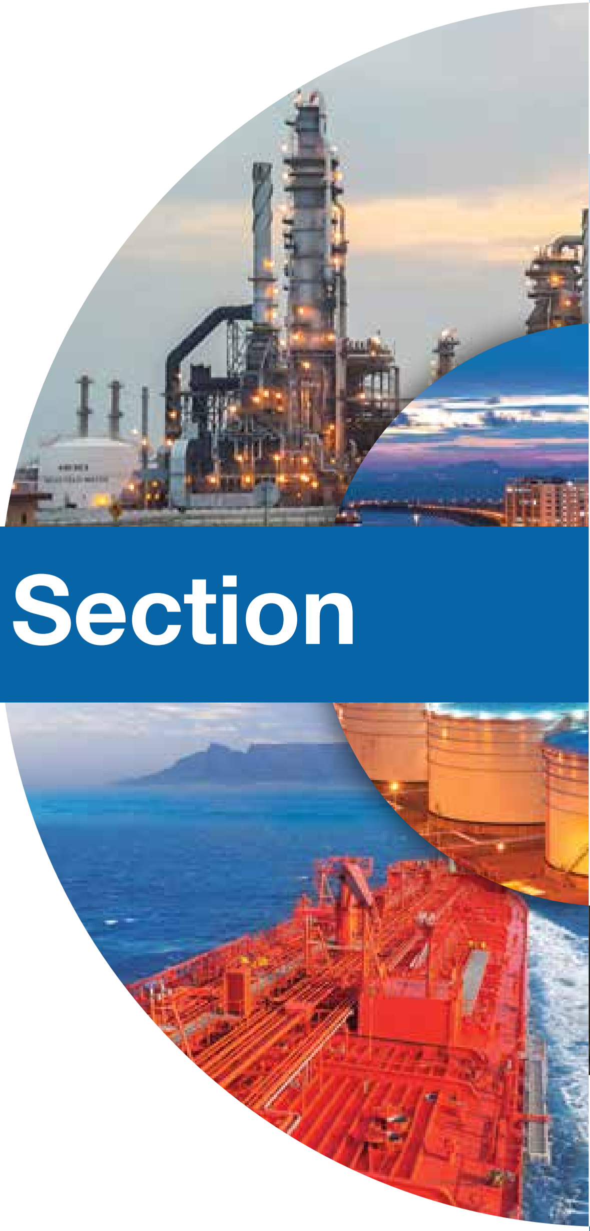
The total amount of R174 million is made up of the repayment towards the reserve-based lending facility, finance lease liability and cash calls from cash invested on behalf of others.

The Group retained R2 billion (81%) of the cash generated from operating activities.

The opening cash balance decreased by R518 million due to the strengthening of the rand. This relates to cash held by PetroSA in foreign bank accounts and proceeds on sale of strategic stock.

PART 2

Section 8



FINANCIAL STATEMENTS

General Information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	The financing and promotion of the acquisition of, research into and exploitation of energy-related products and technology.
Directors	Mr L Makasi (Chairperson) Adv L Mtunzi Ms M Molope Mr N Mompati Mr M Moagi Mr J Besnaar Mr T Maqubela Ms G Leketi Mr L Makhuba
Registered office	Block C, Upper Grayston Office Park 152 Ann Crescent Strathavon Sandton 2199
Business address	Block C, Upper Grayston Office Park 152 Ann Crescent Strathavon Sandton 2199
Postal address	P O Box 786141 Sandton 2146 http://www.cefgroup.co.za
Ultimate holding company	Department of Energy
Bankers	ABSA Bank Limited
External Auditors	Auditor-General of South Africa
Company Secretary	Mr A Haffejee

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Directors' Responsibilities and Approval

The Board is required in terms of the Companies Act, 71 of 2008, and the Public Finance Management Act 1 of 1999 (PFMA) 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 the Board's responsibility to ensure that the Consolidated Annual Financial Statements fairly present the state of affairs of the Group 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 (IFRS). The external auditors are engaged to express an independent opinion on the Consolidated Annual Financial Statements.

The Consolidated Annual Financial Statements are prepared in accordance with IFRS and are based on appropriate accounting policies and supported by reasonable and prudent judgments and estimates.

The Board acknowledges that it is ultimately responsible for the system of internal financial control established by the Group and places considerable importance on maintaining a strong control environment. To enable the Board to meet these responsibilities, it sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner.

The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Group and all employees are required to maintain the highest ethical standards in ensuring the Group's business is conducted in a manner that, in all reasonable circumstances, is above reproach.

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

The 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 2018 and, in the light of this review and the current financial position, is 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 127 to 130.

The Consolidated Annual Financial Statements set out on page 149 to 246, which have been prepared on the going-concern basis, were approved by the Board on 28 August 2018 and were signed on its behalf by:

Mr L Makasi
(Chairperson)
28 August 2018

Mr J Besnaar
(Independent Non-Executive)
28 August 2018

Report of the Auditor-General to Parliament on
CEF SOC Limited and its subsidiaries

Report on the audit of the consolidated and separate financial statements

Opinion

1. I have audited the consolidated and separate financial statements of the CEF SOC Limited and its subsidiaries set out on pages 149 to 246 which comprise the consolidated and separate statement of financial position as at 31 March 2018, the consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the CEF Group as at 31 March 2018, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), 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).

Basic for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated and separate financial statements section of this auditor's report.

4. I am independent of the group in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) 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 code.

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

Emphasis of matters

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

Uncertainty relating to the future outcome of litigation

7. With reference to note 40 to the CEF Group financial statements, the entity is a defendant in a number of litigation matters. The most significant of these relates to the application to court to set aside the disposals of the crude oil stock on the grounds that the disposals were unlawful; invalid and unconstitutional. The ultimate outcome of these matters could not be determined and no provision for any liability that may result was made in the financial statements.

Restatement of corresponding figures

8. As disclosed in note 41 to the CEF consolidated financial statements, the corresponding figures for 31 March 2017 have been restated as a result of an error in the financial statements of CEF consolidated subsidiaries at, and for the year ended, 31 March 2018.

Funding of abandonment provision

9. With reference to note 24 of the CEF consolidated financial statements financial statements, the PetroSA Group has an obligation to rehabilitate and abandon its offshore and onshore operations valued at R8,1 billion, and cash set aside of R2,4 billion and therefore the provision is currently under funded by approximately R5,7 billion. In terms of the financial provision regulations which were promulgated under the National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA), the PetroSA Group is required to have the rehabilitation liability fully funded by 19 February 2024.

Other matters

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

Unaudited supplementary schedule

11. The supplementary information set out on page 247 does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion on it.

Responsibilities of accounting authority for the financial statements

12. The board of directors, which constitutes the accounting authority is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with IFRS and the requirements of the PFMA and the Companies Act, and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

13. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

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

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

15. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

16. 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 objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

17. 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 indicators 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.

18. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the public entity for the year ended 31 March 2018

Objectives	Pages in the annual performance report
Commercial Viability	134
Developmental Agenda	135

19. 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.

20. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following objectives:
    - Commercial Viability
    - Developmental Agenda

Other matters

21. I draw attention to the matters below.

Achievement of planned targets

22. Refer to the annual performance report on pages 134 to 138 for information on the achievement of planned targets for the year.

Adjustment of material misstatements

23. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Commercial Viability and Developmental Agenda objectives. 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

24. 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.

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

Annual financial statements

26. The financial statements submitted were not prepared in accordance with the prescribed financial reporting framework as required by section 55(1)(a) and (b) of the PFMA. Material misstatements of non-current assets for Investment in subsidiaries and expenses relating to CEF SOC limited were subsequently revised resulting in the financial statements receiving an unqualified audit opinion.

Strategic planning and performance management

27. The shareholder's compact of the public entity was not concluded in consultation with the executive authority, as required by treasury regulation 29.2.1.

Consequence management

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

Other information

29. The CEF SOC Limited's accounting authority is responsible for the other information. The other information comprises the information included in the annual report which includes the director's report, the audit committee's report and the company secretary's certificate as required by the Companies Act. The other information does not include the consolidated and separate financial statements, the auditor's report thereon and those selected objectives presented in the annual performance report that have been specifically reported on in the auditor's report.

30. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

31. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

32. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.

33. 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.

Leadership

34. Leadership did not exercise oversight responsibility regarding compliance with the PFMA to prepare financial statements that are free from material misstatements and to ensure that the shareholder's compact was concluded in consultation with executive authority.

35. Non-compliance regarding to consequence management could have been prevented had instances of irregular expenditure incurred been timeously investigated and the appropriate actions been implemented.

Investigations

36. I draw attention to the below engagement that is being conducted by an independent consultant.

37. An independent consultant has been appointed to conduct a forensic investigation around matters relating to a contract review process which were conducted at SFF Association NPC, a subsidiary of CEF SOC Limited, at the request of the accounting authority of CEF SOC Limited, which covers the period 1 April 2014 – 31 March 2016. The forensic investigation is in progress at the date of this auditor's report.

Auditor - General

Pretoria
27 August 2018

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Report of the Board Audit and Risk Committee

This report is provided by the Board Audit and Risk Committee appointed for the 2018 financial year for the Group.

1. Charter

The roles and responsibilities of the Audit Committee and the 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 take place on the same dates.

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

2. Purpose

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

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

3. Membership

The Committee members were appointed by the Board and include at least three non-executive members. The Committees consists of the members listed hereunder and should meet at least twice a year as per the approved charter. During the financial year, 10 meetings were held.

Name of member	Number of meetings attended
Mr J Besnaar (Chairperson)	10
Adv L Mtunzi	10
Mr N Mompati	8

4. External audit

The Committee, in consultation with executive management, agreed to the engagement letter, terms, nature and scope of the external audit plan presented by the Auditor-General of South Africa. The Committee reviewed the Auditor-General of South Africa's Strategic Audit Plan for the 2017/18 financial year and approved the fees. The Committee has satisfied itself that the Auditor-General of South Africa exercised its duties in an independent and objective manner.

5. 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 quarterly.

Report of the Board Audit and Risk Committee (continued)

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. In the 2012/13 financial year, an external effectiveness review was performed by the Institute of Internal Auditors (IIA), reporting positive results and rating the internal audit function as 'general conformance' with IIA standards. The next external assessment will be done in 2018/19 financial year.

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 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 believes that internal audit has contributed to the improvement of internal controls within the Group.

6. 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 was 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.

7. 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 the 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.

8. Risk management

The Board assigned the oversight of the risk management function to the Committee. The Group implemented a risk management strategy, which includes the fraud prevention plan and combined assurance plan. The Committee 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.

9. Conclusion

We, therefore, recommend that the Board approve the Consolidated Annual Financial Statements for 2017/18.

10. Appreciation

The Committee expresses its sincere appreciation to the DoE, 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

Mr J Besnaar
Chairman Board Audit and Risk Committee
21 August 2018

Statement from the Company Secretary

In my capacity as CEF Secretary, I hereby confirm, except where otherwise mentioned in the Consolidated Annual Financial Statements, for the year ended 31 March 2018, 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.

Mr A Haffejee
Group Secretary
28 August 2018

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 (FY17/18)	Score	Status
Commercial Viability (35%)	Financial Sustainability	Profitability	15%	- R670 million	3	FY 2017/18 actual net profit/(loss) = R354 million
		Solvency	5%	55:45	3	FY 2017/18 debt:12%, Equity: 88% as per National Treasury guidelines
	Growth Projects	Milestones	10%	70%	2.14	Much progress was made on the growth projects and the score is based on the average score for the KPIs
		Market share	5%	1%	1	During the 2017/18 year, there was never a time when the market share was measured on its own as an initiative with a weight of 5%. Instead it was understood that progress with initiatives (projects) and success with the milestones for each project will ultimately result in a market-share improvement in the outer years of the planning period to 2022. Hence the weight of 15% for the measure 'Growth Projects' applies uniformly to the initiatives with the understanding that progress will ultimately start to increase market share.

Group Report on Performance against Objectives (continued)

KPA	KPI	Measure	Weight	Target (FY17/18)	Score	Status
Developmental Agenda (20%)	**Strategic Projects**	Developmental and Social Impact	15%	3 Commence the implementation on SWH Repair and Replace Concept studies Migration plan to be drafted and agreed upon. Revised S54 approval for the migration Physical incorporation Develop iGas concept note for participation in shale gas	2.25	The solar water heater programme is now being undertaken by the IPP Office. EPD did the groundwork for this project Most initiatives of Phakisa such as roadshows, attending the International Gas Union Council in Tokyo and strategic environmental assessment (SEA) engagements were for earlier in the year and were achieved Migration plan remains on hold, but deliberations are continuing with DoE and IPP Office Ministerial pronouncements inform our understanding of the shale gas opportunity
	Transformation	BEE Scorecard	5%	Level 6	1	The measured entities met their quantitative targets The Group target of a level 6 rating was not met as different entities were at different levels PetroSA was at level 7 and this is the biggest entity in the Group

Group Report on Performance against Objectives (continued)

KPA	KPI	Measure	Weight	Target (FY17/18)	Score	Status
Governance (10%)	**Governance Model**	Group Governance Index	5%	3	2.33	Phase 1 of the work is completed. There are still 2 phases to be concluded during 2018/19 Further work of the Group operating model will proceed in 2018/19
	Internal Controls	Risk Maturity Index	5%	40%	3	Maturity assessment level established for individual entities The roadmap to achieve the desired maturity is included in the ERM plan for the new year, which includes key elements of governance, risk assessment, reporting, monitoring and optimisation
		Audit Opinion	5%	Unqualified	3	Unqualified audit opinion

Group Report on Performance against Objectives (continued)

KPA	KPI	Measure	Weight	Target (FY17/18)	Score	Status
Enabling Internal Environment/ Operational Excellence (25%)	**Operational Excellence (technology, knowledge, innovation, business process)**	Operational Excellence Index	5%	3	2.67	A formal knowledge management system is being implemented (policy, strategy, processes, technology) and the rollout of SharePoint will proceed in 2018/19
	Human Capital	HPO Index	10%	3	3	Development of the competency framework is completed and is being socialised with leadership The CEF Leadership Development Programme is in progress The bulk of the workforce plan beyond laying the groundwork will be carried forward in the remainder of the planning period Interventions to realise a uniform employee value proposition for the CEF Group are currently on hold, but will proceed in 2018/19

Group Report on Performance Against Objectives (continued)

KPA	KPI	Measure	Weight	Target (FY17/18)	Score	Status
External operating environment (10%)	**Stakeholder management**	Brand equity (Prominence Index)	5%	3	2	Although the work started slowly, it gained momentum and will proceed in the remainder of the planning period
		Stakeholder and Communications Index	5%	3	2.25	All initiatives for the Stakeholder and Communications Index are continuing in the next year
Total			**100%**		2.43	
Achieved (3)						
Partially completed (2)						
Not achieved (1)						

Directors' Report

1. INTRODUCTION

The Board has pleasure in submitting its report on the Consolidated Annual Financial Statements for the Group for the year ended 31 March 2018.

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 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 associated research;
- 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 Equalisation Fund on behalf of the Department of 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 DoE. 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 2018, 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 44 to the Consolidated Annual Financial Statements.

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

Directors	Designation	Changes
Mr L Makasi (Chairperson)	Non-executive	
Mr G Moagi	Executive	
Adv L Mtunzi	Non-executive	
Ms M Molope	Non-executive	
Mr N Mompati	Non-executive	
Mr G Bezuidenhoudt	Non-executive	Resigned on 1 May 2017
Mr J Besnaar	Non-executive	
Ms G Leketi	Non-executive	
Mr T Maqubela	Non-executive	Appointed on 1 May 2017
Mr L Makhuba	Executive	Appointed on 1 April 2017

4. BOARD OF DIRECTORS (continued)

Name of Director	5-Apr-17	26-Apr-17	5-May-17	31-May-17	28-Jun-17	4-Jul-17	8-Aug-17	16-Aug-17	29-Aug-17	-Sep-17	19-Sep-17	20-Oct-17	10-Nov-17	14-Dec-17	5-Jan-18	30-Jan-18	1-Feb-18	26-Feb-18	28-Feb-18
	SB	SB	SB	SB	SB	SB	B	SB	SB	SB	SB	SB	B	SB	SB	B	SB	SB	B
Mr L Makasi	A	Y	Y	A	Y	Y	Y	Y	A	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Mr G Moagi	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Adv L Mtunzi	Y	Y	A	A	Y	Y	Y	Y	A	N	Y	Y	Y	Y	A	Y	Y	Y	Y
Ms M Molope	A	Y	A	A	Y	Y	Y	Y	Y	Y	Y	Y	Y	A	A	A	A	Y	Y
Mr N Mompati	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	A	Y	Y	Y	Y	Y
Mr G Bezuidenhoudt	Y	Y	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mr J Besnaar	A	Y	A	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Ms G Leketi	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	N	A	A	A	Y	A	A	A
Mr T Maqubela	N/A	N/A	Y	A	Y	A	Y	Y	Y	Y	Y	A	A	A	Y	A	A	A	A
Mr L Makhuba	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	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, mainly at PetroSA and SFF, including the need for a revised strategy, were reasons for the special Board meetings.

Board Audit and Risk committee consists of the following members:

Name	Changes
Mr J Besnaar	Non-executive (Chairperson)
Mr N Mompati	Non-executive
Adv L Mtunzi	Non-executive

Attendance Register

Name of Director	5-Apr-17	26-Apr-17	5-May-17	31-May-17	28-Jun-17	4-Jul-17	8-Aug-17	16-Aug-17	29-Aug-17	-Sep-17
Mr J Besnaar	A	Y	Y	A	Y	Y	Y	Y	A	Y
Mr N Mompati	Y	Y	A	Y	Y	Y	N	Y	Y	Y
Adv L Mtunzi	Y	Y	A	A	Y	Y	Y	Y	A	N

4. BOARD OF DIRECTORS (continued)

The committee meets at least twice a year. The Chief Audit Executive of the internal audit function, the external auditors and 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. To meet its requirements, it reviews the findings of both internal and external auditors. In addition, it reviews important accounting issues, material pending litigation if applicable, the Group insurance and 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 BARC, which forms part of the Consolidated Annual Financial Statements.

Board Human Resource Committee consists of the following members:

Name		Changes
Adv L Mtunzi (Chairperson)	Non-executive	
Mr G Bezuidenhoudt	Non-executive	Resigned on 1 May 2017
Mr N Mompati	Non-executive	Appointed on 8 August 2017
Ms G Leketi	Non-executive	Appointed on 8 August 2017

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

Attendance Register				
Name of Director	**16-Aug-17**	**20-Oct-17**	**7-Mar-18**	**27-Mar-18**
Adv L Mtunzi (Chairperson)	Y	Y	Y	Y
Mr N Mompati	Y	Y	Y	Y
Ms G Leketi	Y	A	Y	Y

Social and Ethics Committee consists of the following members:

Name		Changes
Ms M Molope (Chairperson)	Non-executive	
Mr G Bezuidenhoudt	Non-executive	Resigned on 1 May 2017
Adv L Mtunzi	Non-executive	Appointed on 8 August 2017
Mr M Moagi	Executive	Appointed on 8 August 2017
Mr L Makhuba	Executive	Appointed on 8 August 2017

Governance and Nominations Committee consists of the following members:

Name		Changes
Mr L Makasi (Chairperson)	Non-executive	Appointed on 8 August 2017
Mr M Moagi	Executive	Appointed on 8 August 2017
Adv L Mtunzi	Non-executive	Resigned on 8 August 2017
Mr G Bezuidenhoudt	Non-executive	Resigned on 1 May2017
Mr J Besnaar	Non-executive	Appointed on 8 August 2017
Ms M Molope	Non-executive	Appointed on 8 August 2017

5. STRATEGIC OVERVIEW AND OUTLOOK

The strategic intent of the Group is to provide energy resources for national energy security in pursuit of government's policies, while minimising adverse environmental impacts. The corporate strategy is to maintain a well-governed synergistic Group, while pursuing the strategic intent. The Group has continued with the development and implementation of its strategy in terms of its mandate. All entities in the Group review their corporate strategy annually and enter into shareholder compacts with the holding company. Performance against these compacts is monitored throughout the year. The strategic overview and outlook for our Group are set out in the integrated report.

6. 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	2018	2017
Revenue	11 652 946	11 598 017
EBITDA	880 460	118 972
EBITDA margin %	16	8
Net asset value	13 583 453	13 444 461
Return on capital employed %	1	1
Return on equity (ROE) %	3	2
Cash generated from operations	1 377 333	327 525

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.

Natural capital

Upstream operations

- Drilling in the Greater Jubilee area commenced on 8 March 2018.

Alternative and renewable energy operations

- Eskom has signed the PPA to commence with financial close for 100MW Redstone ACWA CSP Project
- The 150MW CSP Project has been put on hold. The way forward for the additional 150MW CSP Project in Bid Window 4.5 will be decided only when the revised IRP is promulgated.

Manufactured capital

Gas and gas infrastructure

- The 25% shareholding in Rompco is iGas's largest asset and Rompco continues to transport large gas volumes to Mozambique and South Africa, which enables significant economic growth and jobs. iGas has maintained thorough active management in Rompco, with its engineers and finance staff engaging Rompco's to ensure prudent capital and operational spend and sound technical management.
- In the current financial year iGas received R346 million dividends from Rompco which is a 201% increase compared to the R115 million in the prior year.
- iGas and its Mozambican government counterpart have engaged Rompco to ensure that both government shareholders can deploy their own staff into Rompco pipeline operations. This will result in iGas's participation in Rompco changing from being a passive equity holder to being an active participant in Rompco and provide our government shareholder with greater responsibility and involvement in the Rompco pipeline operations, its management and the execution of its capital projects.

6. PERFORMANCE FOR THE YEAR (CONTINUED)

- As part of the Government’s Operation Phakisa initiative, an SEA is being progressed for the Phased Gas Pipeline Network. This focuses on identifying and preparing for the routes for the phased development of a National Gas Transmission Grid connecting gas import centres to key industrial and commercial hubs.

Alternative and renewable energy
- The Section 54 Minister’s approval to dispose of the asset and project rights to the George Biomass Consortium was received. The condition for approval was that CEF retains a 20% shareholding in the project company.

Material projects under Study Upstream SA operations
- **West coast: Block 2C, Block 5/6 and Block 3A/4A:** The PetroSA board approved the west coast farm-out deals in November 2016. In parallel, final execution copies of farm-out agreements were negotiated with the project partners and we are still seeking the requisite approvals before the agreements are signed. In light of the current commodity prices, Block 2A and Block 3A/4A were assessed for impairment, which resulted in an impairment of R171 million.
- **South coast:** Two offers were received for the Block 9/11A exploration right. Discussions between PetroSA and the bidders are ongoing. Full due diligence on bidders is still in progress.

Upstream other African operations
- In December 2015, the joint venture (JV) partners submitted the Greater Jubilee Full Field Development Plan (Jubilee Field and mahogany and teak commercial discoveries consolidated) to the Government of Ghana. This project, to extend field production and increase commercial reserves, was redesigned given the current oil price environment to reduce the overall capital requirement and allow flexibility on the timing of capital investment. The plan of development was approved on 20 October 2017 by the Government of Ghana.
- **PetroSA Equatorial Guinea (EG):** Deregistration of the PetroSA EG branch in Malabo, EG is underway. For the issuance of an office closure clearance certificate necessary for the deregistration of PetroSA EG in EG, the Inland Revenue Authority for EG conducted a tax audit. The Inland Revenue Authority issued a tax audit assessment for US$ 4 439 003.24 pertaining to donations tax on payments made. This audit assessment was disputed by management. Communication from PricewaterhouseCoopers in EG indicates that the outflow of donations tax is not probable and the closure clearance certificate is expected in 2018.
- **Deepwater Tano (DWT):** The maritime border issue between Ghana and Cote d’Ivoire was resolved in September 2017. Drilling of wells in the TEN area commenced on 22 March 2018. Up to 13 wells have been approved for drilling under the TEN plan of development.
- **West Cape Three Points (WCTP):** The mahogany and teak fields were approved for incorporation into the Greater Jubilee Full Field Development Plan in October 2017. The Akasa Field still requires further appraisal. An application to the Government of Ghana was sent to extend the Akasa appraisal period by two years. A response from the Government of Ghana has not yet been received.
- **Greater Jubilee Full Field:** Drilling in the Greater Jubilee area commenced on 8 March 2018.

Integrated midstream operations
- **Liquefied Natural Gas (LNG) Project:** No material progress was made on the project due to new strategic direction from DoE on the location for the LNG terminal. PetroSA continued to work with the CEF to support the CEF’s participation in the LNG project. In addition to this, further work will be done to evaluate the commerciality of importing gas as feedstock for the GTL Refinery.
- **Enhanced condensate processing (ECP):** Technical feasibility study was initiated in the period under review and was completed in May 2017. The risk of the ECP option remains extreme as the diesel product crack declined and economic indicators did not improve.
- **E-BK Project:** Two of the three planned data deployments have been completed successfully. FEED is on hold subject to PetroSA securing a partner to fund and execute the project.

6. PERFORMANCE FOR THE YEAR (CONTINUED)

Coal-mining operations
- **Vlakfontein Extension Project:** The east block was handed over to production. Designs for passive water treatment plant as required in terms of integrated water use licences have been completed for the north block. Also the civil drawings of the infrastructure have been completed and submitted to AEMFC. Bid specifications have been compiled for the tender process.
- **T-Project:** The project was put on hold until the first quarter of 2018/19.
- **Klippoortjie Mine Project:** The Department of Environmental Affairs granted environmental authorisations and surface right negotiations commenced.

Gas and gas infrastructure
- The planning for the expansion of the Rompco gas transmission pipeline between Mozambique and South Africa will continue once the Mozambican Government and the field operator define the future use for the newly discovered gas from areas surrounding the Temane/Pande gas fields. iGas is also seeking access to commercially viable gas resources for supply into and growth of the local market.

Alternative and renewable energy
- The DoE’s Independent Power Producer Procurement Programme (IPPO) intends issuing a request for qualification (RFQ) for the generation of 3000MW of the LNG fueled gas turbine power plant at Richards Bay (2000 MW) and Coega (1000 MW). This will define a new era of industrial and commercial use of gas directly in the surrounding ports, linked industrial development zones and adjacent regions. iGas is engaging the DoE and IPPO in terms of its participation on the gas-to-power programme, specifically on the LNG import terminal and the gas pipeline infrastructure. iGas is also engaging the DoE on the development of the Gas Master Plan.

7. ACCOUNTING POLICIES

The accounting policies applied in the preparation of the Annual Consolidated Financial Statements for the year ended 31 March 2018 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.

8. SHARE CAPITAL

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

9. DIVIDEND DISTRIBUTION

Dividend policy

Dividend distributions to the Shareholder are governed by 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.

Dividend in specie

The investment at PASA was classified as non-current asset held for distribution to owners. The CEF Board declared the investment in PASA SOC Ltd as a dividend in specie to the state (represented by DoE).

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 with conditions yet to be fulfilled.

10. INVESTMENTS

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

11. 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 an impairment (refer to note 3). In light of the current commodity prices, the WCTP block and DWT block held by PetroSA Ghana Limited were assessed for impairment. This assessment resulted in an impairment. The decommissioning provision (refer to note 24) reduced significantly owing to the softening of global rig and vessel rates and the strong rand against the US$. This resulted in a change in estimate, and had a positive impact on the performance. These significant items can be summarised as follows:

	2018 R'million	2017 R'million
Mossel Bay GTL refinery	399	1063
Ghana blocks	1 521	(444)
Reduction in decommissioning provision	(1 680)	(1 666)
	240	**(1 047)**

12. CAPITAL EXPENDITURE AND COMMITMENTS

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

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 R13.6 billion, with debt borrowings of R1.583 billion made up of a reserved-based loan and finance lease liability.

Consolidated R'000	2018	2017
External borrowings (existing)	1 582 754	866 846
Gearing ratio	43%	46%
Gearing ratio % (interest-bearing debt/equity and reserves) as per NT	10%	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 R8.96 billion. PetroSA has set aside R2.37 billion for this and there is currently a shortfall of approximately R5.692 billion. In terms of the financial provision regulations which were promulgated under the National Environmental Management Act 107 of 1998, 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 holding company has committed to assist PetroSA, through various support and oversight mechanisms, to close the funding gap.

13. FUNDING (CONTINUED)

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 R232 million. In terms of the signed petroleum agreements, this will commence once 50% of the estimated reserves have been produced from the relevant fields.

The Group has set aside funds towards the cost of decommissioning. These funds are not available for the general purposes of the Group and comprise the following investments:

	2018 R'million	2017 R'million
Cash deposits	477	477
Cash in PetroSA Rehabilitation NPC	1 711	1 711
Financial guarantee	180	180
	2 368	**2 368**

14. EVENTS AFTER REPORTING DATE

The directors are not aware of any material event that 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 2018. 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 the Group, 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 2018 is R3 481 830 421 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 Equalisation 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 41 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 revenue, expenses and liabilities, that require monitoring and reporting by those charged with governance. Below are significant laws that have been identified to warrant a summary for reporting purposes.

PFMA

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 legislations 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 imposes obligations on the Board and the boards of 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 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 R709.447 million per transaction.

APPROVAL LEVELS IN TERMS OF SECTION 54

All amounts are based on audited financial statement at 31 March 2016.

Figures R' 000	Group	PetroSA	CEF	PASA	AE	I-Gas	SFF	OPC	CCE	ETA
Public entity's Board approval levels	<709 447	<418 403	–	<4 836	<9 837	<56 983	<184 841	<722	<1 018	<34
CEF Board to approve	<709 447	>418 403	<709 447	>4 836	>9 837	>56 983	>184 841	>722	>1 018	>34
Obtain DoE approval and inform National Treasury via the top-most holding company	<709 447	<709 447	<709 447	<709 447	<709 447	<709 447	<709 447	<709 447	<709 447	<709 447

Irregular expenditure and fruitless and wasteful expenditure

For the list of the transgressions and management actions, refer to note 50 and 51 of the Consolidated Annual Financial Statements.

18. ECONOMIC REGULATION AND REGULATORY REFORM

Economic drivers

In October 2017, the National Energy Regulator of South Africa (NERSA), which regulates piped gas tariffs, initiated a process to amend Rompco's licences. If this process is successful, Rompco will have to reapply for its tariffs. Rompco and its shareholders (iGas, CMG and Sasol) have both collectively and individually engaged NERSA and made formal representations on this matter. It poses a potential risk that the Rompco tariff may be reduced through this process, as it will negatively affect the value of the investment and the quantum of the iGas dividend income.

Investments and asset retirement obligations

Our mandate stems from the CEF Act, where we are mandated to provide energy through exploration, production and distribution of energy solution. Our activities are regulated by various policies that regulate energy companies. Under the PFMA, Section 54 is a key section read with Section 3(3) and Section 13 for the acquisition and disposals of significant assets. MPRDA, read with NEMA and the NERSA Act, regulate the recognition and measurement and the funding of decommissioning and rehabilitation of environment caused on asset retirement.

The financial provision required for funding of the decommissioning and rehabilitation liability has been deferred to 2024 for the oil and gas sector. The Group continues to engage the key stakeholders to develop a funding model that will be utilised to fund the rehabilitation liability.

19. AUDITORS

The Auditor-General of South Africa continued in office as auditors for the Group and its subsidiaries for 2018. At the AGM, the Shareholder will be requested to reappoint the Auditor-General of South Africa as the independent external auditors of the Group.

20. ANNUAL GENERAL MEETING

The AGM will be held in terms of Section 61 of the Companies Act 71 of 2008.

21. 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

22. 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 149 to 246, which have been prepared on the going-concern basis, were approved by the Board on 28 August 2018; and were signed on its behalf by:

Mr L Makasi (Chairperson)	**Mr M G Moagi (Executive)**
Johannesburg	Johannesburg
28 August 2018	28 August 2018

Statement of Financial Position

As at 31 March 2018

Figures in Rand thousand	Note(s)	2018	2017 Restated	2016 Restated
Assets				
Non-current Assets				
Property, plant and equipment	3	7 421 025	9 764 263	11 307 192
Intangible assets	4	1 623 770	1 644 393	1 911 297
Investments in associates	7	886 094	909 106	670 988
Loans to Group companies	8	36 326	32 829	236 062
Other financial assets	9	165 099	183 572	344 985
Deferred tax	11	573 331	334 771	386 601
Prepayments	12	140 726	830	933
Strategic stock	13	996 482	868 830	727 689
		11 842 853	**13 738 594**	**15 585 747**
Current Assets				
Inventories	14	1 763 431	1 880 923	1 992 402
Loans to Group companies	8	10 249	–	–
Trade and other receivables	15	2 060 813	2 097 403	2 156 180
Prepayments	12	92 093	103 820	351 464
Current tax receivable		12 929	14 931	5 557
Cash and cash equivalents	16	17 186 008	15 694 839	16 153 551
		21 125 523	**19 791 916**	**20 659 154**
Non-current assets held for sale/distribution and assets of disposal groups	17	34 333	88 639	50 000
Total Assets		**33 002 709**	**33 619 149**	**36 294 901**
Equity and Liabilities Equity				
Reserves		(1 279 897)	(1 320 115)	(1 672 879)
Retained income		14 870 530	14 765 600	15 323 703
Attributable to equity holders of parent		13 590 633	13 445 485	13 650 824
Non-controlling interest		(1 180)	(1 024)	(904)
		13 589 453	**13 444 461**	**13 649 920**

Statement of Financial Position (continued)

As at 31 March 2018

Figures in Rand thousand	Note(s)	2018	2017 Restated	2016 Restated
Liabilities				
Non-Current Liabilities				
Other financial liabilities	22	770 171	866 846	1 201 666
Finance lease liabilities	23	772 899	–	–
Retirement benefit obligation	10	177 033	136 274	121 172
Deferred tax	11	1 427 980	1 888 793	1 768 004
Provisions	24	8 865 852	10 157 761	11 605 388
Other non-current liabilities	25	66 328	79 863	15 741
		12 080 263	**13 129 537**	**14 711 971**
Current Liabilities				
Trade and other payables	26	6 841 297	6 800 163	7 314 596
Other financial liabilities	22	76 860	88 943	56 202
Finance lease liabilities	23	39 684	–	–
Current tax payable		29 441	–	6 607
Provisions	24	97 766	137 130	138 396
Dividend payable	27	229 460	–	–
Bank overdraft	16	–	–	417 209
		7 314 508	**7 026 236**	**7 933 010**
Liabilities of disposal groups	17	18 485	18 915	–
Total Liabilities		**19 413 256**	**20 174 688**	**22 644 981**
Total Equity and Liabilities		**33 002 709**	**33 619 149**	**36 294 901**

Statement of Profit or Loss

and Other Comprehensive Income for the year ended 31 March 2018

Figures in Rand thousand	Note(s)	2018	2017 Restated
Revenue	28	11 652 946	11 598 017
Cost of sales	29	(10 516 391)	(11 037 774)
Gross profit		**1 136 555**	**560 243**
Other income	30	478 074	342 084
Operating expenses		(2 587 845)	(1 862 601)
Operating (loss) profit	31	**(973 216)**	**(960 274)**
Investment revenue	32	1 057 608	943 062
Income from equity accounted investments		356 060	300 280
Finance costs	33	(573 637)	(572 878)
(Loss) profit before taxation		**(133 185)**	**(289 810)**
Taxation	34	487 053	(331 010)
Profit (loss) for the year		**353 868**	**(620 820)**
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurements on net defined benefit liability/asset		(24 714)	(4 992)
Gains and losses on property revaluation		(22 482)	(22 669)
Total items that will not be reclassified to profit or loss		**(47 196)**	**(27 661)**
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		(263 571)	(203 864)
Effects of cash flow hedges (share of other comprehensive income of associates)		31	511
Total items that may be reclassified to profit or loss		**(263 540)**	**(203 353)**
Other comprehensive income for the year net of taxation	36	**(310 736)**	**(231 014)**
Total comprehensive (loss) income for the year		**43 132**	**(851 834)**
Profit (loss) attributable to:			
Owners of the parent		354 010	(620 702)
Non-controlling interest		(142)	(118)
		353 868	**(620 820)**
Total comprehensive income (loss) attributable to:			
Owners of the parent		43 274	(851 716)
Non-controlling interest		(142)	(118)
		43 132	**(851 834)**

Statement of Changes in Equity

For the year ended 31 March 2018

Figures in Rand thousand	Foreign currency translation reserve	Hedging reserve (share of associate)
Opening balance as previously reported Adjustments	835 579	(537)
Prior-period error	–	–
Balance at 1 April 2016 as restated	**835 579**	**(537)**
Loss for the year	–	–
Other comprehensive income	(203 864)	511
Total comprehensive loss for the year	**(203 864)**	**511**
Remeasurement of transfers	–	–
Transfer from revaluation reserve to retained earnings	–	–
Adjustments on retained earnings due to equity accounting of an associate (different reporting date)	–	(5)
Adjustment on retained earnings due to equity accounting	–	–
Other adjustments on retained earnings	–	–
Total contributions by and distributions to owners of company recognised directly in equity	**–**	**(5)**
Opening balance as previously reported Adjustments	631 715	(31)
Prior-period errors	–	–
Balance at 1 April 1 2017 as restated	**631 715**	**(31)**
Profit for the year	–	–
Other comprehensive income	(263 571)	31
Total comprehensive income for the year	**(263 571)**	**31**
Remeasurements	–	–
Transfer from revaluation reserve to retained income	–	–
Adjustments on retained earnings due to	–	–
equity accounting of an associate (different reporting date)		
Other adjustments on retained earnings	–	–
Dividends	–	–
Total contributions by and distributions to owners of company recognised directly in equity	**–**	**–**
Balance at 31 March 2018	**368 144**	**–**
Note(s)	19 and 36	20 and 36

Revaluation reserve	Transfer to Equalisation Fund	Total reserves	Retained income	Total attributable to equity holders of the Group/ company	Non-controlling interest	Total equity
1 236 826	–	2 071 868	12 950 318	15 022 186	(904)	15 021 282
477 773	(4 222 520)	(3 744 747)	2 373 385	(1 371 362)	–	(1 371 362)
1 714 599	**(4 222 520)**	**(1 672 879)**	**15 323 703**	**13 650 824**	**(904)**	**13 649 920**
–	–	–	(620 702)	(620 702)	(118)	(620 820)
(22 669)	–	(226 022)	(4 992)	(231 014)	–	(231 014)
(22 669)	**–**	**(226 022)**	**(625 694)**	**(851 716)**	**(118)**	**(851 834)**
–	578 790	578 790	–	578 790	–	578 790
–	–	–	22 669	22 669	(2)	22 667
–	–	(5)	–	(5)	–	(5)
–	–	–	45 456	45 456	–	45 456
–	–	–	(534)	(534)	–	(534)
–	**578 790**	**578 785**	**67 591**	**646 376**	**(2)**	**646 374**
1 214 157	–	1 845 841	12 413 560	14 259 401	(1 024)	14 258 377
–	578 791	578 791	21 894	600 685	–	557 446
1 691 931	**(3 643 730)**	**(1 320 115)**	**14 765 600**	**13 445 485**	**(1 024)**	**13 444 461**
–	–	–	354 010	354 010	(142)	353 868
(22 482)	–	(286 022)	(24 714)	(310 736)	–	(310 736)
(22 482)	**–**	**(286 022)**	**329 296**	**43 274**	**(142)**	**43 132**
–	326 240	326 240	–	326 240	–	326 240
–	–	–	22 482	22 482	–	22 482
–	–	–	(24 116)	(24 116)	–	(24 116)
–	–	–	6 728	6 728	(14)	6 714
–	–	–	(229 460)	(229 460)	–	(229 460)
–	**326 240**	**326 240**	**(224 366)**	**101 874**	**(14)**	**101 860**
1 669 449	**(3 317 490)**	**(1 279 897)**	**14 870 530**	**13 590 633**	**(1 180)**	**13 589 453**
21 and 36			36			

Statement of Cash Flows

For the year ended 31 March 2018

Figures in Rand thousand	Note(s)	2018	2017
Cash flows from operating activities			
Cash generated from operations	37	1 377 333	327 525
Interest income		1 057 608	1 013 455
Dividends received		348 158	151 520
Finance costs		(134 043)	(142 921)
Tax paid	38	(180 878)	(111 942)
Net cash from operating activities		**2 468 178**	**1 237 637**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(257 240)	(803 975)
Disposal of property, plant and equipment	3	1 920	75 371
Purchase of other intangible assets	4	(28 829)	(42 914)
Sale of other intangible assets	4	4 400	1 106
Investments in associates/joint ventures		(473)	(8 664)
Sale/(purchase) of financial assets		(1 803)	161 413
Sale/(purchase) of property, plant and equipment – disposal group assets		(2 838)	(6 007)
Net cash from investing activities		**(284 863)**	**(623 670)**
Cash flows from financing activities			
(Repayment)/additions in other financial liabilities		(108 758)	(302 079)
Increase in other non-current liabilities		(13 535)	64 122
Loans from Group companies		–	–
Movement in loans from Group companies		–	(57)
Loans to Group companies		(13 746)	–
Finance lease receipts/(payments)		(37 686)	–
Net cash from financing activities		**(173 725)**	**(238 014)**
Total cash movement for the year		**2 009 590**	**375 957**
Cash at the beginning of the year		15 694 839	15 736 342
Effect of exchange rate movement on cash balances		(518 421)	(417 460)
Total cash at end of the year	16	**17 186 008**	**15 694 839**

Accounting Policies
For the year ended 31 March 2018

1. Presentation of Consolidated Annual Financial Statements

Basis of preparation
The Consolidated Annual Financial Statements of the CEF Group have been prepared in accordance with the Companies Act of 2008 and the requirements of the PFMA, IFRS, Financial Reporting Pronouncements (FRPs) and IFRS Interpretations Committee (IFRS IC) interpretations applicable to companies reporting under IFRS. The Consolidated Annual Financial Statements have been prepared under the historical cost convention, except as stated in the notes below.

The preparation of the Consolidated Annual Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Consolidated Annual Financial Statements are disclosed in the accounting policies below.

These Consolidated Annual Financial Statements are presented in South African rands. Rounding is to the nearest thousand. Assets and liabilities will not be offset, unless required by the standard.

Comparative figures
Comparative figures are restated in the event of a change in accounting policy or material prior-period error.

1.1 Construction contracts and receivables

The principal accounting policies applied in the preparation of the Consolidated Annual Financial Statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

1.2 Significant judgments 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.

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.

1.2 Significant judgments and sources of estimation uncertainty (continued)

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.

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.

1.2 Significant judgments and sources of estimation uncertainty (continued)

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 capex 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.

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 of the Companies Act, PFMA and the 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.

1.2 Significant judgments and sources of estimation uncertainty (continued)

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.

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.

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.

1.2 Significant judgments and sources of estimation uncertainty (continued)

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 for operating subsidiaries and the holding company are the Group's key management personnel.

1.3 Consolidation basis of consolidation

The Consolidated Annual Financial Statements comprise the Annual Financial Statements of the Group and its subsidiaries at 31 March each year.

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.

1.4 Property, plant and equipment

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

An item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the Group, and the cost of the item can be measured reliably.

Property, plant and equipment is stated at cost, net of accumulated depreciation and 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.

When shutdown costs will be incurred, an estimate of these shutdown costs is included in the carrying value of the asset at initial recognition.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, 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 values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year-end and adjusted prospectively, if appropriate.

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, plan and equipment. These items are initially measured at historical 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 assets are depreciated over 70 years.

1.5 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.

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.

1.6 Intangible assets

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.

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.

Alternative energy research and development costs
Research expenditure relating to gaining new technical knowledge and understanding is charged to the income statement when incurred.

Development expenditure relating to the production of new or substantially improved products or processes is capitalised if the costs can be measured reliably, the products or processes are technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. All remaining development expenditure is charged to the income statement.

Cost includes expenditure on materials, direct labour and an allocated proportion of project overheads. Purchased software and the direct costs associated with the customisation and installation thereof are capitalised.

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.

A summary of the policies applied to the Group's intangible assets is as follows:

External patents	5 – 10 years
Developed patents	Indefinite useful life
Software licences	2 – 10 years
Intangible assets under development	N/A

1.7 Exploration, evaluation and development – oil and gas

The 'successful efforts' method is used to account for natural oil and gas exploration, evaluation and development activities.

Prelicensing costs are 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 activity involves the search for hydrocarbons resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Oil and natural gas exploration and evaluation expenditures are accounted for using the 'successful efforts' method of accounting. Costs are accumulated on a field-by-field basis.

The cost of exploratory wells through which potential proved reserves may be or have been discovered, and the associated exploration costs, are capitalised as exploration and evaluation assets in assets under construction.

These costs remain capitalised pending the evaluation of results and the determination of whether there are proved reserves. At each reporting date, exploration and evaluation assets are assessed for impairment. The following conditions must be met for these exploration costs to remain capitalised:

- Sufficient progress is being made in assessing the oil and gas resources, including assessing the economic and operating viability of developing the property.
- It has been determined that sufficient oil and gas resources or reserves exist that are economically viable based on a range of technical and commercial considerations to justify the capital expenditure required for the completion of the well as a producing well, either individually or in conjunction with other wells.

Progress is reassessed at each reporting date and is subject to technical, commercial and management review to ensure sufficient justification for the continued capitalisation of such qualifying exploration and evaluation expenditure as an exploration and evaluation asset as part of assets under construction. If both of the above conditions are not met or if information is obtained that raises substantial doubt about the economic or operating viability, the costs are charged to the income statement.

Once commercial reserves are found, exploration and evaluation assets are tested for impairment and transferred to development tangible and intangible assets. No depreciation and/or amortisation is charged during the exploration and evaluation phase.

Expenditures relating to dry exploratory wells are charged to the income statement when the well is identified as being dry and the costs of carrying and retaining undeveloped properties are charged to the income statement as incurred.

Coal mining

Coal mining exploration and evaluation expenditure is charged to the income statement until completion of a final feasibility study supporting proved and probable coal reserves. Expenditure incurred subsequent to proved and probable coal reserves being identified is capitalised as exploration assets in assets under construction.

Expenditure on producing mines or development properties is capitalised when excavation or drilling is incurred to extend reserves or further delineate existing proved and probable coal reserves. All development expenditure incurred after the commencement of production is capitalised to the extent that it gives rise to probable future economic benefits.

1.7 Exploration, evaluation and development – oil and gas (continued)

LoM coal assets are depreciated using the life of the reserves method. A unit is considered to be produced once it has been removed from underground and taken to the surface, passed the bunker and has been transported by conveyor over the scale of the shaft head. The calculation is based on proved and probable reserves assigned to that specific mine (accessible reserves) or complex that benefits from the utilisation of those assets. Inaccessible reserves are excluded from the calculation.

Other coal mining assets are depreciated on the straight-line method over their estimated useful lives.

Expenditure on the construction, installation or completion of infrastructure facilities, such as mines, platforms and pipelines, and the drilling of commercially proven development wells, is capitalised within property, plant and equipment and intangible assets according to nature. When development is completed on a specific mine or field, it is transferred to mineral or intangible assets.

Where there has been a change in economic conditions that indicates a possible impairment in a discovery mine or field, the recoverability of the net book value relating to that mine or field is assessed by comparison with the estimated discounted future cash flows based on management's expectations of future mineral prices and future costs. Where there is evidence of economic interdependency between mines or fields, such as common infrastructure, the mines or fields are grouped as a single CGU for impairment purposes.

Any impairment identified is charged to profit or loss as additional depreciation. 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.

1.8 Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets
Financial assets include cash and cash equivalents, trade receivables, other receivables, loans, other investments and derivative financial instruments. The Group determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. Transaction costs for financial assets classified as fair value through profit or loss are expensed.

The subsequent measurement of financial assets depends on their classification, as follows:

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process. This category of financial assets includes trade and other receivables. Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value and have a maturity of three months or less from the date of acquisition.

1.8 Financial instruments (continued)

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are carried on reporting date at fair value with gains or losses recognised in profit or loss. Derivatives are classified as held for trading and are included in this category. The reclassification to loans and receivables, available for sale or held to maturity, depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Held-to-maturity financial assets
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment.

Impairment of financial assets
The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Loans and receivables
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced, with the amount of the loss recognised in the income statement.

Financial liabilities
Financial liabilities are classified as financial liabilities at fair value through profit or loss or as financial liabilities measured at amortised cost, as appropriate. Financial liabilities include trade and other payables, accruals, most items of finance debt and derivative financial instruments. The Group determines the classification at initial recognition.

Financial liabilities measured at amortised cost
All other financial liabilities are initially recognised at fair value. For interest-bearing loans and borrowings, this is the fair value of the proceeds received net of issue costs associated with the borrowing.

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised respectively in interest and other income and finance costs. This category of financial liabilities includes trade and other payables and finance debt.

Fair-value determination
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date assuming that market participants act in their economic best interest.

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.

1.8 Financial instruments (continued)

Impairment of financial assets
At each reporting date, the Group assesses all financial assets, other than those at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the Group, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity as a reclassification adjustment to other comprehensive income and recognised in profit or loss.

Impairment losses are recognised in profit or loss.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in profit or loss.

Impairment losses are also not subsequently reversed for available-for-sale equity investments that are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in profit or loss within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

1.9 Tax

Deferred tax assets and liabilities
Deferred tax is provided for using the liability method, on all temporary differences between the carrying amount of assets and liabilities for accounting purposes and the amounts used for tax purposes and on any tax losses.

No deferred tax is provided on temporary differences relating to:
- the initial recognition of goodwill
- the initial recognition (other than in a business combination) of an asset or liability to the extent that neither accounting nor taxable profit is affected on acquisition and
- investments in subsidiaries, associates and interests in joint arrangements to the extent that the temporary difference will probably not reverse in the foreseeable future and the control of the reversal of the temporary difference lies with the parent, investor, JV or joint operator.

The provision for deferred tax is calculated using enacted or substantively enacted tax rates at the reporting date that are expected to apply when the asset is realised or liability settled.

1.9 Tax (continued)

Deferred tax assets and liabilities are offset when the related income taxes are levied by the same taxation authority, there is a legally enforceable right to offset and there is an intention to settle the balances on a net basis.

Tax expenses
The income tax charge is determined based on net income before tax for the year and includes deferred tax.

The current tax charge is the tax payable on the taxable income for the financial year, applying enacted or substantively enacted tax rates and includes any adjustments to tax payable for prior years.

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.

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee
A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

When an operating lease is terminated before the lease period has expired, the unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

Group as a lessor
A lease is 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.

1.10 Leases (continued)

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Lease income on operating leases is recognised over the term of the lease on a straight-line basis.

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. There are five types of inventory in the Group:

Unpumpable crude oil/crude oil sludge
These items are initially measured at historical 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. The useful life of the assets is between five and 80 years.

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.

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.

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 expected 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 coordinated 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.

Financial performance, cash flows and net assets of the discontinued operation are disclosed separately in the notes.

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 in expense categories consistent with the function of the impaired asset.

1.13 Impairment of assets

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.

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
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.

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.

1.15 Employee benefits (continued)

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:

- 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

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.

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.

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.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

1.17 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, and represents the amount receivable for goods supplied net returns and allowances, trade discounts and volume rebates and excluding taxes or duty. The specific recognition criteria described below must also be met before revenue is recognised.

a) **Sale of goods – petroleum products**
Revenue from the sale of oil and petroleum products is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually when the product is physically transferred into a vessel, pipe or other delivery mechanism.

b) **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 as meeting the required specifications.

c) **Rendering of services – management fees**
Revenue from management services is recognised by reference to the stage of completion. Stage of completion is measured by reference to 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.

d) **Levy**
Levy income is recognised when the service is delivered based on the number of barrels by using the average US$: Rand exchange rate applicable on the days of service.

e) **Royalties and licence fees**
Revenue from exploration and production royalties and licence fees is recognised on accrual basis in accordance with the substance of the relevant agreements.

f) **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.

g) **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.

h) **Dividend income**
Dividend income is recognised when the right to receive payment is established.

i) **Data sales**
Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods are transferred, when delivery has been made and title has passed, when the amount of the revenue and the related costs can be reliably measured and when it is probable that the debtor will pay for the goods.

1.18 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.

1.19 Translation of foreign currencies – foreign currency transactions

The Group's Consolidated Annual Financial Statements are presented in South African rands, 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 rands at the rate of exchange prevailing at the reporting date and their statements of profit or loss 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.

1.20 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.

In particular, this relates to JVs and associates. Disclosure for JVs and associates is provided in note 42.

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 for operating subsidiaries and the holding company have been identified as key management personnel for the Group.

1.21 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.

1.22 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 financial performance 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 revenue in the statement of financial performance.

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.

2. New standards and interpretations

2.1 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 1 April 1 2018 or later periods:

IFRS 16 Leases
IFRS 16 Leases is a new standard that replaces IAS 17 Leases, and introduces a single lessee accounting model. The main changes arising from the issue of IFRS 16 that are likely to impact the company are as follows:

Company as lessee:
- Lessees are required to recognise a right-of-use asset and a lease liability for all leases, except short-term leases or leases where the underlying asset has a low value, which are expensed on a straight-line or other systematic basis.
- The cost of the right-of-use asset includes, where appropriate, the initial amount of the lease liability, lease payments made prior to commencement of the lease less incentives received, initial direct costs of the lessee, and an estimate for any provision for dismantling, restoration and removal related to the underlying asset.
- The lease liability takes into consideration, where appropriate, fixed and variable lease payments, residual value guarantees to be made by the lessee, exercise price of purchase options, and payments of penalties for terminating the lease.
- The right-of-use asset is subsequently measured on the cost model at cost less accumulated depreciation and impairment and adjusted for any remeasurement of the lease liability. However, right-of-use assets are measured at fair value when they meet the definition of investment property and all other investment property is accounted for on the fair-value model. If a right-of-use asset relates to a class of property, plant and equipment that is measured on the revaluation model, then that right-of-use asset may be measured on the revaluation model.
- The lease liability is subsequently increased by interest, reduced by lease payments and remeasured for reassessments or modifications.
- Remeasurements of lease liabilities are affected against right-of-use assets, unless the assets have been reduced to nil, in which case further adjustments are recognised in profit or loss.
- The lease liability is remeasured by discounting revised payments at a revised rate when there is a change in the lease term or a change in the assessment of an option to purchase the underlying asset.
- The lease liability is remeasured by discounting revised lease payments at the original discount rate when there is a change in the amounts expected to be paid in a residual value guarantee or when there is a change in future payments because of a change in index or rate used to determine those payments.
- Certain lease modifications are accounted for as separate leases. When lease modifications that decrease the scope of the lease are not required to be accounted for as separate leases, then the lessee remeasures the lease liability by decreasing the carrying amount of the right of lease asset to reflect the full or partial termination of the lease. Any gain or loss relating to the full or partial termination of the lease is recognised in profit or loss. For all other lease modifications that are not required to be accounted for as separate leases, the lessee remeasures the lease liability by making a corresponding adjustment to the right-of-use asset.
- Right-of-use assets and lease liabilities should be presented separately from other assets and liabilities. If not, then the line item in which they are included must be disclosed. This does not apply to right-of-use assets meeting the definition of investment property, which must be presented within investment property. IFRS 16 and IAS 17 contain different disclosure requirements.

2.1 Standards and interpretations not yet effective (continued)

Company as lessor:
- Accounting for leases by lessors remains similar to the provisions of IAS 17 in that leases are classified as either finance leases or operating leases. Lease classification is reassessed only if there has been a modification.
- A modification is required to be accounted for as a separate lease if it both increases the scope of the lease by adding the right to use one or more underlying assets, and the increase in consideration is commensurate to the standalone price of the increase in scope.
- If a finance lease is modified, and the modification would not qualify as a separate lease, but the lease would have been an operating lease if the modification was in effect from inception, then the modification is accounted for as a separate lease. In addition, the carrying amount of the underlying asset shall be measured as the net investment in the lease immediately before the effective date of the modification. IFRS 9 is applied to all other modifications not required to be treated as a separate lease.
- Modifications to operating leases are required to be accounted for as new leases from the effective date of the modification. Changes have also been made to the disclosure requirements of leases in the lessor's financial statements.

Sale and leaseback transactions:
- In the event of a sale and leaseback transaction, the requirements of IFRS 15 are applied to consider whether a performance obligation is satisfied to determine whether the transfer of the asset is accounted for as the sale of an asset.
- If the transfer meets the requirements to be recognised as a sale, the seller-lessee must measure the new right-of-use asset at the proportion of the previous carrying amount of the asset that relates to the right-of-use retained. The buyer-lessor accounts for the purchase by applying applicable standards and for the lease by applying IFRS 16.
- If the fair value of consideration for the sale is not equal to the fair value of the asset, then IFRS 16 requires adjustments to be made to the sale proceeds. When the transfer of the asset is not a sale, then the seller-lessee continues to recognise the transferred asset and recognises a financial liability equal to the transfer proceeds. The buyer-lessor recognises a financial asset equal to the transfer proceeds.

The effective date of the standard is for years beginning on or after 1 January 2019.

The company does not envisage the adoption of the standard until such time as it becomes applicable to the company's operations.

The impact of this standard is currently being assessed.

Amendments to IAS 28: Annual improvements to IFRS 2014 – 2016 cycle
An entity such as a venture capital organisation, mutual fund or similar institution may elect to measure investments in associates or JVs at fair value through profit or loss in accordance with IFRS 9 rather than by applying the equity method. The amendment to IAS 28 Investments in Associates and JVs now specifies that the election must be made separately per associate or JV and at the time of initial recognition of such investment. Further, if an entity is not an investment entity, but has interests in an associate or JV that is an investment entity, then the entity may retain the fair-value measurement of the associate or JV. The amendment now provides that such election must be made separately for each investment entity associate or JV.

The effective date of the amendment is for years beginning on or after 1 January 2018.

The company expects to adopt the amendment for the first time in the 2019 financial statements.

It is unlikely that the amendment will have a material impact on the company's financial statements.

2.1 Standards and interpretations not yet effective (continued)

Amendments to IFRS 1: Annual improvements to IFRS 2014 – 2016 cycle
The amendment to IFRS 1 First Time Adoption of International Financial Reporting Standards deleted from IFRS 1 certain short-term exemptions concerning disclosures of financial assets, employee benefits and investment entities.

The effective date of the amendment is for years beginning on or after 1 January 2018.

The company expects to adopt the amendment for the first time in the 2019 financial statements.

It is unlikely that the amendment will have a material impact on the company's financial statements.

Foreign currency transactions and advance consideration
The interpretation applies to circumstances when an entity has either paid or received an amount of consideration in advance and in a foreign currency, resulting in a non-monetary asset or liability being recognised. The specific issue addressed by the interpretation is how to determine the date of the transaction for the purposes of determining the exchange rate to use on the initial recognition of the related asset, expense or income when the non-monetary asset or liability is derecognised. The interpretation specifies that the date of the transaction, for purposes of determining the exchange rate to apply, is the date on which the entity initially recognises the non-monetary asset or liability.

The effective date of the interpretation is for years beginning on or after 1 January 2018.

The company expects to adopt the interpretation for the first time in the 2019 financial statements.

It is unlikely that the interpretation will have a material impact on the company's financial statements.

IFRS 9 Financial Instruments
IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition and, in November 2013, to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include:
a) impairment requirements for financial assets and
b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:
- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal are generally measured at amortised cost at the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset that give rise on specified dates to cash flows that are solely payments of principal and interest on outstanding principal, are measured at FVTOCI. All other debt and equity investments are measured at fair value at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

2.1 Standards and interpretations not yet effective (continued)

- In the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the liability is presented in other comprehensive income, unless the recognition of the effect of the changes of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Under IAS 39, the entire amount of the change in fair value of a financial liability designated as at fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. It is, therefore, no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principal of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The effective date of the standard is for years beginning on or after 01 January 2018.

The company expects to adopt the standard for the first time in the 2019 financial statements. The impact of this standard is currently being assessed.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 supersedes 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.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also includes extensive new disclosure requirements.

The effective date of the standard is for years beginning on or after 1 January 2018.

The company expects to adopt the standard for the first time in the 2019 financial statements. The impact of this standard is currently being assessed.

3. Property, plant and equipment

Figures in Rand thousand	2018 Cost or revaluation	2018 Accumulated depreciation and impairment	2018 Carrying value	2017 Cost or revaluation	2017 Accumulated depreciation and impairment	2017 Carrying value
Land	76 453	–	76 453	70 183	–	70 183
Buildings	387 467	(93 220)	294 247	380 613	(87 201)	293 412
Assets under development	261 035	(122 785)	138 250	400 949	(216 547)	184 402
Plant and machinery	2 556 139	(382 676)	2 173 463	2 582 009	(343 348)	2 238 661
Furniture and fixtures	735 660	(619 953)	115 707	664 770	(587 636)	77 134
Motor vehicles	114 344	(64 329)	50 015	104 327	(58 293)	46 034
Office equipment	2 963	(2 144)	819	3 396	(2 407)	989
IT equipment	18 355	(11 288)	7 067	16 881	(10 272)	6 609
Computer software	–	–	–	–	–	–
Production assets	38 312 949	(33 861 146)	4 451 803	37 631 006	(30 958 037)	6 672 969
Shutdown costs capitalised	71 132	(71 132)	–	637 848	(637 848)	–
Restoration cost	(138 715)	214 186	75 471	1 731 308	(1 585 184)	146 124
Mine infrastructure	72 979	(35 249)	37 730	56 943	(29 197)	27 746
Total	**42 470 761**	**(35 049 736)**	**7 421 025**	**44 280 233**	**(34 515 970)**	**9 764 263**

Figures in Rand thousand	2016 Cost or revaluation	2016 Accumulated depreciation and impairment	2016 Carrying value
Land	55 517	–	55 517
Buildings	369 515	(81 289)	288 226
Assets under development	343 458	(33 326)	310 132
Plant and machinery	2 577 904	(300 942)	2 276 962
Furniture and fixtures	659 292	(571 013)	88 279
Motor vehicles	97 048	(52 595)	44 453
Office equipment	5 990	(4 964)	1 026
IT equipment	23 297	(13 725)	9 572
Computer software	2 344	(1 931)	413
Production assets	37 471 826	(29 799 755)	7 672 071
Shutdown costs capitalised	637 846	(619 931)	17 915
Restoration cost	3 664 739	(3 152 979)	511 760
Mine infrastructure	53 757	(22 891)	30 866
Total	**45 962 533**	**(34 655 341)**	**11 307 192**

Notes to the Consolidated Annual Financial Statements

For the year ended 31 March 2018 (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	2 238 661	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
	9 764 263	**1 113 417**	**(2 928)**	**140 647**

Reconciliation of property, plant and equipment – 2017

Figures in Rand thousand	Opening balance	Additions	Disposals	Classified as held for sale	Transfers in
Land	55 517	–	–	–	14 666
Buildings	288 226	9 615	–	(703)	3 383
Assets under development	310 132	170 967	–	–	100 837
Plant and machinery	2 276 962	–	–	–	–
Furniture and fixtures	88 280	12 947	(505)	(627)	–
Motor vehicles	44 453	8 128	–	(42)	–
Office equipment	1 026	981	–	(400)	–
IT equipment	9 571	6 709	(5)	(5 545)	–
Computer software	413	–	–	(262)	–
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	–	–	–
	11 307 192	**803 975**	**(75 371)**	**(7 579)**	**282 536**

	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
	–	(22 287)	–	–	(41 208)	–	2 173 463
	–	–	–	(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
	(124 747)	**(1 745 577)**	**(434 102)**	**(241)**	**(1 049 945)**	**(239 762)**	**7 421 025**

	Transfers out	Change in estimates	Foreign exchange movements	Write-offs	Depreciation	Impairment (loss)/reversal	Total
	–	–	–	–	–	–	70 183
	–	–	–	–	(7 089)	(20)	293 412
	(180 987)	–	–	–	–	(216 547)	184 402
	–	–	–	4 106	(42 407)	–	2 238 661
	–	–	(13)	–	(22 940)	(8)	77 134
	–	–	–	–	(6 505)	–	46 034
	–	–	(325)	–	(293)	–	989
	–	–	(44)	–	(4 056)	(21)	6 609
	–	–	–	–	(151)	–	–
	–	(386 881)	–	–	(888 760)	(402 938)	6 672 969
	–	–	–	–	(17 918)	–	–
	–	(18 130)	–)	(1 907 916	(105 714)	1 666 124	146 124
	–	–	–	–	(6 486)	(571)	27 746
	(180 987)	**(405 011)**	**(382)**	**(1 903 810)**	**(1 102 319)**	**1 046 019**	**9 764 263**

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment – 2016

	Opening balance	Additions	Disposals
Land	57 065	–	(1 548)
Buildings	281 618	1 825	–
Assets under development	624 265	184 922	(745)
Plant and machinery	2 324 561	–	(4 525)
Furniture and fixtures	110 552	13 741	(362)
Motor vehicles	35 576	14 757	–
Office equipment	1 333	113	–
IT equipment	7 862	2 333	(28)
Computer software	171	309	–
Production assets	6 299 934	1 696 939	(32 271)
Shutdown costs capitalised	51 746	9	–
Restoration costs	349 432	168 603	–
Mine infrastructure	35 135	2 235	–
	10 179 250	**2 085 786**	**(39 479)**

Transfers	Foreign exchange movements	Change in estimate	Depreciation	Impairment loss	Total
–	–	–	–	–	55 517
11 661	–	–	(6 855)	(23)	288 226
(464 984)	–	–	–	(33 326)	310 132
–	–	–	(43 074)	–	2 276 962
–	3	–	(28 638)	(7 017)	88 279
–	–	–	(5 880)	–	44 453
–	–	–	(420)	–	1 026
2 519	–	–	(3 069)	(45)	9 572
–	–	–	(67)	–	413
402 636	529 626	–	(1 670 517)	445 724	7 672 071
–	–	–	(32 676)	(1 164)	17 915
–	30 349	748 286	(126 342)	(658 568)	511 760
–	–	–	(5 631)	(873)	30 866
(48 168)	**559 978**	**748 286**	**(1 923 169)**	**(255 292)**	**11 307 192**

3. Property, plant and equipment (continued)

Transfers in/(out) are as follows: 2018:
Transfers into assets under development from exploration evaluation (intangible assets) of R15.825 million relate to the development of the Vlakfontein Mine Extension.

Transfers from assets under development of R24.037 million into production assets and mine infrastructure of R10.382 million and R13.655 million respectively, relate to the commencement of the Vlakfontein Mine.

Transfers into production assets of R29.5 million and shut down costs of R71.1 million out of assets under development (R100.5 million) and exploration evaluation (R0.075 million) relate to 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 25.

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 into assets under development of R100.837 million relate to exploration and evaluation costs incurred for T-project, which is currently at infrastructure development phase.

Transfers into production assets from assets under development of R163.650 million relate to development costs incurred on PetroSA Ghana TEN project, which was commissioned during the financial year.

3. Property, plant and equipment (continued)

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.

Macroeconomic assumptions
For the South African operations, the macroeconomic assumptions used in the net present value computation include Brent crude oil prices at $50, improved from $46.56 forecast for 2017, (2018: $64, 2019: $60, 2020: $61, 2021: $63 and 2022-3: $66). Rand-based weighted average cost of capital (WACC) of 14% (2017: 14%) and US$-based WACC of 11% (2017: 11%). The Group will continue to review the recoverable amounts of CGUs in the event of future changes in reserves and relevant macroeconomic indicators.

For the Ghanaian operations, the macroeconomic assumptions used in the net present value computation include Brent crude oil prices at $50, improved from $46.56 forecast for 2017, (2018: $64, 2019: $60, 2020: $61, 2021: $63 and 2022-3: $66). A US$-based WACC of 11% (2017: 11%) was used. The Group will continue to review the recoverable amounts of CGUs in the event of future changes in reserves and relevant macroeconomic indicators.

4. Intangible assets

Figures in Rand thousand	2018 Cost/ valuation	2018 Accumulated amortisation and impairment	2018 Carrying value
Patents, trademarks and other rights	57 424	(53 519)	3 905
Computer software	70 173	(66 587)	3 586
Intangible assets under development	–	–	–
Exploration evaluation	1 601 518	–	1 601 518
Restoration costs	14 761	–	14 761
Total	**1 743 876**	**(120 106)**	**1 623 770**

Reconciliation of intangible assets – 2018

Figures in Rand thousand	Opening balance	Additions	Disposals
Patents, trademarks and other rights	4 182	–	–
Computer software	8 279	2 182	–
Exploration evaluation	1 615 109	26 647	(4 400)
Restoration costs	16 824	–	–
	1 644 394	**28 829**	**(4 400)**

Reconciliation of intangible assets – 2017

Figures in Rand thousand	Opening balance	Additions	Disposals	Classified as held for sale
Patents, trademarks and other rights	4 459	–	–	–
Computer software	12 303	12 158	–	(7 052)
Intangible assets under development	203	–	–	–
Exploration evaluation	1 876 792	30 756	(1 106)	–
Restoration costs	17 540	–	–	–
	1 911 297	**42 914**	**(1 106)**	**(7 052)**

Reconciliation of intangible assets – 2016

Figures in Rand thousand	Opening balance	Additions	Disposals
Patents, trademarks and other rights	4 737	–	–
Computer software, internally generated	23,409	2 192	(31)
Intangible assets under development	–	203	–
Exploration evaluation	1 731 851	64 690	(2 781)
Other intangible assets	19 631	49	–
	1 779 628	**67 134**	**(2 812)**

	2017			2016		
	Cost/ valuation	Accumulated amortisation and impairment	Carrying value	Cost/ valuation	Accumulated amortisation	Carrying value
	57 424	(53 242)	4 182	57 424	(52 965)	4 459
	68 047	(59 769)	8 278	68 278	(55 975)	12 303
	–	–	–	203	–	203
	1 786 603	(171 494)	1 615 109	1 877 331	(539)	1 876 792
	16 824	–	16 824	17 540	–	17 540
	1 928 898	**(284 505)**	**1 644 393**	**2 020 776**	**(109 479)**	**1 911 297**

	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
	(15 900)	**(21 864)**	**(137)**	**(4 683)**	**(2 469)**	**1 623 770**

	Transfers	Foreign exchange movements	Changes in estimates	Amortisation	Impaiment loss	Total
	–	–	–	(277)	–	4 182
	203	–	–	(9 334)	–	8 278
	(203)	–	–	–	–	–
	(101 549)	(18 829)	–	–	(170 955)	1 615 109
	–	(1 695)	979	–	–	16 824
	(101 549)	**(20 524)**	**979**	**(9 611)**	**(170 955)**	**1 644 393**

	Transfers	Foreign exchange movements	Other changes movements	Amortisation	Total
	–	–	–	(278)	4 459
	–		–	(13 267)	12 303
	–	–	–	–	203
	48 168	34 864	–	–	1 876 792
	–	4 142	(6 282)	–	17 540
	48 168	**39 006**	**(6 282)**	**(13 545)**	**1 911 297**

4. Intangible assets (continued) – other information

Transfers in/(out) are as follows: 2018:
Transfers from exploration evaluation into assets under development and of R15.825 million are due to the development of the Vlakfontein 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 to the following projects:
- Vlakfontein Mine Extension
- Klippoortjie Mine
- T-project and
- PetroSA upstream projects.

5. Interests in subsidiaries

The following table lists the entities that are controlled directly/indirectly by the Group companies, and the carrying amounts of the investments in the company's separate financial statements. 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 2018	% holding 2017	% holding 2016
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%
PASA SOC Ltd	CEF SOC Ltd	100.00%	100.00%	100.00%
iGas SOC Ltd	CEF SOC Ltd	100.00%	100.00%	100.00%
SFF NPC	CEF SOC Ltd	100.00%	100.00%	100.00%

5. Interests in subsidiaries (continued) – 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 22.

Reporting period
The end of the reporting period of PetroSA Ghana Ltd was Sunday, 31 December 2017.

Non-current asset held for distribution to owners
The investment at PASA SOC Ltd was 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 DoE). 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, with conditions yet to be fulfilled.

6. Joint arrangements

Joint operations
The following joint operations are material to 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	Country of incorporation	% ownership interest		
		2018	2017	2016
Block 2A	Sunbird	24%	24%	24%
Block 2C	Arnadako	35%	35%	35%
Block 3A/4A	Sasol	50%	50%	50%
Block 3A/4A	Arnadako	20%	20%	20%
Block 1	Cairn	40%	40%	40%

In accordance with the Group's accounting policy, the results of joint operations are accounted for on a line-by-line basis.

JVs
The following table lists all of the JVs in the Group:

Name of company	Held by	% ownership interest 2018	% ownership interest 2017	% ownership interest 2016	Carrying amount 2018	Carrying amount 2017	Carrying amount 2016
GTL.F1 AG	PetroSA SOC Ltd	50.00%	50.00%	50.00%	–	–	–
PAMDC (Pty) Ltd	AEMFC SOC Ltd	33.00%	33.00%	33.00%	–	–	–

6. Joint arrangements (continued)

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 JVs accounted for using the equity method

Figures in Rand thousand	2018	2017	2016
Share of profit or loss from continuing operations	–	250	(1 388)
Share of total comprehensive income	–	250	–

Reporting period
The reporting date of GTL.F1 is not the same as that of the Group. GTL.F1 AG's year end was 31 December 2017.

Unrecognised losses

PAMDC (Pty) Ltd
The share of losses recognised in the current year was limited to the carrying amount of the investment of R nil (2017: R0.153 million). The total accumulated unrecognised losses amounted to 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 R24.9 million (2017: R20.3 million). The accumulated unrecognised losses to date amount to R170.1 million (2017: R145.2 million).

7. Investments in associates

The following table lists all of the associates in Group companies. The country of incorporation for all associates is the Republic of South Africa.

Name of company	Held by	% ownership interest	% ownership interest	% ownership interest	Carrying amount 2018	Carrying amount 2017	Carrying amount 2016
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%	6 494	8 754	8 541
Mzimkhulu Mining (Pty) Ltd	AEMFC SOC Ltd	26.00%	26.00%	–%	9 562	3 900	–
Republic of Mozambique Pipeline Company (Pty) Ltd	iGas SOC Ltd	25.00%	25.00%	25.00%	870 038	881 694	648 143
Thin Solar Film Technology (Pty) Ltd	CEF SOC Ltd	45.00%	45.00%	45.00%	–	14 758	14 304
					886 094	**909 106**	**670 988**

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 fair value of the investment in Mzimkhulu Mining (Pty) Ltd is R13.1 million, after determining the present value of the investment cost payable on transfer of the mining right to Mzimkhulu Mining (Pty) Ltd of R9.1 million at a discount rate of 6.78%.

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 was February 2018.

Ener-G Systems (Pty) Ltd
CEF SOC Ltd holds a 29% share in Ener-G Systems (Pty) Ltd, in which it converts landfill gas to power. Ener-G Systems (Pty) Ltd is incorporated in South Africa. The financial year end of the entity was March 2018.

Material associates
The following associate is material to the Group:

	Country of incorporation	Method	% ownership interest 2018	% ownership interest 2017	% ownership interest 2016
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.

7. Investments in associates (continued)

Summarised financial information of material associates

Figures in Rand thousand Summarised statement of profit or loss and other comprehensive income	Republic of Mozambique Pipeline Company (Pty) Ltd 2018	2017	2016
Revenue	2 222 000	1 966 000	1 816 000
Other income and expenses	(728 000)	(703 000)	(385 000)
Profit before tax	1 494 000	1 263 000	1 431 000
Tax expense	(415 000)	(402 000)	(450 000)
Profit (loss) from continuing operations	1 079 000	861 000	981 000
Total comprehensive income	1 079 000	861 000	981 000
Dividends received from associate	346 250	115 000	150 000

Figures in Rand thousand Summarised statement of financial position	Republic of Mozambique Pipeline Company (Pty) Ltd 2018	2017	2016
Assets			
Non-current	5 571 000	6 046 000	5 448 000
Current	2 755 000	2 619 000	1 322 000
Total assets	8 326 000	8 665 000	6 770 000
Liabilities			
Non-current	3 808 000	4 351 000	3 472 000
Current	970 000	796 000	521 000
Total liabilities	4 778 000	5 147 000	3 993 000
Total net assets	3 548 000	3 518 000	2 777 000

Figures in Rand thousand Reconciliation of net assets to equity accounted investments in associates	Republic of Mozambique Pipeline Company (Pty) Ltd 2018	2017
Interest in associates at percentage ownership	870 038	881 694
Carrying value of investment in associate	870 038	881 694
Investment at beginning of period	881 694	648 143
Adjustment on opening balance	(17 500)	45 815
Share of profit before elimination of intragroup transactions	352 063	302 225
Share of OCI	31	511
Dividends received from associate	(346 250)	(115 000)
Investment at end of period	870 038	881 694

7. Investments in associates (continued)

Adjustments on the opening balance of retained earnings are due to a different reporting period (30 June).

Share of profit from associate after accounting for intercompany transactions at year end was R352.1 million (2017: R302.2 million). The total intercompany transaction relating to rental and recovery of expenses eliminated was R0.006 million (2017: R0.019 million)

Aggregated individually immaterial associates accounted for using the equity method

Figures in Rand thousand	2018	2017	2016
Carrying value of investments	16 056	27 412	22 845
Share of profit or loss from continuing operations	3 991	(2 213)	(2 206)
Share of total comprehensive income	3 991	(2 213)	(2 206)

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:

- Rompco (Pty) Ltd: 30 June
- Baniettor (Pty) Ltd: 30 June
- Mzimkhulu Mining (Pty) Ltd: 28 February.

Unrecognised share of losses of associates

Baniettor Mining (Pty) Ltd
Accumulated unrecognised losses amount to R16.651 million (2017: R16.650 million).

Non-current asset held for sale

Thin Solar Film Technology (Pty) Ltd
The CEF Board of directors has approved the disposal of TSFT, and the request for Section 54(2) of PFMA approval has been sent to the Minister of Energy.

Associates pledged as security
Rompco (Pty) Limited, with a carrying value of the investment of R870 million, has been used to secure banking facilities granted to the company of R5.8 billion for the construction of Loopline 2 from Mozambique to South Africa.

8. Loans to (from) group companies

JVs

Figures in Rand thousand	2018	2017	2016
GTL.F1 AG	201 829	192 349	213 159
Impairment of loans to JVs	(201 829)	(192 349)	–
	–	–	213 159

The surbodinated 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.

8. Loans to (from) Group companies (continued)

Figures in Rand thousand	2018	2017	2016
Associates			
Baniettor Mining (Pty) Ltd	16 646	16 646	23 933
Mzimkhulu Mining (Pty) Ltd	10 249	–	–
Ener-G Systems (Pty) Ltd	36 326	32 829	22 903
	63 221	49 475	46 836
Impairment of loans to associates	(16 646)	(16 646)	(23 933)
	46 575	**32 829**	**22 903**

Baniettor (Pty) Ltd
The Baniettor (Pty) Ltd loan is interest free, with no fixed determinable repayment terms, until such time it has sufficient profits and enough capital to sustain itself.

Ener-G Systems (Pty) Ltd
The Ener-G (Pty) Ltd loan attracts an annual interest rate at prime as from 1 October 2015. This loan has no fixed determinable 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 rate + 3% and has no fixed repayment terms.

Non-current assets	36 326	32 829	236 062
Current assets	10 249	–	–
	46 575	**32 829**	**236 062**

Credit quality of loans to Group companies
The credit quality of loans to Group companies that are neither past due nor impaired can be assessed by reference to future cash flow projections of the companies.

Fair value of loans to and from Group companies
The carrying amount of the loans to and from Group companies at 31 March 2018 approximates fair value.

Loans to Group companies past due but not impaired
Loans to Group companies that are fewer than three months past due are not considered to be impaired.

Loans to Group companies impaired
As of 31 March 31 2018, loans to Group companies of R218.475 million (2017: R208.995 million) were impaired and provided for in full. The loans impaired in the prior year relate to GTL.F1 AG and Banniettor Mining (Pty) Ltd).

Over six months	218 475	208 995	24 435

The maximum exposure to credit risk at the reporting date is the fair value of each class of loan mentioned above. The Group does not hold any collateral as security.

9. Other financial assets

Figures in Rand thousand	2018	2017	2016
At fair value through profit or loss – designated			
Listed shares	185	146	148
2 164 Sanlam Limited shares held by SFF NPC valued at R85.30 (2017: R67.37)			
Loans and receivables			
Ghana National Petroleum Corporation (GNPC)	115 740	139 845	126 645
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.			
Methcap investment	1 475	1 475	1 475
19% investment in Methcap			
Lurgi	173 832	169 651	198 400
The amount owing by Lurgi is for 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.	–	–	–
Darling Wind Power (Pty) Ltd	502	502	502
The loan is due, but the liquidators have not repaid it. The loan is interest free.			
Restricted cash guarantee (AEMFC SOC Ltd)	38 243	26 011	17 667
An insurance rehabilitation guarantee is in place, whereby the insurer guarantees to pay the DMR R61.5 million and R42.9 million for environmental rehabilitation of Vlakfontein Mine and T-project respectively. A portion of the premium is invested and earns interest to meet environmental obligations at the end of LoM. The cash is restricted for use.			
African Royalty Minerals (Pty) Ltd	9 456	–	650
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.			
	339 248	337 484	345 339
Loans and receivables (impairments)	(174 334)	(154 058)	(502)
	164 914	**183 426**	**344 837**
Total other financial assets	**165 099**	**183 572**	**344 985**

9. Other financial assets (continued)

Figures in Rand thousand	2018	2017	2016
Non-current assets			
Designated as at fair value through profit or loss (fair value through income)	185	146	148
Loans and receivables	164 914	183 426	344 837
	165 099	**183 572**	**344 985**
Loans and receivables impaired			
At 31 March 2018, the following loans were fully impaired:			
The loan to DWP (Pty) Ltd at R0.502 million (2017: R0.502 million);			
The loan to Lurgi at R173.832 million (2017: R153.556 million).			
The ageing of these loans is as follows.			
Over six months	174 334	154 058	-

The creation and release of provision for impairment receivables have been included in operating expenses in profit or loss.

Credit quality of other financial assets
The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

The maximum exposure to credit risk at the reporting date is the fair value of each class of loan mentioned above. The Group does not hold any collateral as security.

10. 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 8.88% (2017: 9.75%) and a healthcare cost inflation of 7.4% (2017: 7.7%) 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 8.98% (2017: 9.45%) and a healthcare cost inflation of 7.99% (2017: 8.5%) were assumed. Mortality assumptions were in line with standard table PA (90) ultimate (pre-retirement) rated down by two years (post-retirement).

10. Retirement benefits (continued)

The plan is a final salary pension/flat plan or a post-employment medical benefit plan.

Figures in Rand thousand	2018	2017	2016
Carrying value			
Present value of the defined benefit obligation – wholly unfunded	(167 352)	(136 816)	(121 166)
Present value of the defined benefit obligation – partially or wholly funded	(116 653)	(97 138)	(97 285)
Fair value of plan assets	106 972	97 680	97 279
	(177 033)	**(136 274)**	**(121 172)**
The net movement in the defined benefit obligation was as follows:			
Movements for the year			
Opening balance	136 274	121 172	107 646
Current year service costs	2 159	2 215	2 408
Past year service costs	791	907	3 380
Net interest return (costs)	12 549	11 450	6 225
Net benefit payments	(7 661)	(5 716)	(4 404)
Net actuarial (gains) and losses	32 921	6 246	5 917
	177 033	**136 274**	**121 172**
Key assumptions used			
Assumptions used on last valuation on Saturday, 31 March 2018.			
Discount rates used	8.88%	9.75%	9.75%
Expected rate of return on assets	8.98%	9.45%	9.60%
Medical inflation rate used by PetroSA	7.40%	7.75%	8.25%
Expected rate of return on reimbursement rights	7.99%	8.50%	7.56%
Sensitivity of the benefit obligations to 1% or 1-year downgrade in the weighted principal assumptions			
Mortality rate (1% downward rating)	25 593	12 303	11 060
Discount rate (1% downward rating)	26 392	26 803	26 360
Inflation cost (1% downward rating)	24 018	21 403	25 967
Mortality rate (1 year downward rating)	25 593	11 737	11 285
Discount rate (1 year downward rating)	26 392	22 737	22 985
Inflation cost (1 year downward rating)	24 018	24 037	22 997
	152 006	**119 020**	**120 654**

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.

11. Deferred tax

Figures in Rand thousand	2018	2017	2016
Deferred tax liability			
Operating lease accrual	–	(10)	–
Property, plant and equipment and intangible assets	(1 421 724)	(1 888 129)	(1 767 780)
Prepayments	(219)	(654)	(224)
Underlift	(6 037)	–	–
Total deferred tax liability	**(1 427 980)**	**(1 888 793)**	**(1 768 004)**
Deferred tax asset			
Provisions	64 091	61 955	61 937
Finance lease	284 404	–	–
Deferred tax balance from temporary differences other than unused tax losses	348 495	61 955	61 937
Tax losses available for set-off against future taxable income	224 836	272 816	324 664
	573 331	334 771	386 601
Total deferred tax asset	**573 331**	**334 771**	**386 601**
Deferred tax liability	(1 427 980)	(1 888 793)	(1 768 004)
Deferred tax asset	573 331	334 771	386 601
Total net deferred tax liability	**(854 649)**	**(1 554 022)**	**(1 381 403)**
Reconciliation of deferred tax asset/(liability)			
At beginning of year	(1 554 022)	(1 381 403)	(973 069)
Increases (decrease) in tax loss available for set-off against future taxable income	(47 980)	(51 848)	197 978
Increases (decrease) in provisions and accruals	1 647	723	2 972
Taxable/(deductible) temporary difference movement on tangible and intangible assets	364 582	(173 321)	(659 002)
Taxable/(deductible) temporary difference on prior-year underprovision	(213)	–	–
Taxable/(deductible) temporary difference movement in fair value on acquisition of subsidiary	90 443	52 353	50 197
Taxable/(deductible) temporary difference on prepayments	453	(526)	(479)
Taxable/(deductible) temporary difference on finance lease	284 404	–	–
Taxable/(deductible) temporary difference on underlift	6 037	–	–
	(854 649)	**(1 554 022)**	**(1 381 403)**

11. Deferred tax (continued)

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 on 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 R5.7 billion (2017: R5.6 billion). The unused estimated/assessed tax loss at year-end is R20.2 billion (2017: R19.9 billion).

Figures in Rand thousand	2018	2017	2016
Unrecognised deferred tax asset			
Unused tax credits not recognised as deferred tax assets	5 700 000	5 600 000	5 208 000

Use and sales rate
The deferred tax rate applied to the fair-value adjustments of property, plant and equipment held for rental investments/financial assets is determined by the expected manner of recovery. Where the expected recovery of the property/financial assets is through sale, the capital gains tax rate of 22.4% (2017: 22.4%) is used. If the expected manner of recovery is through indefinite use, the normal tax rate of 28% (2017: 28%; 2016: 28%) is applied.

If the manner of recovery is partly through use and partly through sale, a combination of capital gains rate and normal tax rate is used.

12. Prepayments

Prepayments relate mainly to the insurance of the company's onshore and offshore assets. The premium is paid annually during December, for the following 12 months.

Prepayment for investment in African Royalty Minerals (Pty) Ltd
AEMFC has paid R140 million to purchase a portion of the mining right in African Royalty Minerals (Pty) Ltd, with a view to purchasing 40% shareholding in African Royalty Minerals (Pty) Ltd when the current shareholder of African Royalty Minerals (Pty) Ltd has passed a resolution to adopt a new memorandum of incorporation, the memorandum of incorporation is lodged with CIPC and the current board of African Royalty Minerals (Pty) Ltd has passed a resolution to issue shares to AEMFC. The suspensive conditions had not been met at year-end and the payment is regarded as a prepayment.

Insurance	69 643	79 339	305 055
African Royalty Minerals (Pty) Ltd	140 000	–	–
Royalties advance payment	6 432	13 248	19 230
Other	16 744	12 063	28 112
	232 819	**104 650**	**352 397**
Non-current assets	140 726	830	933
Current assets	92 093	103 820	351 464
	232 819	**104 650**	**352 397**

13. 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 that was injected into the new national multi-products pipeline by the company during the 2011/12 financial year. The product is valued at R985 million (2017: R857 million).

The volume of crude oil of 1.2 Mbbls (2017: 1.2 Mbbls) is unpumpable.

Inventory loan
Some 0.300Mbbls of crude oil (Basrah) was advanced to Enviroshore in the prior financial years at a cost of R60.402 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 by R60.402 million.

Figures in Rand thousand	2018	2017	2016
Values of products held:			
Crude oil	11 096	11 005	11 726
Diesel	985 386	857 824	715 964
	996 482	**868 829**	**727 690**
Volumes of products held:			
Crude oil (barrels):			
Barrels held at year-end	100 433	100 097	103 941
Consignment stock	(45 322)	(45 436)	(45 703)
Strategic crude oil (barrels)	**55 111**	**54 661**	**58 238**
Diesel (litres)	155 000 000	155 000 000	155 000 000

14. Inventories

Consumable stores, spares and catalysts	357 484	366 877	(529 223)
Crude oil	61 337	37 876	43 185
Crushed coal	5 193	3 568	2 412
Petroleum fuels	1 343 373	1 475 339	1 652 055
Production supplies	–	–	824 516
Run of mine stock	4 311	1 202	3 078
Inventories (write-downs)	(8 267)	(3 939)	(3 621)
	1 763 431	**1 880 923**	**1 992 402**

Inventory at 31 March is made up of petroleum products, coal and consumables.

14. Inventories

Inventory quantities:
Type

Coal	**Tons**
RoM	33 674 (2017: 10 000)
Crushed coal	35 875 (2017: 22 952)
Petroleum products	
Manufactured products – finished goods:	**Cubic RO (m3)**
Produced diesel	11 291.95 (2017: 25 658.91)
Petrol	37 314.02 (2017: 50 584.24)
Oil and gas:	20 385.02 (2017: 19 553.03)
Imported diesel	38 311.24 litres 51 982.36 m3
Crude Oil	Nil (2017: 14 717) barrels
Manufactured products – work in progress:	49 120 (2017: 35 595.738) m3
Feedstock	606 420.91 barrels and 3 723.65 tons

15. Trade and other receivables

Figures in Rand thousand	2018	2017	2016
Trade receivables	1 721 032	1 710 837	1 490 067
Finance lease receivable	–	475	265
Statutory receivables (tax and levies)	9 369	125 326	283 061
Deposits	12 699	10 421	9 694
VAT	60 487	67 544	99 516
Operating lease receivables (if immaterial)	49	–	–
Underlift	17 249	–	2 941
Payroll receivable	3 168	3 994	12 897
Interest receivable	155 317	108 379	107 201
Sundry debtors	81 443	70 427	150 538
	2 060 813	**2 097 403**	**2 156 180**

Trade and other receivables pledged as security

The Group does not hold any collateral over trade and other receivables as security.

Credit quality of trade and other receivables

The maximum exposure to credit risk at 31 March 2018 was the carrying value of trade receivable, payroll related receivable, interest receivable and sundry receivable.

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates. A significant balance of trade receivable relates to sales to multinational oil companies.

15. Trade and other receivables (continued)

Fair value of trade and other receivables
The carrying value of trade and other receivable approximates fair value as these financial assets mature within a short period of time.

Trade and other receivables past due but not impaired
Trade and other receivables are not considered to be impaired, except where there are individually impaired debtors. Individual debtors that are more than three months past due are not considered to be impaired. Furthermore, the ability to settle outstanding debts and financial status of the individual debtors is considered when the assessment for impairment is conducted. At 31 March 2018, R73.472 million (2017: R10.657 million; 2016: R -) debtors were past due but not impaired.

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

Figures in Rand thousand	2018	2017	2016
1 month past due	10 099	53	867
2 months past due	1 653	91	340
3 months past due	11 846	10 513	46 833

Trade and other receivables impaired
As of 31 March 2018, trade and other receivables of R86.059 million (2017: R86.536 million) were impaired for the current reporting period. The value of the provision for doubtful debts was R282.851 million as of 31 March 2018 (2017: R259.712 million).

Over six months

Reconciliation of provision for impairment of trade and other receivables:

Opening balance	259 712	180 989	149 797
Provision for impairment	86 059	86 536	35 007
Amounts written off as uncollectable	–	–	(3 713)
Unused amounts reversed	(2 724)	(2 560)	(102)
Other	(60 197)	(5 253)	–
	282 850	**259 712**	**180 989**

The creation and release of provision for impaired receivables have been included in operating expenses in profit or loss.

16. 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	2018	2017	2016
Cash on hand	42	57	67
Bank balances	775 922	571 834	1 456 881
Short-term deposits	16 410 044	15 122 948	14 696 603
Bank overdraft	–	–	(417 209)
	17 186 008	**15 694 839**	**15 736 342**
Current assets	17 186 008	15 694 839	16 153 551
Current liabilities	–	–	(417 209)
	17 186 008	**15 694 839**	**15 736 342**
Restricted cash relating to the sale of strategic stock	3 383 045	3 786 566	2 990 354

Included in the short-term deposits are US$ investments to the value of R3.383 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 cash collateral of R486.585 million for PetroSA for guarantees issued on behalf of PetroSA by the CEF SOC Ltd. Refer to contingencies in note 40.

Refer to the provision in note 24 for cash held for rehabilitation.

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 (if available) or historical information about counterparty default rates.

Other cash and cash equivalents restricted

Demand side management levy	28 358	53 868	24 340
Cash held on behalf of third parties	47 178	35 870	32 612
PetroSA's restricted cash that earns interest and is restricted as a condition for providing credit facilities	750 000	–	–

17. Discontinued operations or disposal groups or non-current assets held for sale/ distribution to owners

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 DoE).

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 at 31 March 2018 has been determined as R229.460 million.

Investment in TSFT

The CEF Board approved the disposal of the investment in TSFT, but a final approval is pending from the Minister of Energy in terms of Section 54(2) of the PFMA.

2017:

The assets held as non-current assets held for sale below have been carried forward to the current financial year:

Investment at PASA SOC Ltd

The Minister of Energy requested the CEF to develop modalities for the transfer of PASA to the Department of Mineral Resources (DMR). The CEF Board of directors declared the investment at PASA as a dividend in specie to the state (represented by DoE) on March 2017. The transfer of PASA will result in a single reporting line for PASA as currently, the corporate mandate and ownership for PASA remains with the DoE, but the policy mandate has been assigned to the DMR, resulting in multiple lines of accountability.

A final approval for the disposal of the investment was sought from the Minister of Energy in terms of Section 54(2) of the PFMA, which was obtained post-reporting date with conditions yet to be fulfilled. The carrying amount of the investment at 31 March 2017 after consolidation was R18 million and R188 million before consolidation. The fair value of the investment at 31 March 2017 had been determined as R190 million before the audit. It is expected that the conditions attached to the Section 54(2) approval shall be fulfilled within the next 12 months. The investment is currently held at carrying amount, which is the lower of fair value less costs to distribute.

CCE Solutions SOC Ltd

The CEF Board of directors resolved to dispose of its 8.8MW biomass to electricity generation power plant components. The sale of equipment and project rights was concluded with the George Wood Waste Consortium at an asking price of R50 million. A Section 54(2) of the PFMA approval to dispose of the asset was obtained from the Minister of Energy in February 2017. The asset is still classified as non-current held for sale as the condition of the sale is subject to the project reaching financial close, which is dependent on concluding a power purchase agreement. During the year an impairment assessment of the assets classified as held for sale was done by management taking into account the recent events that took place involving Eskom signing new Power Purchase Agreements (PPAs). However, PPAs less than 20MW were not signed and this affected CCE as CCE’s plant has capacity of 8.8MW. This led to management resolving to impair the assets by R50 million.

17. Discontinued operations or disposal groups or non-current assets held for sale/ distribution to owners

Figures in Rand thousand	2018	2017	2016
Profit and loss from PASA SOC Ltd			
Revenue	151 899	61 553	14 970
Expenses	(113 581)	(110 581)	(107 185)
	38 318	**(49 028)**	**(92 215)**
Assets and liabilities			
Non-current assets held for sale			
Property, plant and equipment	–	50 000	50 000
Other assets	14 758	–	–
	14 758	**50 000**	**50 000**
Assets of disposal groups			
Property, plant and equipment	7 557	7 580	–
Other financial assets	2 747	369	–
Inventories	341	358	–
Trade and other receivables	2 653	23 280	–
Intangible assets	6 277	7 052	–
	19 575	**38 639**	**–**
	34 333	**88 639**	**50 000**
Liabilities of disposal groups			
Other liabilities	18 485	18 915	–
Equity			
Other	229 460	19 724	–
Liabilities of the disposal group relating to PASA SOC Ltd are made up of the following: Bonus provision			
Operating lease liability			
Trade and other payables			
Operation Phakisa			
Environment deposits advance payment			
Cash flow information for PASA SOC Ltd			
Net cash from operating activities	60 016	(51 887)	(71 874)
Net cash from investing activities	(59 998)	51 910	71 887
Net cash movement for the period	**18**	**23**	**13**

18. Share capital

There were no changes in issued capital of R1 from the previous financial year to the current financial year.

19. Foreign currency translation reserve

Translation reserve comprises exchange differences on consolidation of foreign subsidiaries.

Figures in Rand thousand	2018	2017	2016
Foreign currency translation reserve arising from consolidation of PetroSA's foreign subsidiaries	368 144	631 715	835 579

20. Hedging reserve

Hedging reserve arising from equity accounting of the share of other comprehensive income from Rompco (Pty) Ltd.

Cash flow hedge reserve arising from equity accounting of an associate	–	(31)	(537)

21. Revaluation reserve

Revaluation of property, plant and equipment at SFF on first-time conversion to IFRS.

Revaluation surplus arising from conversion of SA GAAP to IFRS	1 691 931	1 714 600	1 737 459
Realised to retained income	(22 482)	(22 669)	(22 860)
	1 669 449	**1 691 931**	**1 714 599**

22. Other financial liabilities

Figures in Rand thousand	2018	2017	2016
Held at amortised cost			
Reserve-based lending facility	769 256	866 846	1 201 245
The facility is a revolving credit facility secured against the producing asset of PetroSA Ghana. 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 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 asset. The available facility amount is 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.			
Cash on call (Upstream Training Trust)	45 810	34 602	31 432
These are funds held and invested in call accounts on behalf of the Upstream Training Trust that is managed by PASA.			
Cash on call	–	12	1
These are funds held and invested in call accounts on behalf of Group companies			
Cash on call (Darling Wind Power)	1 412	461	429
These are funds held and invested in call accounts on behalf of Darling Wind Power (Pty) Ltd.			
Truter Boerdery Trust	2 195	–	–
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 is payable over two years.			
Environmental deposits	–	–	421
These relate to cash deposits received from operators and licensees in terms of issued rights and permits.			
The environmental deposits can be paid back to the holder only on relinquishment of the right in terms of Section 43 of the MPRDA and on the granting of a closure certificate by the Minister.			
Demand side management levy	28 358	53 868	24 340
There are levies collected by the CEF SOC Ltd on behalf of the DoE from the oil companies as mandated by the Central Energy Fund Act 38 of 1977.			
	847 031	**955 789**	**1 257 868**
Non-current liabilities			
At amortised cost	770 171	866 846	1 201 666
Current liabilities			
At amortised cost	76 860	88 943	56 202
	847 031	**955 789**	**1 257 868**

23. Finance lease liabilities

Figures in Rand thousand	2018	2017	2016
Minimum lease payments due			
– within one year	106 891	–	–
– in second to fifth year inclusive	427 855	–	–
– later than five years	872 010	–	–
	1 406 756	–	–
less: future finance charges	(594 173)	–	–
Present value of minimum lease payments	**812 583**	**–**	**–**
Present value of minimum lease payments due			
– within one year	39 684	–	–
– in second to fifth year inclusive	197 226	–	–
– later than five years	575 673	–	–
	812 583	**–**	**–**
Non-current liabilities	772 899	–	–
Current liabilities	39 684	–	–
	812 583	**–**	**–**

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 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 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.

24. Provisions

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	10 214 259	26	(28 953)	(22 287)	(1 702 375)	417 562	8 878 232
Product warranties	4	–	(4)	–	–	–	–
Bonus	59 565	72 693	(62 985)	(438)	–	–	68 835
Social investment	21 063	3 900	(8 412)	–	–	–	16 551
	10 294 891	**76 619**	**(100 354)**	**(22 725)**	**(1 702 375)**	**417 562**	**8 963 618**

Reconciliation of provisions – 2017

	Opening balance	Additions	Utilised during the year	Reversed during the year	Change in discount factor	Unwinding of discounting	Total
Environmental rehabilitation	11 618 762	4 105	(34 783)	(310)	(1 873 423)	499 908	10 214 259
Product warranties	34	–	(30)	–	–	–	4
Bonus	79 124	68 976	(87 150)	(1 385)	–	–	59 565
Social investment	24 208	7 422	(10 567)	–	–	–	21 063
Restructuring	21 656	4 368	(26 024)	–	–	–	–
	11 743 784	**84 871**	**(158 554)**	**(1 695)**	**(1 873 423)**	**499 908**	**10 294 891**

Reconciliation of provisions – 2016

	Opening balance	Additions	Utilised during the year	Reversed during the year	Change in discount factor	Unwinding of discounting	Total
Environmental rehabilitation	10 139 529	168 652	19 377	(1 315)	805 847	486 672	11 618 762
Product warranties	64	–	(30)	–	–	–	34
Bonus	46 491	78 264	(41 995)	(3 106)	(530)	–	79 124
Social investment	34 153	–	(9 945)	–	–	–	24 208
Restructuring	–	21 656	–	–	–	–	21 656
	10 220 237	**268 572**	**(32 593)**	**(4 421)**	**805 317**	**486 672**	**11 743 784**

Figures in Rand thousand	2018	2017	2016
Non-current liabilities	8 865 852	10 157 761	11 605 388
Current liabilities	97 766	137 130	138 396
	8 963 618	**10 294 891**	**11 743 784**

24. Provisions (continued)

Environmental rehabilitation

PetroSA
Included in the environmental rehabilitation provision is an amount of R12.318 million (2017: R12.339 million) for the rehabilitation of the land at the Voorbaai terminal.

The decommissioning provision 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 are South African inflation of 5.4% (2017: 5.4%) and US inflation of 2.2% (2017: 2.2%). The discount rate applied was 4.2% (2017: 4.56%). A sensitivity analysis indicates that a R1 weakening of the rand against the US$ translates into R419 million (2017: R518 million) increase in the provision. The programme 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% (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 R552 million (2017: R554 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.

- **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 R249.4 million and R180.5 million (2017: R261.699 million and R173.856 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 R123.0 million (2017: R118.468 million).

24. Provisions (continued)

AEMFC

At year end, the environmental rehabilitation balance of R20.3 million (2017: R18.7 million) was recognised for Vlakfontein 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 6.68% for 2018 cash flows and 8.86% for 2039 cash flows (2017: 7.57% and 9.68% respectively) and inflation rate of 5.36% (2017: 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 LoM.

In respect of the rehabilitation provision, a corresponding asset write up of R0.025 million (2017: R0.264 million write down) was recognised in property, plant and equipment in the mine infrastructure asset class.

Funding of rehabilitation provision

The NERA decommissioning and rehabilitation regulation requires that the entity has sufficient cash available to ensure compliance and the entities in the Group meet the requirements for the Milnerton and Saldanha tank farms.

The NEMA 2015 Financial Provision Regulations require an entity to set aside funds for the rehabilitation of the environment when the associated asset is retired or decommissioned. No funds have been kept aside.

The Financial Provision Regulations will come into effect in February 2024.

The Group is working with all key stakeholders to ensure compliance with the requirements of the Financial Provision Regulations before 19 February 2024. The Group has committed to assist wherever possible, through various support and oversight mechanisms, to close the funding gap. In addition, the Group is working closely with the regulator (PASA) to ensure that it discharges its responsibilities as required by the NEMA Financial Provision Regulations. Other key stakeholders involved include the DoE, National Treasury, DMR and DEA.

The company has set aside funds towards the cost of abandonment/environmental rehabilitation. These funds are not available for the general purposes of the company. The funds are comprised of the following investments:

Figures in Rand thousand	2018	2017	2016
Cash deposits	477	477	477
Cash in escrow account	1 711	1 577	1 453
Financial guarantee	180	206	198
	2 368	**2 260**	**2 128**

Social investment

This provision amount of R16.551 million (2017: R21.063 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 R68.835 million (2017: R59.565 million) represents incentives for employees who qualify in terms of their performance during the current year.

Included in the prior-year bonus reversal is PASA's transfer to liabilities of disposal groups of R8.440 million.

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 12 months.

Included in the prior-year bonus provision is the retention bonus for PetroSA employees who qualify in terms of their employment contracts.

25. Other non-current financial liabilities

Operating lease liability
Contracts relating to rental payable have been smoothed over the contract period. Refer to note 39 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 DoE. This funds grant is used to fund feasibility studies for the Vaal Dam projects. The balance of this grant is R0.871 million (2017: R0.808 million).

SFF NPC
An upfront non-refundable reservation fee of R74.6 million ($5.95 million) (2017: R73.754 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. At 31 March 2018, there were 71 months left on the contract.

Figures in Rand thousand	2018	2017	2016
Operating lease liability	16 801	15 964	14 991
Deferred income	49 527	63 899	750
	66 328	**79 863**	**15 741**

26. Trade and other payables

	2018	2017	2016
Trade payables	1 246 974	1 240 709	1 106 460
Amounts received in advance	10 663	10 663	6
VAT	814	11	–
Sundry creditors	250 540	125 825	307 171
Withholding tax	(94)	111	111
Accrued leave pay	75 056	70 892	66 819
Cash calls in advance	346 172	320 510	425 808
Statutory payables	789 299	640 027	574 101
Liabilities arising from sale of strategic stock	4 110 562	4 380 856	4 808 945
Operating lease payables (if immaterial)	175	215	1 465
Unearned finance income	–	75	173
Payroll-related liabilities	11 136	10 269	23 537
	6 841 297	**6 880 163**	**7 314 596**

Fair value of trade and other payables
The carrying amount for trade and other payables at 31 March 2018 approximated fair value.

The liabilities arising from the sale of strategic stock is US$ based and, therefore, the change is due to the revaluation in the exchange rate.

27. Dividend payable

PASA SOC Ltd
The Section 54(2) approval for transfer of PASA through declaration of a dividend in specie to the value of R229.460 million was received from the Minister of Energy during the year.

28. Revenue

Figures in Rand thousand	2018	2017
Fuel production sales	9 322 834	9 632 281
Other revenue from rendering of services	–	9 474
Oil pollution control	33 493	17 397
Administration and management fees received	4 379	4 008
Rental income	620 230	784 213
Fees earned	109	204
Crude oil sales	1 095 867	725 066
Government grants	87 138	–
Sale of coal	458 452	376 170
Data sales	30 403	49 112
Interest received (trading)	41	92
	11 652 946	**11 598 017**

29. Cost of sales

Sale of goods		
Cost of goods sold	10 516 391	11 037 774

30. Other income

Profit and loss on sale of assets and liabilities	485	–
Profit and loss on exchange differences	21 292	5 578
Commissions received	30	41
Royalties received	50	79
Rental income	6 984	7 388
Recoveries	2 826	2 978
Revaluation and impairment	52 366	(142 259)
Recovery of coal transport costs	108 151	87 984
Other income	200 606	365 728
Income from landfill	14 676	14 039
Management fees	391	501
Insurance claims	269	27
Gantry fee	69 948	–
	478 074	**342 084**

31. Operating (loss) profit

Operating (loss) profit for the year is stated after accounting for the following:

Operating lease charges		
• Contractual amounts: Premises	19 688	19 255
• Contractual amounts: Motor vehicles	–	46
• Contractual amounts: Equipment	3 109	1 777
	22 797	**21 078**

31. Operating (loss) profit

Figures in Rand thousand	2018	2017
Loss on sale of property, plant and equipment	19 532	182
Impairment on property, plant and equipment	(1 280 166)	1 234 640
Reversal of impairment on property, plant and equipment	1 521 144	(2 280 540)
Tax related expenses	(1 421)	112 682
Auditors remuneration	10 815	10 070
Impairment on intangible assets	2 468	170 955
Administration and management fees	4 482	2 249
Accounting fees	1 885	1 520
Reversal of impairment on loans to group companies	–	(7 287)
Impairment on other financial assets	84 314	345 905
Consulting and professional fees	58 427	43 518
Insurance	43 626	39 797
Hedge premium	746	9 182
Impairment of trade and other receivables	90 013	99 036
Financial services fees	10 597	11 688
Repairs and maintenance	10 895	13 181
(Profit)/loss on exchange differences	451 178	391 178
Amortisation on intangible assets	5 625	9 610
Transport and freight	270 974	267 510
Restatement of financial assets and financial liabilities	54 768	154 834
Impairment reversal inventories	(127 653)	(141 140)
Depreciation on property, plant and equipment	1 052 015	1 102 055
Travel – local	11 792	10 837
Employee costs	441 771	414 716
Computer maintenance	8 419	7 957
Travel – overseas	3 287	3 172
Motor vehicle maintenance expenses and other related expenses	5 705	6 569
Security	5 475	4 289
Staff welfare	4 933	3 481
Training	6 256	7 923
Municipal expenses	16 854	9 230
Participating fees	5 972	6 998
Administration expenses PetroSA (employee costs, depreciation, impairment and administration costs)	572 203	782 788
Research and development costs	2 653	6 153
Expenses by nature (summarised)		
Employee costs	441 774	414 717
Depreciation, amortisation and impairment	344 600	(507 334)
General expenses	1 801 471	1 955 218

32. Investment revenue

Figures in Rand thousand	2018	2017
Dividend revenue		
Dividends received	1 908	1 552
Interest revenue		
Associates	2 483	2 197
Loans at amortised cost	5 986	5 170
Bank and investments	1 045 324	929 415
Interest charged on trade and other receivables	1 907	4 728
	1 055 700	**941 510**
	1 057 608	**943 062**

Interest is charged at South African prime + 3% or 1 month LIBOR + 3% on overdue accounts relating to rental lease contracts.

33. Finance costs

Group companies	–	14
Non-current borrowings	216	–
Trade and other payables	156	1 108
Finance leases	79 248	–
Bank	3 492	5 524
Current borrowings	46 846	28 427
Late payment of tax	848	941
Interest due to third parties as result of cash held on behalf of third parties	3 237	2 525
Unwinding of discount on provisions and other liabilities	439 594	534 339
	573 637	**572 878**

Capitalisation rate used during the period was 4.66% (2017: 4%). Total borrowing costs capitalised were R4.09 million (2017: R20.370 million). The borrowing costs are capitalised on assets under development – exploration and evaluation assets.

34. Taxation

Figures in Rand thousand	2018	2017
Major components of the tax expense		
Current		
Local income tax – current period	140 193	94 836
Local income tax – recognised in current tax for prior periods	264	(418)
Foreign income tax or withholding tax – current period	1 734	2 070
	142 191	**96 488**
Deferred		
Originating and reversing temporary differences	(658 319)	213 979
Benefit of unrecognised tax loss/tax credit/temporary difference used to reduce deferred tax expense	29 075	20 543
	(629,244)	**234 522**
	(487,053)	**331 010**
Reconciliation of the tax expense		
Reconciliation between accounting profit and tax expense.		
Accounting loss	(133 185)	(289 810)
Tax at the applicable tax rate of 28% (2017: 28%)	(37 292)	(81 147)
Tax effect of adjustments on taxable income		
Income not subject to tax	(464 404)	(378 647)
Expenses not deductible for tax purposes	426 399	323 819
Associates' results reported net of tax	(99 411)	(83 664)
Effects of tax rates in different jurisdictions	(197 799)	(46 192)
Tax losses carried forward	(114 850)	596 228
Tax expense in respect of prior years	304	613
	(487 053)	**331 010**

The average effective tax rate is 366% (2017: -114%). 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	19 670 000

35. Auditors' remuneration

Fees	10 815	10 070

36. Other comprehensive income

Components of other comprehensive income – 2018

Figures in Rand thousand	Gross	Tax	Net
Items that will not be reclassified to profit or loss			
Remeasurements on net defined benefit liability/asset			
Remeasurements on net defined benefit liability/asset	(24 714)	–	(24 714)
Movements on revaluation			
Transfers in	(22 482)	–	(22 482)
Items that may be reclassified to profit or loss			
Exchange differences on translating foreign operations			
Exchange differences arising during the year	(263 571)	–	(263 571)
Effects of cash flow hedges			
Gains (losses) on cash flow hedges arising during the year	31	–	31
Total	**(310 736)**	**–**	**(310 736)**

Components of other comprehensive income – 2017

Figures in Rand thousand	Gross	Tax	Net
Items that will not be reclassified to profit or loss			
Remeasurements on net defined benefit liability/asset			
Remeasurements on net defined benefit liability/asset	(4 992)	–	(4 992)
Movements on revaluation			
Gains (losses) on property revaluation	(22 669)	–	(22 669)
Total items that will not be reclassified to profit or loss	**(27 661)**	**–**	**(27 661)**
Items that may be reclassified to profit or loss			
Exchange differences on translating foreign operations			
Exchange differences arising during the year	(203 864)	–	(203 864)
Effects of cash flow hedges			
Gains (losses) on cash flow hedges arising during the year	511	–	511
Total items that may be reclassified to profit or loss	**(203 353)**	**–**	**(203 353)**
Total	**(231 014)**	**–**	**(231 014)**

37. Cash generated from operations

Figures in Rand thousand	2018	2017
Loss before taxation	(133 185)	(289 810)
Adjustments for:		
Depreciation and amortisation	1 057 640	1 101 704
Net profit on disposal of property, plant and equipment	556	182
Loss on foreign exchange	749 468	600 620
Income from equity accounted investments	(356 060)	(300 280)
Interest received – investment	(1 057 608)	(943 062)
Finance costs	573 637	572 878
Write-off of property, plant and equipment	241	382
Impairment/(reversals of impairment)	327 760	(873 785)
Group loan impairment	9 480	203 233
Increase in retirement benefit assets and liabilities	40 759	15 102
Movements in provisions	(46 460)	(87 847)
Other non-cash items	4 189	(22 873)
Changes in working capital:		
(Increase)/decrease in inventories	117 492	111 479
(Increase)/decrease in trade and other receivables	36 591	58 255
Decrease in prepayments	(128 169)	247 644
(Increase)/decrease in strategic stock	(127 652)	(152 103)
Increase/(decrease) in trade and other payables	308 654	85 806
	1 377 333	**327 525**

38. Tax paid

Balance at beginning of the year	14 931	(1 050)
Current tax for the year recognised in profit or loss	(142 191)	(96 488)
Adjustment in respect of businesses sold and acquired during the year	–	527
Exchange rate movements	(70 130)	–
Balance at end of the year	16 512	(14 931)
	(180 878)	**(111 942)**

39. Commitments

Figures in Rand thousand	2018	2017
Authorised capital expenditure		
Already contracted for but not provided for		
• AEMFC SOC Ltd	215 011	208 528
• CEF SOC Ltd	329	3 379
• PASA SOC Ltd	1 193	558
• PetroSA SOC Ltd	492 624	342 456
Not yet contracted for and authorised by directors	896 039	1 315 051

This committed expenditure relating to the above and that will be financed by available bank facilities, retained profits, existing cash resources and debts.

Operating leases – as lessee (expense)

Minimum lease payments due		
– within one year	53 628	23 225
– in second to fifth year inclusive	84 290	68 361
– later than five years	67 542	35 693
	205 460	127 279

AEMFC and CEF SOC Ltd lease office equipment over an average term of three 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.
- The lease for 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 leases premises and other properties from TNPA at a monthly fee of R0.260 million escalating at 9%. The lease term of 10 years commenced on 1 April 2012.
- PetroSA SOC Ltd leases premises at Willemswerf, 13th Floor, Boomjes, effective 2 December 2017. The current lease instalment is R0.024 million per month. The previous three-year lease period, ended 30 November 2017, was renegotiated and extended until 1 October 2019.
- PetroSA SOC Ltd leases office space at the general aviation area of George Airport effective from 1 October 2012. The lease payment was fixed at R0.040 million per month, with a 9% escalation per annum. The lease period was five years and ended on 30 September 2017.
- 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 2018. 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.

39. Commitments (continued)

Figures in Rand thousand	2018	2017
Operating leases – as lessor (income)		
Minimum lease payments due		
• within one year	1 681	1 772
• in second to fifth year inclusive	2 541	4 330
	4 222	**6 102**

AEMFC and the CEF SOC Ltd leases out office premises.

The CEF SOC Ltd leases machinery. The rental increases annually at CPI+1%. The average contract term is 3 to 5 years.

There are no contingent rents receivable.

Commitments relating to operating activities
The company (AEMFC) has entered into contracts at year end to the value of:

Commitments to contribute to operating activities	574 108	330 637
Commitments to provide property, plant and equipment to JVs	–	47 826
Commitments to acquire interests from other JVs	9 100	82 880
	583 208	**461 343**

40. Contingencies

Guarantees

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)	7 289	7 143
DME for rehabilitation of E-BT/E-AR mining lease	27 100	27 100
Eskom for payment of guarantee for electrical supply	–	2 435
Eskom for payment of guarantee for electrical supply	9 485	9 485
DoE 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
	682 974	**685 263**

Claims

PetroSA is considering settling claims made in terms of contracts	52 502	17 646

40. Contingencies (continued) – contingencies arising out of litigious matters

SFF NPC

Cargo dues arbitration

An arbitration appeal has been handed down, but the parties are in disagreement as to how the award is to be executed, due to disputes relating to the interest rate and the exchange rate to be applied when converting the judgment amounts from US$ to Rand. SFF is liable to pay US$5.878 million plus interest, but is also entitled to R44.292 million plus interest on the counterclaim. SFF will be making an application to the High Court for a declaratory order on the proper interpretation of the award. Estimated legal costs still to be incurred by SFF are approximately R1 million. In the event that SFF is successful, the other party will be liable for SFF's legal costs (on a taxed scale) for the application, and may have to pay SFF some money for the award (and not the other way around) if set-off is applied and SFF is successful in its argument on the interest rates to be applied in all claims.

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 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.

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. 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.

Demurrage claim

A crude oil storage customer is claiming demurrage costs (of approximately R1.3 million) paid to TNPA from SFF. SFF is disputing this claim on the basis of force majeure.

40. Contingencies (continued)

Strategic stock

The company, together with the holding company (the CEF SOC Ltd), 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 the 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 at 31 March 2018 is R3.7 billion based on the prevailing foreign exchange rate between Rand and US$. There is also a possibility of further litigation by the buyers, should the court rule in favour of the CEF/SFF.

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.

PASA

Application for exploration rights

In the Normandien Farms (Pty) Limited vs PASA and Rhino Oil matter, the Cape High Court heard that the agency did not comply with the peremptory obligations of the MPRDA 2004 in the application and acceptance process. The costs of the application were awarded jointly and severally. However, Rhino Oil has applied for leave to appeal to the Supreme Court of Appeal and it has subsequently been granted.

The Whigol Trading (Pty) Limited vs DMR, PASA and others case is currently before the Gauteng High Court awaiting decision.

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 2015, a third party snagged and damaged a carrier and product pipeline owned by PetroSA. The matter is currently before the High Court. Based on feedback from external legal counsel, PetroSA is likely to succeed in its claim against the third party. The expected amount cannot be determined.

CEF SOC Ltd

Litigation is pending against a former employee for failing to adhere to procurement processes. The former employee has filed a counterclaim against the CEF in the amount of R0.0205 million. The counterclaim is being defended.

Another former fixed-term contract employee has referred a matter to the labour court. The claim is not yet quantifiable.

41. Prior-period errors and other restatements

The table summarises the adjustments made to the statement of financial position and statement of profit/loss:

Reconciliation of equity at 1 April 2016

	Note	Previously reported	Adjustment	Restated
Property, plant and equipment		10 583 072	724 120	11 307 192
Strategic stock		971 895	(244 206)	727 689
Total non-current assets		**11 554 967**	**479 914**	**12 034 881**
Trade and other receivables		2 156 214	(34)	2 156 180
Trade and other payables		5 463 354	1 851 242	7 314 596
Total assets less total liabilities		**8 247 827**	**(1 371 362)**	**6 876 465**
Reserves		2 071 868	(3 744 747)	(1 672 879)
Retained earnings		12 950 318	2 373 385	15 323 703
Total equity		**15 022 186**	**(1 371 362)**	**13 650 824**

Reconciliation of equity at 31 March 2017

Property, plant and equipment	9 050 665	713 598	9 764 263
Strategic inventory	1 123 998	(255 168)	868 830
Total non-current assets	**10 174 663**	**458 430**	**10 633 093**
Trade and other payables	5 527 817	1 272 346	6 800 163
Total assets less total liabilities	**4 646 846**	**(813 916)**	**3 832 930**
Reserves	1 845 841	(3 165 956)	(1 320 115)
Retained earnings	12 413 560	2 352 040	14 765 600
Total equity	**14 259 401**	**(813 916)**	**13 445 485**

41. Prior-period errors and other restatements (continued)

Notes

Effects on individual companies

SFF NPC

<u>Adjustment as a result of the reclassification of the unpumpable stock to property, plant and equipment</u>
The part of the crude oil stock in the storage tanks that is necessary to operate the plant and cannot be recouped (or can be recouped but would then be significantly impaired as sludge), even when the plant is abandoned, has been reclassified from strategic inventory to property, plant and equipment, and amortised over the life of the tanks. The error was corrected from the date of transition from SA GAAP to IFRS, and the fair value of the stock has been used as the deemed cost going forward under the IFRS cost model (IFRS 1.D6).

Property, plant and equipment (PPE)
Increase of R713.6 million in property, plant and equipment made up of the following:
- Increase of R256.8 million as a result of the reclassification from strategic stock
- Increase of R477.8 million as a result of the revaluation of the strategic stock due to changes in the oil price.
- Decrease of R21 million as a result of the accumulated depreciation of the unpumpable stock.

Strategic stock
Decrease of R255.13 million in strategic stock made up of the following:
- Increase of R1.67 million as a result of the changes in the fair value
- Decrease of R256.8 million as a result of the reclassification to PPE

Retained earnings
- Decrease of R19.3 million as a result of the decrease in depreciation of R21 million and R1.67 million increase resulting from the fair value adjustment of strategic stock.

Reserves
- Increase of R477.8 million in the Transfer to Equalisation Fund reserve as a result of the revaluation of the strategic stock due to changes in the oil price.

Trade and other payables
- Increase of R477.8 million as a result of the revaluation of the strategic stock due to changes in the oil price.

<u>Adjustment as a result of the change in the accounting treatment for the strategic stock rotation.</u>
A debtor has been recognised in the 2016 financial year relating to the strategic stock rotation at the Ogies coal mines, as well as a provision for impairment.

Right to receive oil asset
- Increase in the right to receive oil asset of R198.9 million as a result of the strategic stock rotation and a corresponding provision for bad debt of the same amount as the above asset is fully impaired, resulting in a R nil impact in total assets.

<u>Adjustment as a result of the increase in the liability to transfer funds to the Equalisation Fund (EQF).</u>

The liability to transfer funds to the Equalisation Fund (resulting from the sale of strategic crude oil in December 2015) has been increased from R2.15 billion to R4.302 billion in the 2016 financial year (the R4.302 billion being the proceeds from the sale of US$280 830 970, translated to the ruling exchange rate).

Retained earnings
- Increase in retained earnings due to reversal of R2.15 billion which was initially recorded in the income statement to recognise the liability that must be paid over to the EQF.

41. Prior-period errors and other restatements (continued)

Reserves
Decrease of R4.222 billion in reserves made up of the following:
- Recognition (decrease) of the Transfer to Equalisation Fund reserve of R4.302 billion being the proceeds from the sale of US$ 280 830 970.
- Increase in the Transfer to Equalisation Fund reserve of R79 million as a fair value change due to changes in the exchange rate as the reserve is denominated in US$.
- Increase of R578 million in the Transfer to Equalisation Fund reserve as a result of the fair value adjustment in the liability in 2017 due to changing oil prices.

Trade and other payables
Increase of R1.493 billion in reserves made up of the following:
- Increase in trade and other payables of R2.15 billion due to the increase in the liability that must be paid over to the EQF which was initially recognised as the profit from the sale to the full proceeds from the sale of strategic stock.
- Decrease in trade and other payables of R79 million as fair value change due to changes in the exchange rate as the payable is denominated in US$.
- Decrease of R578 million as a result of the fair value adjustment in the liability in 2017 due to changing oil prices and exchange rate.

PetroSA

Adjustment as a result of the reversal of the slate liability

The South African petroleum industry uses a self-adjusting slate levy mechanism which calculates and indirectly monitors the cumulative under-or-over recovery realised in respect of the daily changes between the basic fuel price of all petrol and diesel and the monthly fuel prices of these products as announced by the Minister of Energy. The aforementioned under-recovery by the industry will be reimbursed to companies once the cumulative under-recovery is equal to or more than R250 million. In 2015, PetroSA moved from an under-recovery to an over-recovery position resulting in the creation of slate liability. After consultation with technical advisers, it was concluded that the slate liability did not meet recognition criteria for a liability and as a result, the slate liability was reversed to the value of R220.498 million.

Retained earnings
- Increase in retained earnings of R220.4 million resulting from the reversal of the liability which was initially created through the income statement as an expense.

Trade and other payables
- Decrease in trade and other payables of R220.4 million as a result of the above reversal

42. Related parties

Relationships

Holding company	DoE
Subsidiaries	Refer to note 5
JVs	Refer to note 6
Associates	Refer to note 7
Unconsolidated structure	Gannet Trust
PetroSA Development Trust Upstream Training Trust	
Under common control	Equalisation Fund
South African National Energy Development Institute (SANEDI)	
Members of key management	Refer to note 43

42. Related parties (continued)

Related party balances

Figures in Rand thousand	2018	2017
Loan accounts – owing (to) by related parties		
Mzimkhulu Mining (Pty) Ltd	10 249	–
Baniettor (Pty) Ltd	16 646	16 646
Ener-G Systems (Pty) Ltd	36 326	32 828
Extended Continental Shelf Claim Project	1 558	978
GTL.1 AG	201 829	190 292
Amounts included in trade receivable (trade payable) regarding related parties		
PAMDC (Pty) Ltd	3 591	2 867
DoE	694	559
SANEDI	495	662
Equalisation Fund	432	762
Equalisation Fund	(3 317 490)	(3 643 730)
Rompco (Pty) Ltd	7	56
Upstream Training Trust	7	5
Cash on call held on behalf of others		
Upstream Training Trust (UTT)	4 510	34 602
Related party transactions		
Interest paid to (received from) related parties		
Ener-G Systems (Pty) Ltd	(3 497)	(3 095)
Upstream Training Trust	3 136	2 432
Rent paid to (received from) related parties		
Rompco (Pty) Ltd	(25)	(62)
SANEDI	(916)	(380)
PAMDC (Pty) Ltd	(83)	(174)
Administration fees paid to (received from) related parties		
DoE	(1)	–
UTT	(61)	(48)
Equalisation Fund	(2 373)	(2 218)
SANEDI	(486)	(838)
PAMDC (Pty) Ltd	(899)	(1 220)
Recoveries paid to (received from) related parties		
SANEDI	(56)	(155)
PAMDC (Pty) Ltd	(254)	(214)
Rompco (Pty) Ltd	–	(12)
Equalisation Fund	(1 147)	(1 135)
DoE	(694)	(559)
Provisions balances relating to related parties		
Baniettor (Pty) Ltd – loan and investment	(16 744)	(16 744)
GTL.1 AG	(201 829)	(190 292)

Refer to the 'contingencies' disclosure note for contingencies to related parties.

43. 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 R nil (2017: 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 R nil (2017: R nil).

44. Directors' emoluments

Executive management

Figures in Rand thousand	Emoluments	Bonus paid	Total
2018			
Mr M Moagi (CEF Group)	4 023	1 109	5 132
Mr S Madondo (AEMFC SOC Ltd)	3 725	4 916	8 681
Mr K Zono (PetroSA Group)	7 849	–	7 849
Mr M Seedat (iGas SOC Ltd)	2 295	714	3 009
Ms L Mekwe (PASA SOC Ltd)	2 502	334	2 836
	20 394	**7 073**	**27 467**
2017			
Mr M Moagi (CEF Group)*	3 187	–	3 187
Mr S Madondo (AEMFC SOC Ltd)	3 476	1 630	5 106
Mr S Mthethwa** (CEF Group)	2 349	959	3 308
Mr K Zono (PetroSA Group)***	2 605	–	2 605
Ms M Modipa (PetroSA Group)	2 677	–	2 677
Dr M de Pontes (iGas SOC Ltd)	3 067	–	3 067
Mr S Gamede (SFF NPC)	606	–	606
Ms L Mekwe (PASA SOC Ltd)	2 466	350	2 816
	20 433	**2 939**	**23 372**

The CEOs of the holding company and operating subsidiaries are key management personnel for the Group.

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.

2017:
* Mr G Moagi was appointed in June 2016 as SFF interim CEO and CEF interim CEO. The full salary is paid by the CEF, 50% is recovered from SFF and 50% is recorded at the CEF.
** Mr S Mthethwa was seconded to provide services at PetroSA from June 2016, but the salary remained to be paid by the CEF. Mr Mthethwa resigned from the CEF in November 2016. The remuneration relating to the period at PetroSA amounted to R1.6 million
*** Mr K Zono was appointed interim CEO in December 2016.
**** Ms M Modipa resigned from PetroSA in July 2016.
***** Mr S Gamede resigned in June 2016.

44. Directors' emoluments (continued)

Non-executive 2018

	Directors' fees	Other expenses	Directors' fees for services as directors of subsidiaries	Total
Mr L. Makasi (Chairperson)*	1 569	1 991	–	3 560
Mr O Besnaar**	663	202	49	914
Adv L Mtunzi	766	138	222	1126
Ms M Molope	246	23	–	269
Mr T Maqubela**#	–	–	–	–
Mr G Bezuidenhoudt**#	–	–	–	–
Mr N Mompati**	716	195	315	1 226
Ms G Leketi**#	–	–	–	–
	3 960	**2 549**	**586**	**7 095**

2017

	Directors' fees	Committees fees	Directors' fees for services as directors of subsidiaries	Total
Mr L. Makasi (Chairperson)*	432	–	–	432
Dr X Mkhwanazi (former Chairperson)**	465	7	–	472
Adv L Mtunzi	666	1	–	667
Ms M Molope	347	–	–	347
Mr R Jawoodeen**	129	1	259	389
Mr M Moagi^	178	42	58	278
Mr T Maqubela**#	–	–	–	–
Mr G Bezuidenhoudt**#	–	–	–	–
Mr T Sethosa (Alternate)**#	–	–	–	–
Mr D Hlatshwayo**^^	40	–	–	40
Mr N Mompati*	140	–	68	208
Mr O Besnaar*	117	10	–	127
	2 514	**61**	**385**	**2 960**

Directors are not remunerated in their personal capacity as they are representing the shareholder (DoE).

2018:
Mr Maqubela was reappointed on 1 May 2017.
Mr Bezuidenhoudt – services were terminated in May 2017.

2017:
^ Mr Moagi was appointed CEF interim CEO and SFF interim CEO in June 2016.
* The directors were appointed in December 2016.
** Mr Hlatshwayo – services were terminated in August 2016.
Dr Mkhwanazi – services were terminated in September 2016.
Mr Jawoodeen – services were terminated in July 2016.
Mr Bezuidenhoudt – services were terminated in May 2016.
Mr Maqubela – services were terminated in December 2016.
Mr Sethosa – services were terminated in December 2016.
^^ Mr D Hlatshwayo is a BARC member and not a Board member.

45. Categories of financial instruments

	Note(s)	Financial assets at fair value through profit or loss
Categories of financial instruments – 2018		
Assets		
Non-Current Assets		
Property, plant and equipment	3	–
Intangible assets	4	–
Investments in associates	7	–
Loans to Group companies	8	–
Other financial assets	9	185
Deferred tax	11	–
Prepayments	12	–
Strategic stock	13	–
		185
Current Assets		
Inventories	14	–
Loans to Group companies	8	–
Current tax receivable		–
Trade and other receivables	15	–
Prepayments	12	–
Cash and cash equivalents	16	–
		–
Non-current assets held for sale and assets of disposal groups	17	–
Total Assets		**185**

Debt instruments at amortised cost	Equity instruments at cost less impairment	Financial liabilities at amortised cost	Leases	Equity and non–financial assets and liabilities	Total
–	–	–	–	7 421 025	7 421 025
–	–	–	–	1 623 770	1 623 770
–	–	–	–	886 094	886 094
36 326	–	–	–	–	36 326
163 439	1 475	–	–	–	165 099
–	–	–	–	573 331	573 331
–	–	–	–	140 726	140 726
–	–	–	–	996 482	996 482
199 765	**1 475**	**–**	**–**	**11 641 428**	**11 842 853**
–	–	–	–	1 763 431	1 763 431
10 249	–	–	–	–	10 249
–	–	–	–	12 929	12 929
1 990 957	–	–	–	69 856	2 060 813
–	–	–	–	92 093	92 093
17 186 008	–	–	–	–	17 186 008
19 187 214	**–**	**–**	**–**	**1 938 309**	**21 125 523**
–	–	–	–	34 333	34 333
19 386 979	**1 475**	**–**	**–**	**13 610 170**	**33 002 709**

45. Categories of financial instruments (continued)

	Note(s)	Financial assets at fair value through profit or loss
Categories of financial instruments – 2018 (continued)		
Equity and Liabilities		
Equity		
Equity attributable to equity holders of parent:		
Reserves	18	–
Retained income	18	–
		–
Non-controlling interest		–
Total Equity		**–**
Liabilities		
Non-Current Liabilities		
Other financial liabilities	22	–
Finance lease liabilities	23	–
Retirement benefit obligation	10	–
Deferred tax	11	–
Provisions	24	–
Other non-current liabilities	25	–
		–
Current Liabilities		
Other financial liabilities	22	–
Current tax payable		–
Finance lease liabilities	23	–
Trade and other payables	26	–
Provisions	24	–
Dividend payable	27	–
		–
Liabilities of disposal groups	17	–
Total Liabilities		**–**
Total Equity and Liabilities		**–**

Debt instruments at amortised cost	Equity instruments at cost less impairment	Financial liabilities at amortised cost	Leases	Equity and non–financial assets and liabilities	Total
–	–	–	–	(1 279 897)	(1 279 897)
–	–	–	–	14 870 530	14 870 530
–	**–**	**–**	**–**	**13 590 633**	**13 590 633**
–	–	–	–	(1 180)	(1 180)
–	**–**	**–**	**–**	**13 589 453**	**13 589 453**
–	–	770 171	–	–	770 171
–	–	–	772 899	–	772 899
–	–	–	–	177 033	177 033
–	–	–	–	1 427 980	1 427 980
–	–	–	–	8 865 852	8 865 852
–	–	–	–	66 328	66 328
–	**–**	**770 171**	**772 899**	**10 537 193**	**12 080 263**
–	–	76 860	–	–	76 860
–	–	–	–	29 441	29 441
–	–	–	39 684	–	39 684
–	–	6 039 071	175	801 155	6 841 297
–	–	–	–	97 766	97 766
–	–	229 460	–	–	229 460
–	**–**	**6 346 287**	**39 859**	**928 362**	**7 314 508**
–	–	–	–	18 485	18 485
–	**–**	**7 116 458**	**812 758**	**11 484 040**	**19 412 256**
–	**–**	**7 116 458**	**812 758**	**25 073 493**	**33 003 709**

45. Categories of financial instruments (continued)

	Note(s)	Financial assets at fair value through profit or loss
Categories of financial instruments – 2017		
Assets		
Non-Current Assets		
Property, plant and equipment	3	–
Intangible assets	4	–
Investments in associates	7	–
Loans to Group companies	8	–
Other financial assets	9	146
Deferred tax	11	–
Prepayments	12	–
Strategic stock	13	–
		146
Current Assets		
Inventories	14	–
Current tax receivable		–
Trade and other receivables	15	–
Prepayments	12	–
Cash and cash equivalents	16	–
		–
Non-current assets held for sale and assets of disposal groups	17	–
Total Assets		**146**

	Debt instruments at amortised cost	Equity instruments at cost less impairment	Financial liabilities at amortised cost	Leases	Equity and non-financial assets and liabilities	Total
	–	–	–	–	9 764 263	9 764 263
	–	–	–	–	1 644 394	1 644 394
	–	–	–	–	909 106	909 106
	32 829	–	–	–	–	32 829
	181 951	1 475	–	–	–	183 572
	–	–	–	–	334 771	334 771
	–	–	–	–	830	830
	–	–	–	–	868 830	868 830
	214 780	**1 475**	**–**	**–**	**13 522 194**	**13 738 594**
	–	–	–	–	1 880 923	1 880 923
	–	–	–	–	14 931	14 931
	1 904 533	–	–	–	192 870	2 097 403
	–	–	–	–	103 820	103 820
	15 694 839	–	–	–	–	15 694 839
	17 599 372	**–**	**–**	**–**	**2 192 544**	**19 791 916**
	–	–	–	–	88 639	88 639
	17 814 152	**1 475**	**–**	**–**	**15 803 377**	**33 619 149**

45. Categories of financial instruments (continued)

	Note(s)	Financial assets at fair value through profit or loss
Categories of financial instruments – 2017 (continued)		
Equity and Liabilities		
Equity		
Equity attributable to equity holders of parent:		
Reserves	18	–
Retained income	18	–
		–
Non-controlling interest		–
Total Equity		**–**
Liabilities		
Non-Current Liabilities		
Other financial liabilities	22	–
Retirement benefit obligation	10	–
Deferred tax	11	–
Provisions	24	–
Other non-current liabilities	25	–
		–
Current Liabilities		
Other financial liabilities	22	–
Trade and other payables	26	–
Provisions	24	–
		–
Liabilities of disposal groups	17	–
Total Liabilities		**–**
Total Equity and Liabilities		**–**

	Debt instruments at amortised cost	Equity instruments at cost less impairment	Financial liabilities at amortised cost	Leases	Equity and non–financial assets and liabilities	Total
	–	–	–	–	(1 320 115)	(1 320 115)
	–	–	–	–	14 765 600	14 765 600
	–	**–**	**–**	**–**	**13 445 485**	**13 445 485**
	–	–	–	–	(1 024)	(1 024)
	–	**–**	**–**	**–**	**13 444 461**	**13 444 461**
	–	–	866 846	–	–	866 846
	–	–	–	–	136 274	136 274
	–	–	–	–	1 888 793	1 888 793
	–	–	–	–	10 157 761	10 157 761
	–	–	–	–	79 863	79 863
	–	**–**	**866 846**	**–**	**12 262 691**	**13 129 537**
	–	–	88 943	–	–	88 943
	–	–	6 149 641	215	650 307	6 800 163
	–	–	–	–	137 130	137 130
	–	**–**	**6 238 584**	**215**	**787 437**	**7 026 236**
	–	–	–	–	18 915	18 915
	–	**–**	**7 105 430**	**215**	**13 069 043**	**20 174 688**
	–	**–**	**7 105 430**	**215**	**26 513 504**	**33 619 149**

46. Risk management

Capital risk management
The Group's objectives 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 stakeholders 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, 22 and 23 cash and cash equivalents disclosed in note 16, 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 industry, the Group monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

There are no externally imposed capital requirements.

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.

Financial risk management
The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair-value interest rate risk, cash-flow interest rate risk and price risk), credit risk and liquidity 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.

Liquidity risk
The Group's risk to liquidity is a result of the funds available to cover future commitments. The Group manages liquidity risk through an ongoing review of future commitments and credit facilities.

Interest rate risk
The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash-flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair-value interest rate risk. During 2018 and 2017, the Group's borrowings at variable rate were denominated in Rand and US$.

Fluctuations in interest rates impact on the value of short-term investments and financing activities, giving rise to interest rate risk. The Group has significant exposure to interest rate risk due to the volatility in South African, European and US interest rates. The average yield for the year in South Africa was 7.99% (2017: 7.8%).

A 10% change in an interest rates for the Group resulted in R81.701 million, R nil and R0.230 million (2017: R77.462 million, R1.201 billion and R0.600 million) for the JIBAR, LIBOR and EURIBOR rate instruments respectively.

46. Risk management (continued)

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments was:

Variable rate instruments (Carrying values)	2018	2017
Bank balance	13 065 597	11 818 535
Ring-fenced funds	3 907 873	3 876 304
GNPC loan	139 716	139 845
Lurgi loan	173 832	169 651
Ener-G Systems (Pty) Ltd loan	36 326	32 829
Reserve-based lending	(851 572)	(866 846)
	16 471 772	**15 170 318**

Credit risk

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 maturity profile of the contractual cash flows of financial instruments at 31 March was as follows:

Maturity profiles	Within one year	One to five years	More than five years	Total
2018				
Cash and cash equivalents	16 486 890	–	–	16 486 890
Loans to Group companies	–	363 526	–	363 526
Trade and other receivables	2 146 191	–	–	2 146 191
Other financial assets	1 711 043	9 585	478 475	2 199 103
Other financial liabilities	(926 619)	–	–	(926 619)
Trade and other payables	(1 283 287)	–	–	(1 283 287)
	18 134 218	**373 111**	**478 475**	**18 985 804**
2017				
Cash and cash equivalents	11 818 535	–	–	11 818 535
Loans to Group companies	32 829	–	–	32 829
Trade and other receivables	2 031 318	–	–	2 031 318
Other financial assets	8 528 084	332 194	171 126	9 031 404
Forward exchange contract	(4)	–	–	(4)
Other financial liabilities	(991 107)	–	–	(991 107)
Trade and other payables	(2 516 822)	–	–	(2 516 822)
	18 902 833	**332 194**	**171 126**	**19 406 153**

46. Risk management (continued)

Foreign exchange risk

Management has set up a policy to require Group companies to manage their foreign exchange risk against their functional currency. The Group companies are required to hedge their entire foreign exchange risk exposure with the Group treasury. To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group use forward contracts, transacted with Group treasury. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The table below shows the currency exposure where entities within the Group have monetary assets or liabilities that are denominated in a currency that is not the functional currency of the respective entities. The amounts have been presented in Rand by converting the foreign currency amount at the closing rate at the reporting date.

Figures in Rand thousand	2018	2017	2016
Foreign currency exposure at the end of the reporting period			
Non-current assets			
GNPC Loan (US$ denominated)	115 740	139 845	126 645
Lurgi Loan (US$ denominated)	173 832	169 651	198 400
GTL.F1 AG (US$ denominated)	201 829	192 349	213 159
Current assets			
Trade debtors (US$ denominated)	33 610	151 060	112 786
Cash and cash equivalents (US$ denominated)	3 383 045	3 786 566	4 152 568
Liabilities			
Trade and other payables (US$ denominated)	789 503	730 925	576 093
Reserve-based lending loan	851 572	866 846	1 201 245
Exchange rates used for conversion of foreign items were:			
Year end:			
US$	11.8274	13.3562	12.2093
Euro	14.5788	14.2876	13.0932
Average:			
US$	13.0010	14.0573	11.0602
Euro	15.1982	15.4475	13.9828

A sensitivity analysis is provided to show the foreign currency exposure of the Group at the end of the reporting period. This analysis is prepared based on the statement of financial position balances that exist at year-end, for which there is currency risk. The expected effect on the income statement and equity is calculated based on the net balance sheet exposure at the end of the reporting period, after taking into account forward exchange contracts that exist at that point. This sensitivity represents the exposure of the Group at a point in time, based only on recognised balances for which currency risk has been identified. A 10% change in an exchange rate results in R42.8 million (2017: R54 million) and R27.5 million (2017: R67.6 million) for financial assets and liabilities respectively.

46. Risk management (continued)

Forward exchange contracts
All forward exchange contracts (FECs) are supported by underlying commitments or transactions, including those that have not been contracted for.

The fair value (losses)/gains calculated below were determined by recalculating the daily forward rates for each currency using a forward rate interpolation model. The net market value of all forward exchange contracts at year-end is calculated by comparing the forward exchange contracted rates to the equivalent year-end market foreign exchange rates. The present value of these net market values is then calculated using the appropriate currency specific discount curve.

Figures in Rand thousand	Contract foreign currency amount	Contract amount in rand equivalent	Average exchange rate	Fair value gains and (losses)
2018				
FECs' transactions including commitments which have been contracted for import goods and services				
US$	–	–	13	–
2017				
FECs' transactions including commitments which have not been contracted for import goods and services				
US$	7 096	94 852	13	3 203

The maturity profile of contract amounts of FECs at 31 March was as follows:

	Contract amount	Within one year
2018	–	–
Import goods and services	–	–
US$	–	–
2017	–	–
Import goods and services	–	–
US$	94 852	94 852
	94 852	**94 852**

47. Fair-value information

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.

Levels of fair-value measurements

Level 2

Figures in Rand thousand	2018	2017	2016
Non-recurring fair-value measurements			
Assets held for sale and disposal groups in accordance with IFRS 5			
Property, plant and equipment	–	50 000	50 000
PASA assets and liabilities	229 460	17 208	–
Total assets held for sale and disposal groups in accordance with IFRS 5	**229 460**	**67 208**	**50 000**
Total	**229 460**	**67 208**	**60 669**

The Group currently holds assets as non-current assets held for sale and these have been recognised at fair value less costs to sell because the assets' fair value less costs to sell is lower than its carrying amount.

The Group currently holds assets as non-current assets held for sale and these have been recognised at fair value less costs to sell in reference to the selling price as per the sale agreement.

No changes have been made to the valuation technique. The fair-value amount was determined through negotiation for the sale of the assets.

Valuation processes applied by the Group
The fair value of the plant components is assessed by the Group's finance department and operations team on an annual basis. The finance department reports to the Group's CFO. The valuation reports are discussed with the Audit Committee in accordance with the Group's reporting policies.

Highest and best use

Non-current assets held for sale
The Group assets under this category are a ship and plant component. If the plant components are to be assembled, they would construct the biomass power plant to generate electricity. The ship is used in oil pollution services.

These are the highest and best use assets under this category.

Non-current asset held for distribution
The Group assets and liabilities under this category are the PASA assets and liabilities.

48. Going concern

We draw attention to the fact that at 31 March 2018, the company had retained income of R14.87 billion and that the company's total assets exceed its liabilities by R13.59 billion.

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

The ability of the company to continue as a going concern is dependent on a number of factors. The most significant of these is that the directors continues to explore the options available to ensure compliance with the Financial Provision Regulations for the settlement of the rehabilitation provision related to PetroSA.

49. Events after the reporting period

The directors are not aware of any matters or circumstances arising since the end of the financial year, not otherwise dealt with in the Consolidated Annual Financial Statements, that significantly affect the financial position of the company or the results of its operations.

50. Fruitless and wasteful expenditure

Figures in Rand thousand	2018	2017
Fruitless and wasteful expenditure (R'000)		
Opening balance	14 351	16 150
Expenditure relating to the current year	14 619	16 549
Discovered during the current year but relating to the prior year	997	561
Less: Amounts recovered	(24)	(94)
Less: Amounts condoned	(14 015)	(18 815)
Less: Investigation concluded that expenditure is not fruitless expenditure	(33)	–
	15 895	**14 351**
Fruitless and wasteful expenditure was condoned by the relevant authorities in the individual Group companies.		
Details of fruitless and wasteful expenditure relating to the current year		
Advertisement for cancellation of tenders	–	52
Contract cancellation fee	102	234
Consulting fees incurred in vain	–	95
Insourcing of coal	4 806	–
Interest on late payment of suppliers	360	178
Items individually < R50 000	60	2
Payment to provider for not meeting target and work not yet completed	1 018	–
Penalty and interest to SARS	526	5 027
Prescription of duty at source claims	8 744	–
Traffic violations	–	1
Wrongful dismissal	–	11 521
	15 616	**17 110**

50. Fruitless and wasteful expenditure (continued)

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 OPCSA).

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.

2017:

Advertisement for cancellation of tenders
Early cancellation of an advertising contract (the CEF and AEMFC).

Contract cancellation fee
Construction contract cancelled (AEMFC), flight, car rental and accommodation booked for late cancellation of trips by employees and directors (the CEF).

Interest on late payment to suppliers
Interest paid on late payment of accounts (AEMFC).

Penalty and interest to SARS
Interest and penalties on income tax as a result of the SARS voluntary disclosure programme (VDP) conducted in the prior financial year (the CEF). An integrated audit was conducted by SARS and it was highlighted that executive benefits were not taxed appropriately and, therefore, an amount of R4.5 million (PetroSA) was due.

Wrongful dismissal
PetroSA settled a wrongful dismissal suit to the value of R11.5 million.

51. Irregular expenditure

Figures in Rand thousand	2018	2017
Irregular expenditure (R'000)		
Opening balance	2 622 524	2 607 960
Expenditure relating to current year	16 795	15 061
Discovered during the current year but relating to the prior year	317	–
Less: Amounts condoned	(4 820)	(497)
Prior-year correction of overstatement of irregular expenditure	(1 847)	–
Recovered	(6 084)	–
Investigation concluded that expenditure is not irregular expenditure	(461)	–
	2 626 424	**2 622 524**
Irregular expenditure was condoned by the relevant authorities in the individual Group companies.		
Details of irregular expenditure relating to the current year		
Contravention of company policy	7 299	14 434
Contravention of procurement regulations	2 513	5 080
Irregular bursary payments	–	1 300
Salary and rental costs without an agreement	7 300	–
	17 112	**20 814**

51. Irregular expenditure (continued)

Contravention of company policy and procurement regulations

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.

Complete Cabling Equipment (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 milion for the appointment of various law firms relating to the contract review.
- R0.011 million relating to an appointmnet 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.

51. Irregular expenditure (continued)

2018:

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 contact 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.

2017:

AEMFC
Non-compliance with applicable laws and regulations in evaluating a supplier. Training will be provided to employees.

CCE
Certain components of the plant were in a storage, but the company that kept the components was liquidated, the components were moved to another site and, therefore, rent was payable on the new site. However, no rental contract was in place.

CEF
Accommodation and car rental were not approved. Training is being provided to employees and directors.

PetroSA
No receiver of goods certificate was available from a customer to enable PetroSA to claim duty at source on product sold. An investigation was initiated to identify irregular expenditure and prevent recurrence.

Irregular bursary payments to the value of R1.3 million were effected to bursary recipients. The case is the subject of a criminal investigation.

SFF
Procurement process was not followed for six suppliers. Corrective action pending.

Figures in Rand thousand	2018	2017
Non-adherence to PFMA		
Value of irregular stock rotated	198 883	198 883

Strategic stock sold
SFF was approached by a service provider who currently has a contract to salvage crude residues in the Ogies mines. The service provider claimed that he had discovered substantial crude oil volumes (about 5 million barrels) and was prepared to provide SFF with a lien on 0.6 Mbbls (until the quality is determined to match the 0.3 Mbbls that SFF would have provided) and also 30% value of crude oil on condition that SFF loan to the provider 0.3 Mbbls of the strategic crude oil stocks. The company carried out the above without complying with the provisions of PFMA Section 51(1)(iii) which calls for: An appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective. The value has been determined by applying the oil price and exchange currency rate of Dollar to Rand on the date the provider should have returned barrels to the volume of 0.3 Mbbls.

Fields in production and under development

	Crude oil/condensate MMbbl 2018	Gas Bscf 2018	Crude oil/ condensate MMbbl 2017	Gas Bscf 2017
1. Movement in net remaining proved and probable reserves				
At the beginning of year	16.65	97.57	17.49	75.80
Revisions of previous estimates	3.91	(0.73)	0.29	43.45
Production	(1.97)	(26.07)	(1.53)	(24.74)
Additions	–	6.10	0.40	3.06
	18.59	**76.87**	**16.65**	**97.57**
2. Proved and probable by type of field				
Fields in production	18.59	76.87	16.65	97.57
Fields under development	–	–	–	–
3. Reserves by category				
Proved	11.00	37.51	10.97	53.78
Proved and probable	18.59	76.87	16.65	97.57
Total proved and probable reserves at end of year	**18.59**	**76.87**	**16.65**	**97.57**

Oil

Fields in production and under development comprise the Jubilee (2.73%), Oribi (100%) and Oryx (100%) oil fields.

Gas

Fields in production and under development comprise the F-A and F-A Satellite, E-M and E-M Satellite and FO gas fields respectively. Fields under appraisal comprise discoveries. The reserves shown are either all oil or all gas, excluding gas liquids. Oil includes condensate and LPG. Reserves and production are shown on a working interest basis (100%). Reserves were generated using a reservoir simulator that incorporated PetroSA's production philosophy. Oil and gas reserves cannot be measured exactly since the estimation of reserves involves subjective judgment and arbitrary determinations and, therefore, all estimations are subject to revision. The gas and oil reserves reflected above have been determined by independent reservoir engineers.
The supplementary information presented does not form part of the Consolidated Annual Financial Statements and is unaudited.

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