CEF SOC Ltd

INTEGRATED ANNUAL REPORT

2015/16

CEF SOC Ltd

CEF SOC Ltd, a State Owned Company, oversees the search for and management of appropriate solutions to meet the energy needs of South Africa, the Southern African Development Community and the sub-Saharan African region. This includes oil, gas, solar energy, low-smoke fuels, biomass, wind and other renewable energy sources. As a holding company, CEF also oversees the governance of a group of subsidiaries, namely The Petroleum Oil and Gas Corporation of South Africa (PetroSA), SFF Association (SFF), Petroleum Association of South Africa (PASA), The South African Gas Development Company (iGas), African Exploration Mining and Finance Corporation (AEMFC). It therefore manages the operation and development of South Africa's oil and gas assets and operations.

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	Dr X Mkhwanazi (Chairperson) Adv L Mtunzi Ms M Molope Mr R Jawoodeen Mr M Moagi Mr T Maqubela Mr G Bezuidenhoudt Mr T Sethosa (Alternate)
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	PO Box 786141 Sandton 2146
Website address	www.cefgroup.co.za
Ultimate holding structure	Department of Energy
Bankers	Absa Bank Limited
Auditors	Auditor-General of South Africa
Company Secretary	Mr A Haffejee
Tax reference number	9102/407/84/9
Company Registration number	1976/0014441/07

Contents

Key Abbreviations

AEMFC	African Exploration Mining and Finance Corporation SOC Limited
BARC	Board Audit & Risk Committee
BBBEE	Broad Based Black Economic Empowerment
BBL	Barrel (equals 159 litres)
BEE	Black Economic Empowerment
BPS	Basis Points
CCE	Cape Cleaner Energy Solutions SOC Limited
CEF	CEF SOC Limited
CEF ACT	Central Energy Fund (Act no 38 of 1977) as amended
CEO	Chief Executive Officer
CSI	Corporate Social Responsibility
CSP	Concentrated Solar Power
DoE	Department of Energy
EBITDA	Earnings before Interest, Tax, Dividends & Amortization
ECS	Extended Continental Shelf
EIA	Environmental Impact Assessment
EPD	Energy Projects Division
EXCO	Executive Committee
FEED	Front-end Engineering & Design
FPSO	Floating Production, Storage & Offloading
GAAP	Generally Accepted Accounting Practice
GJ	Gigajoule
GTL	Gas to Liquid
iGAS	The South African Gas Development Company SOC Limited
IFRS	International Financial Reporting Standards
IEP	Integrated Energy Plan
IPP	Independent Power Producers
IRP	Integrated Resource Plan
King III	King III Report on Corporate Governance
LNG	Liquid Natural Gas
MMBBLS	Million Barrels
MOI	Memorandum of Incorporation
MPRDA	Mineral and Petroleum Resources Development Act, 2002 (Act 28 0f 2002)
MTEF	Medium Term Expenditure Framework
MW	Mega watt
NDP	National Development Plan
NERSA	National Energy Regulator of South Africa
NOC	National Oil Company
NMBM	Nelson Mandela Bay Metro
NPA	National Ports Authority
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
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
RENAC	Renewables Energy Academy
Rompco	Republic of Mozambique Pipeline Company Proprietary Limited
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 Services
SFF	Strategic Fuel Fund Association NPC
SLA	Service Level Agreement
SWH	Solar Water Heaters
Simex	Singapore Monetary Exchange
SOS	SOS Children 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

Year in Review

SECTION 1

Year in Review

Highlights of the Financial Year include:

The restructuring of the holding company under Project Genesis was completed during the year. Ministerial approvals for two renewable energy projects under the **Energy Projects Division** were received and this lays the foundation for additional activities in this area in line with the CEF mandate. The Minister of Energy signed a determination for a 1,500MW Solar Park to be implemented by private sector jointly with SOE's, specifically CEF. This would be a flagship project for CEF and will contribute to the sustainability of the CEF Group.

- The performance against the predetermined financial objectives was achieved.
- Discretionary BBBEE spend at PetroSA and SFF exceeded the predetermined targets.
- Environmental incidents and the Disabling Injury Frequency Rate (DIFR) were better than target, although the DIFR only marginally so. The Group takes compliance in these areas seriously and this does indicate an increased focus on this area of operations.
- The **PetroSA** operations at Mossel Bay continued although at a reduced rate resulting from declining gas flow rates. Additional analysis of seismic data has assisted in firming up options for additional gas.
- **SFF** has shown improved liquidity through rental agreements and the rotation of strategic stocks as part of the stock rotation plans.
- **AEMFC** exceeded coal sales targets flowing from the conclusion of a long term supply agreement with Eskom. This has resulted in improved profits for the company.
- The **iGas** investment in the Rompco pipeline from Mozambique is now providing a solid dividend flow back to the CEF Group. Work on the next phase of the pipeline capacity expansion began towards the end of 2015. iGas has further completed a biodiversity study for the proposed Saldanha to Ankerlig gas transmission pipeline.
- **PASA** has completed the additional work required by the UN Commission on the Limits of the Continental Shelf on the South African extended continental shelf claim. These will be submitted to the next session of the Commission. A positive result will form a significant foundation to the objectives of Operation Phakisa.

Identified Challenges facing the Group are:

Despite the intensive focus on safety an operational fatality at the PetroSA facility was recorded on 26 September 2015.

The long-term financial sustainability of PetroSA remains a serious concern as feedstock reserves are depleting and with more time required before a solution can be implemented. The low and volatile global oil prices have had a negative impact on the company. Further the largely unfunded decommissioning liability is cause for concern. The company in conjuction with the Shareholder is devising a long term sustainable plan to deal with the decommissioning challenge. The company has transferred cash reserves into a ring-fenced decommissioning fund, and will do so in each of the next financial years. The total GTL indigenous GTL production at PetroSA was 25% below target for 2015/16.

At SFF, the Milnerton tank refurbishment did not progress as was expected. The project has had to use a different method of cleaning as a result of complications with High Pressure Blasting, unsafe conditions of the roofs and solids found inside the tanks.

Financial Snapshot

R4 409 181 294.22
BBBEE SPEND

TARGETS ACHIEVED
TARGETS ACHIEVED (9)
NOT ACHIEVED (5)

R16,153,554,000
CASH BALANCE

CORPORATE SOCIAL INVESTMENT
R52 353 397

R6,593,615,000
CASH GENERATED FROM OPERATIONS

R7,428,852,000
NET CASH FROM OPERATING ACTIVITIES

R20,716,465,000
REVENUE

Introduction


SECTION
2

About this Report

The Purpose of the Report

The CEF Group has pleasure in presenting its Integrated Report for the 2015/16 financial year. In the report the board and management endeavour to validate the Group's resolve to stabilise and grow the business thus creating sustainable value for the shareholder in the short, medium and long term. The Integrated Annual Report aims to provide all stakeholders with a concise, material, and transparent assessment of The Group's performance, strategy, governance structures and business prospects. It addresses the opportunities and risks, as well as resources and relationships that materially impact the ability of the Group to create value over time.

The report covers the integrated performance of the Group and its subsidiaries for the period 1 April 2015 to 31 March 2016 and includes material events which occurred after this date and up to the Board approval on 28 July 2016.

The Group operates primarily in South Africa where the majority of turnover and profit are generated but has significant investments outside the country. Through strategic investments and partnerships the Group has operations located in Ghana and Mozambique.

Integrated Reporting Framework

This report is in line with the guidelines of the Integrated Reporting Framework issued by the Global Integrated Reporting Committee in December 2013 which provides guidelines for integrated reporting to be consistently applied globally. The Framework introduces the concept of reporting in terms of the six forms of capital value creation which are catalogued as the financial; manufactured; intellectual; human, and social; relationship; and natural capitals. Reference and reporting on these capitals will be made throughout the report to demonstrate their relevance to the achievement of the overall Group strategy. Management have also used the guidelines of the following documents as part of this report.

- King Code III of Governance for South Africa;
- Global Reporting Initiative Sustainability Reporting Guidelines;
- The Companies Act No. 71 of 2008;
- The Public Finance and Management Act No.1 of 1999; and
- International Financial Reporting Standards ("IFRS")

Report Scope and Boundaries

The CEF Group Integrated Report is aimed at shareholders and other strategic partners locally and abroad. This is in line the Framework recommendation of objectively engaging with providers of the six forms of capital in addition to the other stakeholder interface methods used regularly to engage with stakeholders at different levels.

Assurance

The Board is responsible for ensuring the integrity of this report and therefore the content of the Integrated Report has been reviewed by the directors and management but has not been externally assured. It contains annual financial statements as well as performance information (financial and non-financial) both of which have been audited by the Auditor-General of South Africa, as well as the Group's Internal Audit Department.

The Board believes that it addresses all material issues and presents the Group's integrated performance and its impacts fairly. The report is independently reviewed each year to ensure we continue to meet the reporting and disclosure needs of local and offshore strategic partners. It approved the report on page 102.

Determining Materiality

This report provides a balanced and pragmatic assessment of the Group's strategy, performance and prospects in relation to material financial, economic, social, environmental and governance issues. Materiality has been applied in determining the content and disclosure in this report. Materiality is determined by the board based on matters that substantively affect the Group's ability to create value over time and are likely to have a material impact on the current and projected revenue and profitability of the Group. The material focus areas were determined based on:

> "This report is prepared in line with the guidelines of the Integrated Reporting Framework issued by the Global Integrated Reporting Committee."

- Matters that are critical in relation to achieving the Group's strategic objectives and the sustainability of its business model
- The CEF Group's shareholder compact
- The Group Corporate Plan
- Matters covered in reports submitted to the Executive Committee and Board for discussion or approval
- Key risks identified in the Group's risk management process
- Parliamentary questions received
- The content of engagements with Government and the Parliamentary and Select Committees
- Feedback obtained from CEF Group's key stakeholders during the course of the year and
- Media coverage during the year.

Application of Integrated Reporting

The CEF Group directors and management substantiate that the group has materially reported in accordance with the IIRC's Integrated Reporting Framework in the 2015/16 Integrated Report.

Approval of the Report

The CEF Board confirm the report fairly represents the integrated performance of the CEF Group. The Board Audit and Risk Committee, which has oversight responsibility for integrated reporting, recommended the report for approval by the board. The board approved the 2015/16 Integrated Report on page 102.

Dr. X Mkhwanazi
Group Chairperson

Mr. S Mthethwa
Acting Group CEO

CEF Group Profile

SECTION 3

The CEF Group Profile

"CEF Group should profitably manage the defined energy interests on behalf of the South African Government and be commercially viable and sustainable"

Group of Companies

CEF SOC Ltd is a Schedule 2 State Owned national energy entity with a focus on oil, gas, coal and renewable and clean energy options reporting to the Department Of Energy as its primary shareholder. The organisation operates in South Africa with strategic partnerships in Ghana and Mozambique through its subsidiaries PetroSA and iGas respectively. The company derives its mandate primarily from the Central Energy Fund Act No. 38 of 1977. The Act mandates the CEF Group to contribute to the national security of energy supply through commercial operations and projects, as well as investing in developmental projects, all the while operating in a highly competitive and capital intensive environment with the need to be a profitable entity through its subsidiaries and associates. The dual mandate of Commercial and Developmental obligations requires a tight balancing act between the two imperatives given the strategic nature of the national assets that the Group holds and its obligations as defined in the National Development Plan (NDP). The CEF Group thus has to contribute towards the triple challenges of Poverty Alleviation, Promoting Equality and Creating Jobs as well as supporting the economic growth efforts of the Shareholder. In terms of its mandate the CEF Group should profitably manage defined energy interests on behalf of the South African Government and be commercially viable and sustainable. Most of the activities are in the fossil fuel arena as a result of significant historical investments made by the organisation over the last six decades. With a view for Group sustainability and commercial viability, the Group strategic focus takes a long-term approach to all business activities as contained in the Group Vision 2025 aimed at creating a high performance Group of Companies that is commercially viable. This means concentrating on developing various viable projects and operations that are capable of providing competitive returns throughout business cycles.

The Historical Evolution of CEF

1950's

- Political situation leads the SA Government to invest in securing crude oil
- Investment in Sasol 1
- Moref (1954)
- SAPREF (1956) built in Durban

1960's

- Levies on liquid fuels managed by SEF/SFF
- Investment in Island View and Milnerton facilities
- Calref built in Milnerton (1960)
- Investment in turning Ogies coal mines into crude oil containers plus filling over a long period
- Soekor embarked on drilling programme

1970's

- Petroleum Products Act and CEF Act
- Natref built using Iranian resources in Sasolburg (1974)
- CEF used as vehicle to invest in Sasol III following the 1974 and 1979 oil crises
- Gas found offshore
- Continue filling Ogies
- Construction of Saldanha facility

1980's

- Fill Saldanha
- Decision to build Mossgas GTL
- Island View terminal sold
- Some tanks at Milnerton (refinery side) sold to Caltex

1990's

- Mossgas commissioned
- Sasol loan repaid
- Start of sell-off of Ogies oil
- Publication of White Paper on Energy Policy (1998)
- Decision to create PASA and PetroSA from Mossgas and Soekor
- Sasol decides to build Mozambique gas pipeline
- Decision to create iGas (1999/2000)

2000's

- iGas takes up 25% share in Rompco
- 2003 high level business strategy starts move from oil and gas to renewables through EDC (now EPD)
- Profileration of small subsidiaries (CEF Carbon, CCE, ETA, SASDA, etc.)
- Liquid Fuels Master Plan guides PetroSA strategic thinking
- AEMFC created

2010's

- Change in renewable energy operating environment - write-off of some projects
- Reduction in number of subsidiaries
- AEMFC opens Vlakfontein mine
- CEF governance structures strengthened
- Project Genesis to design holding company structures

Over time, the Group has expanded its activities to include the management of investments with a special focus on renewable and cleaner alternative energy sources. This is part of the broader strategic intent and as directed by the Shareholder to diversify South Africa's energy mix. This will in the long term, result in improved security of supply and enhanced social and environmental benefits. In order to achieve its mandate over time, the CEF Group therefore expanded its focus on liquid fuels and gas into supporting the deployment of new energy technologies in the country.

The CEF Group Profile (continued)

Legislative Framework & Planning Framework

As a strategic entity that has a an important role to play in the security of energy supply, and a strategic partner to government, it is important to note that the Group is guided by a number of legislative and planning frameworks that govern the way in which CEF conducts its business.

These legislative frameworks drive the organisational strategic thrust and define the parameters for operational effectiveness. Government has also developed a number of Plans that provide strategic direction for the CEF Group as listed in the table below:

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	Draft Gas Utilisation Master Plan
CEF Act, 38 of 1977	Regulations regarding the Mandatory Blending of Biofuels with Petrol and Diesel, 2012
Mineral and Petroleum Resources Development Act, 2008	
Mineral and Petroleum Resources Development Amendment Bill, 2013	
National Energy Act, 2008	

PetroSA

SFF

iGas

African Exploration Mining and Finance Corporation SOC Ltd

South African Agency for Promotion of Petroleum Exploration and Exploitation — Petroleum Agency SA

CEF SOC Ltd

Vision, mission and values of CEF Group

The CEF Group is committed to creating a culture of high performance throughout the Group that creates an exciting working experience and opportunities for our people to grow and add value to our business. The CEF Group values will be integrated into everything we do and guide business decisions that we make daily. The CEF Group has in the Reporting period re-looked at its vision and mission as well as values in order to better drive the strategic agenda of the Group.

The Vision

To be a leader in the financing, development and implementation of sustainable energy projects in Africa.

The Mission

To grow the energy sector so as to be a catalyst for economic growth and poverty alleviation through security of supply, and provide access to acceptable (affordable) energy in Africa.

The Values

In all the dealings with persons and entities and in its business relationships, the CEF Group is guided by the following values:

Sustainability:	The CEF Group commits to conduct all its activities in an environmentally and financially responsible manner with zero harm to the environment and the CEF Group stakeholders. Ability to conduct our business operations in a long term and sustainable manner that adds value to our shareholders and ensures that delivery of the CEF Mandate is achieved.
Integrity:	The CEF Group commits to conduct all its dealings in an ethical and honest manner against 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 timely. All conflicts will be resolved using the best conflict resolution methods within the relevant legal and statutory parameters.

Composition of the CEF Group

The CEF Group operates across the Energy Sector Value Chain and comprises of seven key subsidiaries and two associate companies. Each of the subsidiaries within the Group operates within a specific arena and mandate. The subsidiaries are wholly owned by CEF SOC Ltd and it holds minority interests in two small renewable energy ventures (Associates). In addition to this the CEF Group manages the Equalisation Fund.

Renewable and Alternative Energy (through the Energy Projects Division of CEF SOC)

In 2004 CEF was tasked by the then Minister of Minerals and Energy to "catalyse the renewable energy sector and thereafter to develop the renewable energy sector further". CEF played a critical role in the early stages of developing the renewable energy regulatory framework which gave birth to the Renewable Energy Independent Power Producer (RE IPP) Procurement Programme.

Under the RE IPP Procurement Programme, CEF's strategy is to be a late investor in utility scale projects that can bring significant returns to the Group. This has allowed CEF to build its capacity in landfill gas-to-electricity, biomass and solar technologies. As South Africa continues to find ways of maximising the socio-economic benefits of the renewable energy programme, the Minister of Energy has mandated CEF to participate in the Solar Park programme whose main objective is to support local manufacturing of renewable energy technologies.

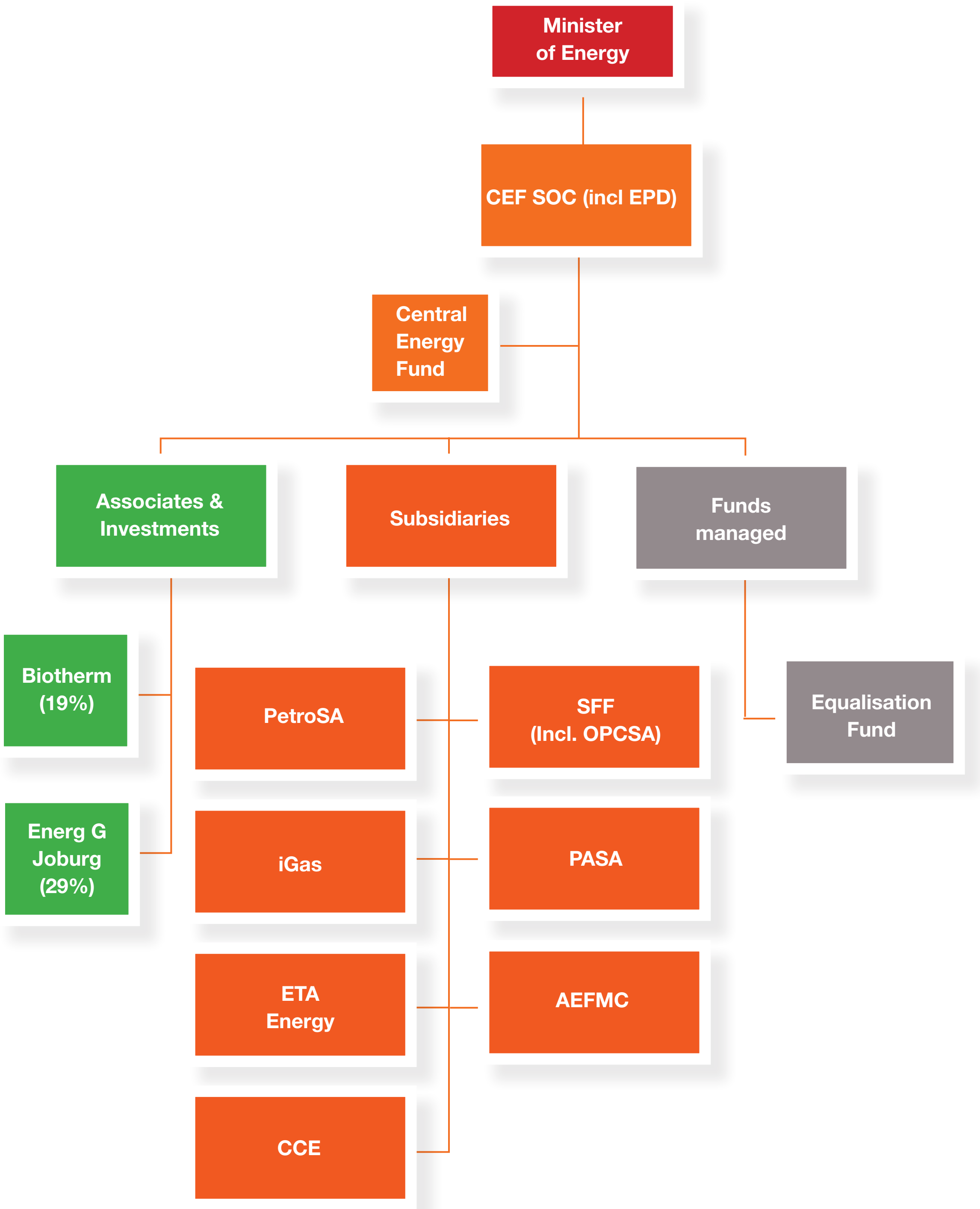
The following are the wholly owned CEF Group subsidiaries:

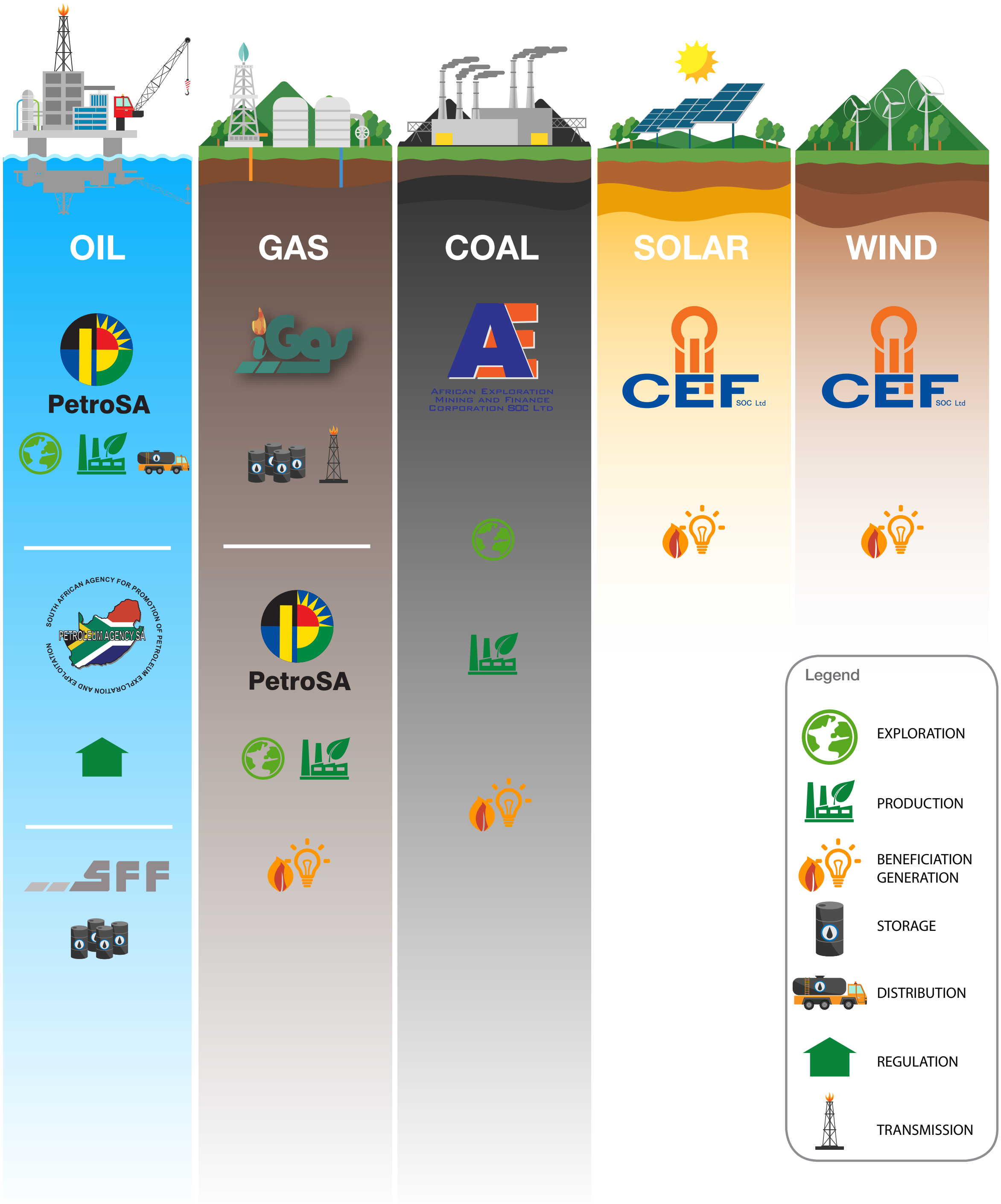
- **PetroSA**: PetroSA explore, produce, refine and market oil, gas and petrochemicals. PetroSA is involved in exploration and production of crude oil and natural gas off the southeast coast of South Africa. In addition, PetroSA has exploration acreage on the west coast of South Africa. Internationally, we have producing and development assets in Ghana. PetroSA has a refining operations converting offshore gas and condensate to refined fuels and speciality chemicals.
- **SFF**: manages strategic crude oil infrastructure, strategic crude oil stocks, and provides oil pollution control services in Saldanha Bay.
- **iGas**: a shareholder in the Mozambiqe-to-South Africa gas pipeline involved in the development of gas and other gas infrastructure.
- **AEMFC**: mines coal in Mpumalanga for supply to Eskom and is concluding feasibility studies on expanding its operations.
- **PASA**: Promotion, Licensing and Regulating the exploration and production of the country's natural oil and gas resources
- **CEF:** also administers the Equalisation Fund on behalf of the DoE.

The CEF Group Profile (continued)

Group Organisational Structure

Based on its Strategy and Mandate, the CEF Group is currently structured as depicted in the diagram below:





The CEF Group Business Model and Integrated Value Chain

In order to fulfill its mandate the CEF Group operates along the full Energy Sector value chain from upstream to downstream. It also operates in the various mandated areas to contribute towards the development of the optimal Energy mix for the Country and Southern Africa through its various subsidiaries. Most of the Group's activities are in the fossil fuel arena however, in recent times, the Group has diversified its interests into alternative Clean Energy projects in order to drive the Government's agenda of reducing reliance on petroleum and coal as well as balancing the energy mix of the country to ensure security of supply through the diversification of energy sources.

The CEF Group Profile (continued)

The CEF Strategic Intent

In a complex and dynamic business environment that is characterized by long lead times and capital intensity, a robust and resilient business strategy is required to navigate the CEF Group in fulfilling its mandate obligations. In response to a number of strategic internal and external forces the Group devised a strategy to effectively manage emerging and inherent business challenges known as Vision 2025 Strategy. The strategy is delivered through step changes phases under the Stabile, Grow and Lead phases that outlines the short, medium and long term strategic objectives as part of a broader turnaround and growth Roadmap. This is aimed setting a solid foundation so that the CEF Group can effectively implement viable strategies to meet the country's security of energy supply objective through a number of integrated strategic energy programmes. The other key imperative is to strengthen the Group so as to expressively support the Department of Energy in its myriad developmental objectives and other energy sector goals and Governments broader National Development Programme (NDP) objectives.

Group Strategic Pillars

The Group Vision 2025 Strategy is underpinned by four strategic priority areas or pillars that set the context for our Group Score Card that drives overall Group operational plans which are:

Strategic priority	Deliverable
Delivery on **Developmental Objectives** in an integrated manner through strategic programmes to support economic and social developments	Contribute to security of energy supply and provide comfort to the state on energy sector goal support. Align with government's broad objectives (NDP) and Act as a vehicle for government policy implementation
Comprehensive **Commercial Viability** strategies linked to long term Group sustainability	Return the Group to commercial viability through improved project investment, strategic resource allocation and portfolio management and contribute to economic development
Improve Governance systems so as to strengthen delivery of the Group	Improved oversight, monitoring and evaluation through effective governance structures and ensure that the Group of Companies as a State Owned Entity (SoE) if efficiently run. Improve decision making and shareholder alignment
Creation of **Collaborative Operating Environment** and formation of a sustainable business ecosystem	Improved operational excellence and efficiency through alignment and better collaboration with other SoE's to progress national interests and objectives in a coordinated manner.

Core Elements underpinning our Group Strategy

In order to have a coherent and sound business strategy there are a number of core elements that must underpin the strategy. These enable the effective delivery of the strategy. Vision 2025 is underpinned by the following core elements:

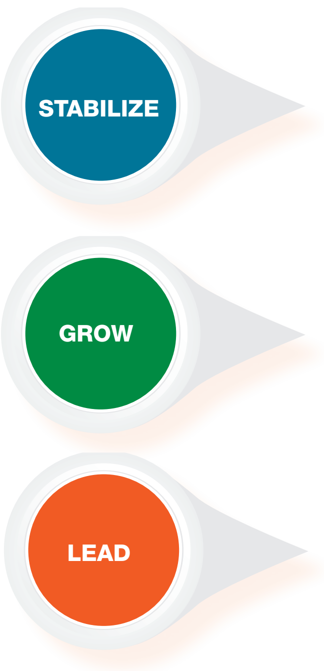
1. **Committed and capable leadership:** Strong, committed and capable leadership is essential to driving transformational change and business performance in a complex business environment where effective decision making in required. Through the Group Human Capital Strategy we endeavour to support and develop our leadership teams.
2. **Dedicated and engaged workforce:** Our journey of creating a High Performance Culture with a high calibre of dedicated and engaged workforce that supports delivery of the business objectives is core to our Human Capital Strategy.
3. **Integrated policies, governance and strategy:** The alignment of our policies to enable strategy execution at an operational level and provide the required framework for operational excellence.
4. **Strategic partnerships:** The strengthening of key strategic partnerships and stakeholders at a strategic and operational level to support delivery of performance objectives.
5. **Reliable, flexible and integrated business systems and processes:** Integration of business process to improve decision making, information flow and overall business performance. This also entails the embedding Enterprise Risk Management (ERM) as part of business processes to help us have an end to end view of our business operations and decisions.

The CEF Group Profile (continued)

Implementing and monitoring our strategy

The CEF Group Corporate Planning Cycle provides for an integrated framework for crafting of annual corporate plans to support delivery of the business strategy to ensure consistency on plans as well as capital commitments for key strategic investments. This is a detailed process that involves the executives, boards across the Group and ultimately the Shareholder. The process culminates in a consolidated set of Group performance objectives which are cascaded down to an individual performance level to ensure ownership and accountability for the delivery of business objectives.

Quarterly Reports are compiled to provide an overview of business performance by the various entities that make up the CEF Group which are reviewed and the corrective action is taken to address gaps in meeting the quarterly targets. This ensures that we hold people to account for business performance and we can proactively manage any emerging risk through our Enterprise Risk Management process for the next quarter.



Immediate and short-term strategic objectives for defending the core that include cost containment, restructuring, better oversight and optimisation initiatives across the Group

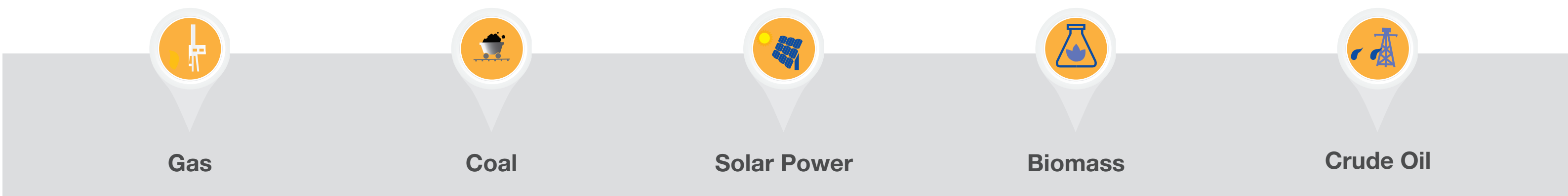
Medium term strategic objectives that include growing the core and diversifying the investments to ensure financial sustainability of CEF Group and relevance

The long term objective is for CEF Group to be a market leader and provide (thought) leadership on security of energy supply on behalf of and to the DoE

CEF Group Products and Services

The CEF Group operations provide the following products and services across its value chain:

- **Gas**: Exploration of gas for commercial sale purposes;
- **GTL Technology**: GTL is a unique technology refinery process that converts natural gas or other gaseous hydrocarbons into longer-chain hydrocarbons such as gasoline or diesel fuel.
- **Coal**: Coal is abundant, relatively inexpensive, and safe and easy to transport. The CEF Group is actively involved in the mining of high grade quality coal for delivery to Eskom power stations for power generation purposes.
- **Data storage**: South Africa's natural resources data storage and dissemination for a fee to prospecting agencies.
- **Alternative Clean Energy**: Active participation and investments into solar, biomass, and other cleaner sources of energy for long term sustainability.
- **Gas Infrastructure**: Future gas infrastructure and current strategic partnership with Rompco that gives the Group access to a pipeline of natural gas from Mozambique. Plans are afoot to further explore downstream gas marketing opportunities as well as cementing the Group's presence in Mozambique.
- **Crude Storage**: Due to the importance of oil in South Africa's energy mix, the strong external dependence for supply of petroleum products and the geopolitical uncertainty in many producer regions, it is vital to guarantee consumers continuous access to petroleum products. The Group provides storage of strategic fuel stocks for the country to mitigate against possible future supply disruptions.



Strategic Review

SECTION 4

Leadership Profiles

Board of Directors

Dr. X Mkhwanazi (Chairperson)
Age: 61
Qualifications: BSc, MSc, Phd, EDP

Dr Mkhwanazi is a former Executive Chairman of BHP Billiton Southern Africa, a position he held for 7 years from 2008 to 2015. He joined BHP Billiton in February 2005 as President and Chief Operating Officer of BHP Billiton Aluminium Southern Africa. Prior to that Dr Mkhwanazi served as CEO of Bateman Africa Limited, and the National Electricity Regulator (NER). Earlier he held senior positions at the Centre for Scientific and Industrial Research (CSIR), and the Atomic Energy Corporation (AEC). He was President of the Chamber of Mines for the period 2010 to 2012. Other Directorships include South32 Resources (Pty) Ltd, Murray and Roberts Holdings (Pty) Ltd.
He chaired the boards of Gibela Rail Transportion Consortium (Pty) Ltd, Odgers Berndston (Pty) Ltd and Private Label Promotions (Pty) Ltd.

Mr. MR Jawoodeen
Age: 51
Qualifications: BA, BA (Hons)

Mr Jawoodeen has been working in the liquid fuels space for the past 20 years as Research Manager for the Institute for Petroleum Strategy and Research (IPSR). As part of the IPSR Mr Jawoodeen has led extensive research projects into the domestic liquid fuels industry. He also served on the Moerane Commission of Enquiry into Fuel Shortages during 2005 and 2006. Previously Mr Jawoodeen served as a non-executive director on the SFF Board and Chaired the SFF Board Audit Committee. He now serves as a non-executive director of the CEF Board and Chairs the Project Assessment and Management Committee (PAMC) of CEF and is a member of the Human Resources Committee.

Mr. G Bezuidenhout
Age: 39

Representing the DoE on the CEF Board, Mr Bezuidenhoudt is responsible for International Relations, IGR and Stakeholder Management in the Department of Energy.

Mr. T Sethosa
Age: 57
Qualifications: BCom, CIS, MBL

Mr Sethosa is a Regional Petroleum Controller in the Department of Energy (DoE) for North West Province, a member of the Social and Ethics Committee and the Board Audit and Risk Committee of CEF.

Mr. MG Moagi (Acting CEO)
Age: 54
Qualifications: B.Com, B.Com (Hons), Exec Progs (Wits & Harvard)

Mr Moagi is an Oil and Gas executive with more than 20 years of industry experience. He joined the CEF board in December 2015. In addition to being Acting CEO of CEF, Mr Moagi is also chairperson of Board Audit and Risk Committee of CEF and chairperson of Africa Exploration, Mining and Finance Corporation (AEMFC).

Adv. L Mtunzi
Age: 46
Qualifications: LLB, B.Luris

Adv Mtunzi is an advocate by profession. She has held senior positions in the regulatory sector as a compliance consultant, she serves as a member of the Governance and Nominations Committee and member of the CEF Board since 2015.

Mr. T Maqubela
Age: 51
Qualifications: BSc (Hons), MAP

Mr Maqubela is currently the Deputy Director General for Petroleum Regulation at the Department of Energy. He has 21 years of experience in the energy sector having commenced his career at the Koeberg Nuclear Power Station. He led the drafting team for the Nuclear Energy Policy of South Africa and is currently the chairperson of the Council for the Non-Proliferation of Weapons of Mass Destruction.

Ms. M Molope
Age: 44
Qualifications: BProc, LLB

Ms Molope is an attorney in private practice. She founded Molope Attorneys in 2007. Ms Molope was an acting Magistrate within Gauteng District Courts from 2012 to 2014. She is currently a board member of CEF and a member of the HR Committee.

Group Chairman's Report

It gives me great pleasure to present CEF Group's Annual Report for the year ended 31 March 2016 to our shareholder the Honourable Minister of Energy and key stakeholders.

During the last couple of years, a myriad of mutually influencing restrictive forces from a macro and micro economic perspective have contributed to increase the "business turbulence" in the global and local economy. Businesses are operating in markets of constant rapid technological, political, economic, legal and environmental change. All of these changes are against a backdrop of social developmental requirements as espoused in our National Developmental Plan of improving people's living standard and their quality of life through the creation of a sound economy that delivers descent jobs. To achieve this, the presence of enabling policies, a cohesive political agenda, stable energy resources, a skilled workforce, a buoyant local economy, access to information and other technological platforms must be in place.

In a complex, dynamic and capital intensive energy and resources industry where the CEF Group of Companies operates with its broad mandate of ensuring security of energy supply, the impact of the business turbulence as a result of global forces on our business has been felt. This is an industry that is characterised by long lead times, sophisticated oligopolistic global players that have efficient integrated business models with massive scale and relevance which is supported by a very strong balance sheet.

The slowing global economy has resulted in a dramatic 60% fall in global oil prices due to access supply where growth in global oil demand is expected to ease around 1.2 mb/d in 2016, below 2015's 1.8 mb/d expansion creating a domino effect in the local and global industry. The commodities market has also not been spared from the economic challenges with the global mining industry taking a serious knock with mining bearing the brunt. The local and global industry has seen a reduction in exploration and production activities, squeeze in margins, impact on foreign reserve in those countries that rely on oil and other commodity exports prompting them to seek support from global financial institutions and the International Monetary Fund, job losses, deferring of capital projects worth $120bn in 2015 in the oil and gas space with mining following suite, shrinking of associated support industries and the consolidation of business operations all fuelling slow economic recovery.

An unstable global economic climate and a languid local economy create the perfect storm for fuelling business uncertainty making the objective of attaining shareholder value creation much more difficult for both the CEF Group entity boards and their management. We have experienced serious challenges from our biggest subsidiary PetroSA as a result of the current low oil price market where we have seen revenue reducing by 13% and whilst operating costs remain high. These adverse business results have also been compounded by the complexity of the oil and gas business operations and long lead times which do not necessary translate to immediate return on investment. Both the **CEF** and **PetroSA** Boards initiated a turnaround strategy in July 2015 with a view of stabilising PetroSA and finding long term turnaround solution for the organisation. The recommendations of the turnaround strategy are being actively discussed by the boards with a view of implementing these as soon as possible.

The reduction in exploration activities has meant that there is little activity on our coastal region from an exploration perspective resulting in reduced income to **PASA**, our licensing and promotion agency which relies on income from renewed exploration activities on our shores. Our mining business activities through **AEFMC** which is also capital intensive improved its performance due to the increased sales volumes to Eskom. We have committed towards significant investments totalling more than R1 billion in the renewables space through our **Energy Projects Division (EPD)** and this is one area that excites me in terms of potential and the immediate impact we can plan stimulating the economy and contributing to the energy mix. **iGas** which is our gas and gas infrastructure subsidiary continues to churn great results and through our strategic partnership in ROMPCO and much more will be expected out of iGas in the coming financial year. **SFF** which maintains our strategic stocks has had a fantastic financial year as a result of the low price market with a demand for storage as investors and traders store product waiting for the oil price to improve.

"It gives me great pleasure to present CEF Group's Annual Report for the year ended 31 March 2016 to our shareholder the Honourable Minister of Energy and key stakeholders."

Strategy Definition and Relevance

In recognition of our dynamic business environment the Group has embarked on strategy called Vision 2025 as strategic response to the current and emerging challenges and opportunities. The essence of the Vision 2025 strategy is to stabilise the Group and give it a much sharper focus in a competitive landscape, foster subsidiary alignment and better use of critical resources, improve governance and core skills, improve business operations and grow project execution whilst growing our margin. It is also about improving stakeholder management, creation of a culture of excellence and accountability, improve leadership capabilities and ultimately improve shareholder value through growth so as to play a more meaningful and relevant role in the South African economy as the implementing agency and strategic partner of the Department of Energy by the year 2025.

The strategy is delivered in three phases of **(1) Stabilise (2) Grow and (3) Lead**. This is a long term business strategy that requires focus, dedication and patience. During November and December 2015, the Group executives from the CEF subsidiaries met to review the business strategy against prevailing market conditions to further enhance it and improve ownership of the strategy across the Group as part of the corporate planning cycle activities. This was an insightful session as the Group got to grips with a number of operational, policy, governance and capability challenges preventing effective strategy delivery and finding tactical solutions for moving the Group forward.

Albeit the many strategic challenges, the Group's **current** business model showed its resilience in the past year in the face of extremely challenging global oil markets and poor economic conditions. In this dynamic business environment the Group must **adapt**, be **agile** and **focused** to changing market dynamics by constantly introducing forward-thinking **commercially viable energy innovations** to ensure the sustainability of the business. This will **require changes to the current business model** and consolidation of business activities so as to de-risk the Group and ensure that we create a business that can withstand many economic shocks, agile enough to take advantage of new business opportunities through efficiency and improved business execution in a focused manner. These are components of our Vision 2025 strategy aspirations.

Business Results and Key Focus Areas

In a difficult trading business environment impacted by low oil and commodity prices; shrinking market share, the Group has done relatively well to maintain its total comprehensive income for year at R258 million in the current climate, despite the lower gross margin, high operating costs as a result of reduced production and sales volumes and the unfavourable exchange rate that had an impact on feedstock substitutes, other imported finished products and components for the period. The Group continues to deal with the issue of abandonment liability and the long term sustainability solution for the GTL Refinery as reported in the previous year's financial statements. Great progress is being made on both fronts.

With reducing cash balances within the Group and constrained growth prospects, capital management has become the priority for the board and the executives to ensure that limited funds are efficiently and effectively utilised. The strategic focus is reducing costs, both fixed and variable, improve efficiency and in investing in the short to longer-term initiatives that will deliver long term growth of the business. Over the next five years the Group aim at strengthening its balance sheet, preserve cash and invest business stabilisation initiatives that will give us growth in the long term and therefore improve shareholder value.

Amid a year of challenging business performance the Group's investment case under the "Stabilize" and 'Grow" strategy components remains paramount as the Group trades out of very difficult trading environment and becomes strong and commercially viable. The trading and financial performance for the 2015 period is covered in the Chief Executive Officer's Report and in the Chief Financial Officer's Report.

Chairman's Statement (continued)

Building leadership capability and CEO succession planning

At the core of our Vision 2025 delivery framework in the presence of leadership core capabilities that will galvanise the organisation, lead from the front, improve business performance, build a culture of excellence and create shareholder value. It is thus that a number of initiatives in the organisation are afoot to capacitate the Group CEO and PetroSA CEO and SFF CEO roles. We hope to make appointments in these key positions very soon and return the business to stability and consistency.

Board of directors

The increase in business complexity as a result of a number internal and external forces have made the role of directors much more critical in assisting organisations navigate through a perilous business landscape.

As a board we endeavour to achieve a balance between governance and strategic guidance that brings about innovation to ensure the Group continues to be sustainable and commercially viable so as to deliver value to shareholder while meeting its statutory, regulatory and corporate citizenship obligations.

Our board is strong and experienced with diverse and relevant business expertise, most notably in the areas of finance, oil and gas, mining, alternative energy, governance and human resources with the view of strengthening the board with future exploration and production skills.

Four changes were announced to the board during the reporting period

- Dr S Mthembi-Mahanyele, who was appointed to the Group in July 2011 and was the Non-Executive Chairman and served in the Board Human Resource Committee, Governance and Nomination Committee and SFF Non Executive Chairperson resigned in October 2015.
- Mr R Boqo who was appointed to the Group in 2014 resigned in 2015 owing to his business commitments in the City of Johannesburg

We welcome new Board Members appointed during the reporting period

- Dr X Mkhwanazi was appointed as an independent Non-Executive Chairperson of the CEF Group in December 2015 replacing Dr Mthembi-Mahanyele.
- Mr MG Moagi was appointed as a Non-Executive member in December 2015 and the BARC Chairperson in January 2016 and also serves as a Chairperson for the AEMFC SOC Ltd board, a subsidiary of CEF SOC Ltd.
- Adv L Mtunzi was appointed as Non-Executive Member
- Ms M Molope was appointed as a Non-Executive Member

Other existing Board Members

- Mr T Maqubela (DoE representative)
- Mr G Bezuidenhoudt (DoE representative)
- Mr T Sethosa (Alternate DoE representative)
- Mr R Jawoodeen who was appointed to the Group in July 2011 as Non-Executive Board Member and also served on the Human Resource Committee was re-appointed for a further three year term from 1 March 2014 as well being appointed as SFF Chairperson in January 2016.

Subsequent events

On 14th July 2016, the Minister of Energy, Ms Tina Joemat-Pettersson, MP, convened a meeting with the CEF Group. In the meeting, the Minister raised specific concerns around the Strategic Fuel Fund (SFF) and directed that a thorough review be conducted of SFF contracts from the 2014/15 financial year to date. This review will include all contracts and transactions entered into in terms of the Ministerial Directive Issued to the SFF, inclusive of the Strategic Stock Rotation and Storage and Leasing Agreements concluded. This process will establish whether the transactions were implemented in accordance with conditions as set out in Ministerial Directive, and whether these followed due process and were above board. Any lapse in governance process or irregular actions will be investigated.

Acknowledgements

Thank you to the management team under the leadership of the Group Interim CEO Mr Siphamandla Mthethwa who have again led by example in difficult conditions. I must also extend my gratitude to leadership team at PetroSA who have weathered a difficult storm and remain committed to turning the organisation around, the leadership team at PASA for dealing with prolonged period of uncertainty, the leadership team at SFF who have gone through many leadership changes, AEFMC who are doing their best in depressed commodities market and iGas flying the flag in Mozambique. To all our dedicated employees across the Group, my fellow directors who provide valuable guidance and business insight, thank you all for your continued support.

Thank you to our ultimate Shareholder, the Honourable Minister Joemat-Petterssen, other external stakeholders, customers, suppliers, industry regulators and advisers, for your ongoing support. Looking ahead, we remain committed and focused to building and strengthening our businesses across emerging markets. Let us continue to strive, to seek, to find, and not to yield as we work hard to build a strong organisation that is relevant, sustainable and commercially viable.

Dr. X Mkhwanazi
Group Chairperson

Operating Performance

SECTION 5

The Group Executive Structure

Mr. SK Mthethwa
Acting CEO and CFO
Age: 41
Qualifications:
BCom, B.Compt (Hons), HDip (Acc CTA), CA(SA)

Area of Expertise:
Executive Finance Management, Project Finance, Treasury, Credit Risk Management, Tax, and Planning and Strategy

Mr. L Makhuba
Acting CFO
Age: 35
Qualifications:
BCom, BCom (Hons)/ CTA, CA(SA)

Area of Expertise:
Valuations & Deal structuring, Portfolio Management, Project Development, and Financial Reporting

Mr. T Khanyile
Chief Audit Executive
Age: 52
Qualifications:
BCom, CIA

Area of Expertise:
Internal Audit, Risk Management, and Governance

Mr. A Haffejee
Company Secretary
Age: 44
Qualifications:
BProc, ACIS, Admitted Attorney

Area of Expertise:
Corporate Governance, Legal, and Contracts

Ms. M Seroke
GM Corporate Services
Age: 45
Qualifications:
BSoc.Sci

Area of Expertise:
Human Resources Management, Business Strategy, Development Organisational Design, Development Change Management, and Talent Management

Dr. CJ Cooper
Energy Advisor
Age: 60
Qualifications: BSc, BSc (Hons), DPhil (Energy Studies)

Area of Expertise:
Holistic Energy Sector Assessment, and Energy Efficiency

Dr. PC Masangane
GM Energy Projects Division
Age: 44
Qualifications: BSc, MBA, PhD (Chemistry)

Area of Expertise:
Renewable Energy Project Development, Structuring and Financing

Mr. S Maluleke
IT Manager
Age: 46
Qualifications:
BSc, Postgrad Diploma (Business Management), Advanced Diploma (Project Management)

Area of Expertise:
IT Strategic Planning Project , Programme & Portfolio Management, IT Service Management, Systems Development, Life cycle and IT Operations

Dr. M de Pontes
COO: iGas
Age: 64
Qualifications: BSc (Hons), MSc (Chem), PhD (Engineering)

Area of Expertise:
Gas Infrastructure, Project Development of Gas transmission pipelines, Development of LNG regasification, Project Developement of new process technologies, Process Engineer catalyst, development and Production

Mr. V Khulu
Stakeholder Advisory Manager
Age: 44
Qualifications: BSc, Postgrad Diploma (Marketing & Supply Chain Management), MBL

Area of Expertise:
Marketing and Communication, Commercial and Financial Modelling, Energy Advisory, Audit, and Stakeholder Management

Group Chief Executive's Report

This report should be read in conjunction with the detailed annual financial statements presented on pages 110 to 208. The primary mandate of the CEF Group is to develop energy solutions to meet the needs of South Africa, the Southern African Development Community and the sub-Saharan region – including oil, gas, electrical power, low-smoke fuels, biomass and other alternative energy sources. The Group also manages the operation and development of the oil and gas assets of the South African government. 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.

Financial performance

The 2015/16 financial year was challenging for the CEF Group of Companies, especially given the weak global and local economy, the feedstock constraints at the GTL refinery in Mossel Bay and the significant decline in oil prices during the second half of the financial year. ***Despite all these pressures we are pleased to report a 12% increase in revenue and R7, 4 billion*** was cash generated from operations. The improvement was largely due to the increase in demand for crude storage at our Saldanha Terminal, rotation of the strategic stocks, improved performance of Rompco (an associate which owns gas pipeline from Mozambique) and increased volume of coal sales to Eskom.

The Group continues to manage costs. Normalised operating costs increased to R3.2 billion (R1, 8 billion in 2014/15). The benefits of PetroSAs Billion Plus programme are still being realised. Unfortunately we had to impair the GTL facility by R254 Million due to the deterioration in the ZAR/US$ exchange rate and a significant portion relates to the decommissioning costs which are denominated in US$. The cash balances for the Group improved, by the rotation of Strategic Stock, to R16, 1 billion compared to R10, 3 billion in 2014/15.

Non-financial performance

The primary mandate of the CEF Group is essentially security of supply, and significant progress was made in this regard. Two significant investments of just over R1 billion in the renewable energy (electricity) sector were approved by the Board and one still awaits the approval by Minister of Energy. These will support government policy of diversifying the energy mix in the country.

We are pleased to report the construction of the second loop line by Rompco progressed well during the year, all contracts have been signed, financing for the project finalised and work has started on site. Once completed this pipeline will supply an additional 67 million GJ of gas from Mozambique to South Africa.

The state mining company AEFMC continues to grow with an increased volume of coal sales to Eskom to 1, 5 million tonnes (1 million tonnes in 2014/15).

The declining gas reserves at our Mossel Bay facility contributed to the non-achievement of the target of indigenous production by PetroSA.

We remain a responsible corporate citizen with an exceptional record of environmental performance. It is however with great sadness that we report a fatality at our Mossel Bay facility. We have already implemented corrective measures to prevent similar incidents from happening again.

Governance and the Group structures

Given the complex and strategic nature of the Group, we are exposed to different strategic challenges and risks across the value chain that impact on the business in various ways as detailed in the risk strategic profile section of this report. Governance, operating environment, commercial viability and sustainability are the key essential pillars our stakeholders should measure us on. The Group's business activities is conducted by the boards with integrity, applying appropriate corporate governance policies and principles with a view that governance extends beyond compliance with legislation, regulation and voluntary codes.

We continue to strengthen a culture of good governance and improved monitoring and evaluation across the business by adopting sound governance principles which are aligned to the Group's business strategic intent and values. A number of the CEF Group subsidiaries are governed by independent boards of directors who bring in diversity and experience and fuse these with suitable governance practices. The respective board committees also comply with these requirements. A disciplined reporting structure ensures that CEF SOC Ltd as the holding company board is

"Dear Stakeholders, I am pleased to present this annual report to you, our stakeholders. It outlines our performance against set targets, key achievements for the year, the challenges experienced, governance matters, the strategic direction going forward, as well as the consolidated annual financial statements."

informed of subsidiary activities on regular basis. Detailed strategies and business plans, covering the financial and non-financial elements of operations, are regularly reviewed and the executives have set a number of strategic management forums to improve alignment and hold each other accountable for business performance. Our remuneration standards are also based on performance against specified internal targets (financial and operational), linked to the broader strategic objectives of the Group.

To continuously ensue that the Group's governance practices are robust, policies and processes are constantly reviewed by management to align with operational changes, emerging best practices and to pro-actively deal with any potential risk or opportunities. During the period the Group has been working diligently to harmonise policies across the Group, find opportunities for reducing costs and ensure seamless movement of talent across the Group from a competitive advantage perspective. This is being led by our Human Capital Committee.

Into the future

The Group will pursue the implementation of Vision 2025 which has the desired outcome of a sustainable CEF Group of Companies. During the 2015/16 financial year we finalised the restructuring of CEF (the holding company) and I believe we now have the requisite skills to monitor and provide oversight of the Group. The focus of the 2016/17 financial year will be on the following:

- Development of Solar Park, the project will generate 1500MW of electricity once completed;
- Completion of the second loop gas pipeline by Rompco;
- Continue with development work on bringing more gas into the country through LNG;
- Review of the governance structures with the intention to align where necessary; and
- Support the government efforts to streamline the state owned entities.

In the long term once the Group has been stabilised, the focus will be the implementation of projects which support government policy on security of supply and diversification of the country's energy mix.

Appreciation

I express my utmost gratitude to the Executive Management of the Group and all employees for their overwhelming commitment to the implementation of our objectives during the challenging financial year under review. I thank the CEF Group Board of Directors for their support in ensuring that we remain committed to delivering on our mandate as promised to our Shareholder. My gratitude also goes to our Shareholder, represented by the Minister of Energy, for the guidance during these challenging times. I would like to recognise the Portfolio Committee on Energy for the appreciation of and continued interest in the role and activities of the CEF Group of Companies.

Mr. S Mthethwa
Interim Group Chief Executive Officer

Group Performance Summary

Strategic Pillar	Strategic Objective	Narration	Results
Commercial Viability	Financial sustainability	All three Financial targets were showing significant year on year improvement:	Achieved (green)
	Contribute to Security of energy supply	Two out of the five targets were not met due to difficult operating environment (indigenous feedstock production) & stock rotation requirements	Partially completed (yellow)
Governance	Group Governance	Target achieved the CEF Group received an unqualified report	Achieved (green)
Development	Human Resources	Target partially met as meeting the HR targets was hampered by a number role freeze but the Group exceeded BBBEE Spend and Enterprise development	Achieved (green)
Operating Environment	Improve Safety, Health & Environmental Compliance	Target not met, there was one fatality at PetroSA on 26 September 2015	Not achieved (red)

Achieved (3)
Partially completed (2)
Not achieved (0)

Commitment to our Stakeholders

CEF appreciates that stakeholders' perceptions affect a company's reputation and that our actions as CEF Group impact on our stakeholders. As a result, we proactively deal with stakeholder relationships and we ensure the equitable treatment of stakeholders.

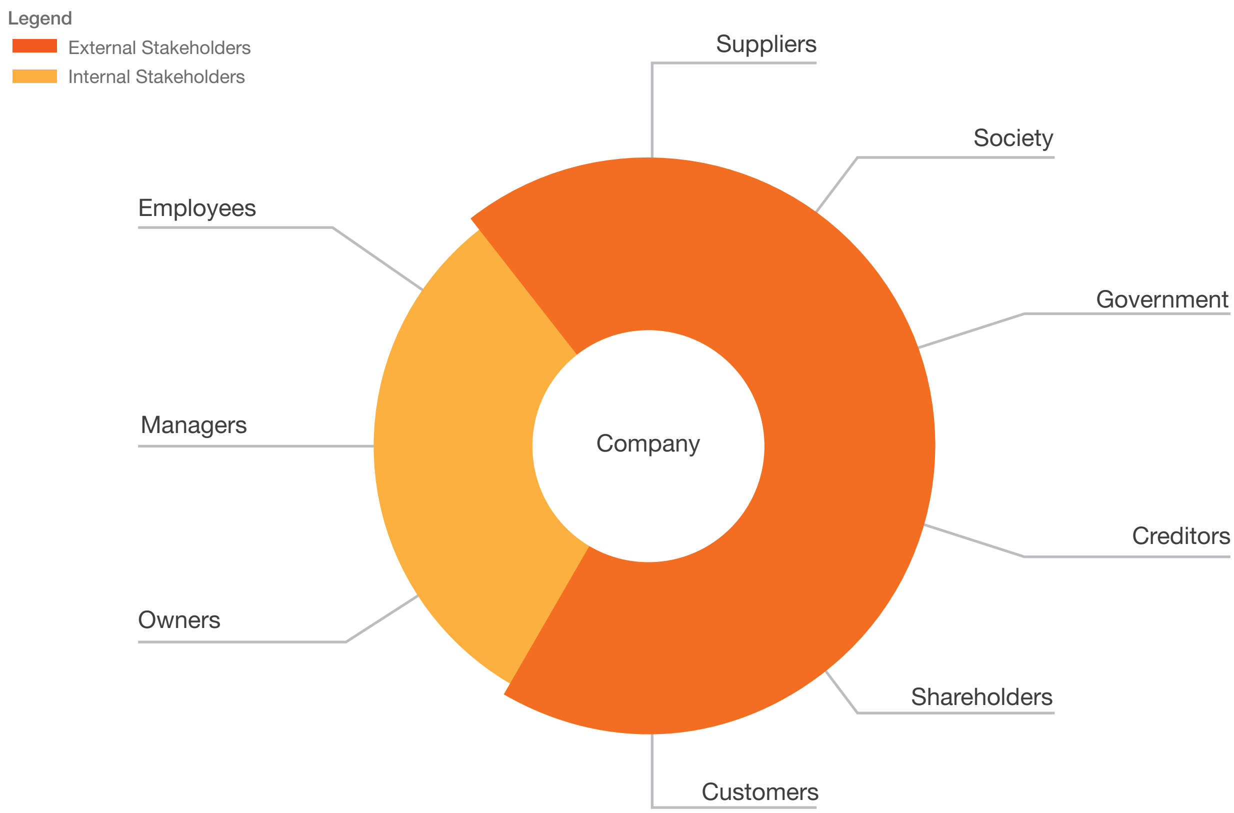
We strive to achieve the appropriate balance between our various stakeholder groupings in the best interests of the company. In managing our stakeholder relationships, CEF Group's business is underpinned by a set of core values which are upheld and cherished by all our employees. These values are: Sustainability, Integrity, Professionalism, Respect and Communication.

To the CEF Group, stakeholder trust and confidence has to be maintained at all times. We have accordingly engaged the stakeholders mentioned above during the course of 2015/16 financial year;

CEF's commitment to being a responsible corporate citizen drives our support of the development of the communities in which we operate through social investment and local economic development projects.

PetroSA has built the R8,7 Million Siyanithanda Center for Children living with Disabilities. The Centre is focused on community based care for children with severe and profound physical and intellectual disabilities in order to improve the quality of their lives. It is a 450 square metre facility constituted of a classroom space, a hall, consultation rooms, office space (reception, office and other administrative facilities), two sick bays, kitchen area, internal and external play areas, and a secured parking and drop off zones. It is a state of the art facility. In the empowerment of the local business community, the Contractor appointed was from the Southern Cape, George municipality and all three main sub-contractors were recruited locally with 84% labour residing in KwaNonqaba community. The practical completion certificate was received in March 2016.

Figure 1: Stakeholders



AEMFC 's operations are guided by the mandatory provisions of the MPRDA whose regulatory tenets include complying with the Social and Labour Plan approved by the Department of Mineral Resources prior to the approval of the Mining Right including employment of youth from Phola Township. In addition to this compliance, the company has provided the Phola Township community - which is the closest to its operations - with improvements in social and other infrastructure and services, being roads and, refurbishment of municipal buildings – old age home, crèche, schools etc. We also continue to support the local law enforcement agencies in their quest to combat crime through various donations. Local business benefits daily through the provision of mine transport, landscaping, security and construction services (including building maintenance). All business opportunities are guided by the local business forum.

SFF Saldanha is a committed and participating "contributing partner" and forum member in The Saldanha Bay Water Quality Forum Trust, (SBWQFT) since its inauguration in 1999. The SBWQFT in conjunction with the Department of Water Affairs, the Department of Environmental Affairs, the local municipality and all major industries has developed and implemented an integrated marine monitoring program for the Saldanha Bay and Langebaan Lagoon marine ecosystem.

CEF has continuously engaged with the shareholder and different spheres of government including National Treasury to ensure alignment of company objectives to those of the shareholder. We have sought clarity and made comments on the different proposed legislations including the AEMFC Bill and review of the MPRDA.

We are engaging on an ongoing basis on the development of Shale Gas in South Africa which we see as a game changer that will help ensure security of supply of both liquid fuels and power. We have been part of the discussions on the bio-fuels regulations which seeks to reduce harmful toxins from transport fuels emissions.

We have been involved in applying for and negotiations with the UN on extending the Continental Shelf of South Africa for the future generations of this country to benefit from the resources in our continental shelf. We have engaged the Department of Mineral Resources together with National Treasury on the abandonment liability provisioning.

We have timeously gave responses to all Parliamentary questions and queries ensuring that government is able to do its oversight role on the entire industry and ourselves with ease.

Under the Human Capital Strategic Pillar of Engaged and High Caliber employees, the organisation has continued to interact, inform and involve employees on topics around business performance through various employee forums.

Through regular communication and consultations with Labour Unions on issues impacting their constituencies, the relationship has strengthened. As a result, the organisation has experienced minimal labour related disputes and remains stable.

We have responded to media queries and afforded the media airtime to openly discuss issues as requested. We have complied with the provisions of the Promotion of Access to Information Act, 2000 in relation to any requests for Information.

CEF Group will strive to create and maintain sustainable, harmonious relationships with our stakeholders, both internal and external.

Overview of the Group Risks

Risk Management Philosophy

CEF is committed to the implementation of Enterprise Risk Management (ERM). The policy and framework of ERM provide processes of risk management that allow the Group to identify, prioritise and effectively manage its material risks. By proactively identifying risks and opportunities, the Group is able to protect its assets and create value for its stakeholders.

The CEF Board ensures that there are appropriate resources to manage the risk arising from running our operations. In the current reporting year continuous improvements have been implemented by ensuring that a dedicated Risk and Compliance function is generated from Head Office. This initiative aims to strengthen the monitoring of risk across the Group while subsidiaries still keep their respective dedicated resources for risk management.

Our comprehensive risk management processes involves identifying, prioritising, managing and mitigating the risks associated with each of our operations. We intend to embed risk awareness, control and compliance in all our day-to-day activities as we continue with our regular business.

Our approach to risk management

A Board-approved Risk Management Policy guides our approach to risk management. During the year, we continued to evolve our risk management approach, to ensure flexibility and relevance to CEF's business needs in a constantly changing operating environment.

We continued to align our processes and standards to international best practices where applicable, such as ISO 31000, Public Sector Risk Management Framework and King III report on Corporate Governance. Consultation with and consideration of the expectations of key stakeholder groups were further embedded in our risk management approach. We increased our drive to ensure an appropriate balance between the management of internal, strategic and external risks.

In terms of our integrated approach to risk management we consistently assess, manage and report on all significant risks and related mitigation plans consistently, in accordance with our defined risk reporting protocol. As part of our journey to becoming more proactive and responsive, we strive to develop 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. We continue integrating the group risk management approach with the combined assurance model, to drive integration across risk-related functions such as Safety, Health & Environment (SHE), Procurement, Compliance, Internal Audit and Group Finance. In the coming year we intend to continue prioritising key risk assessment focus areas based on materiality, in relation to CEF's strategy, sustainability issues and shareholder value drivers.

Governance of risk management

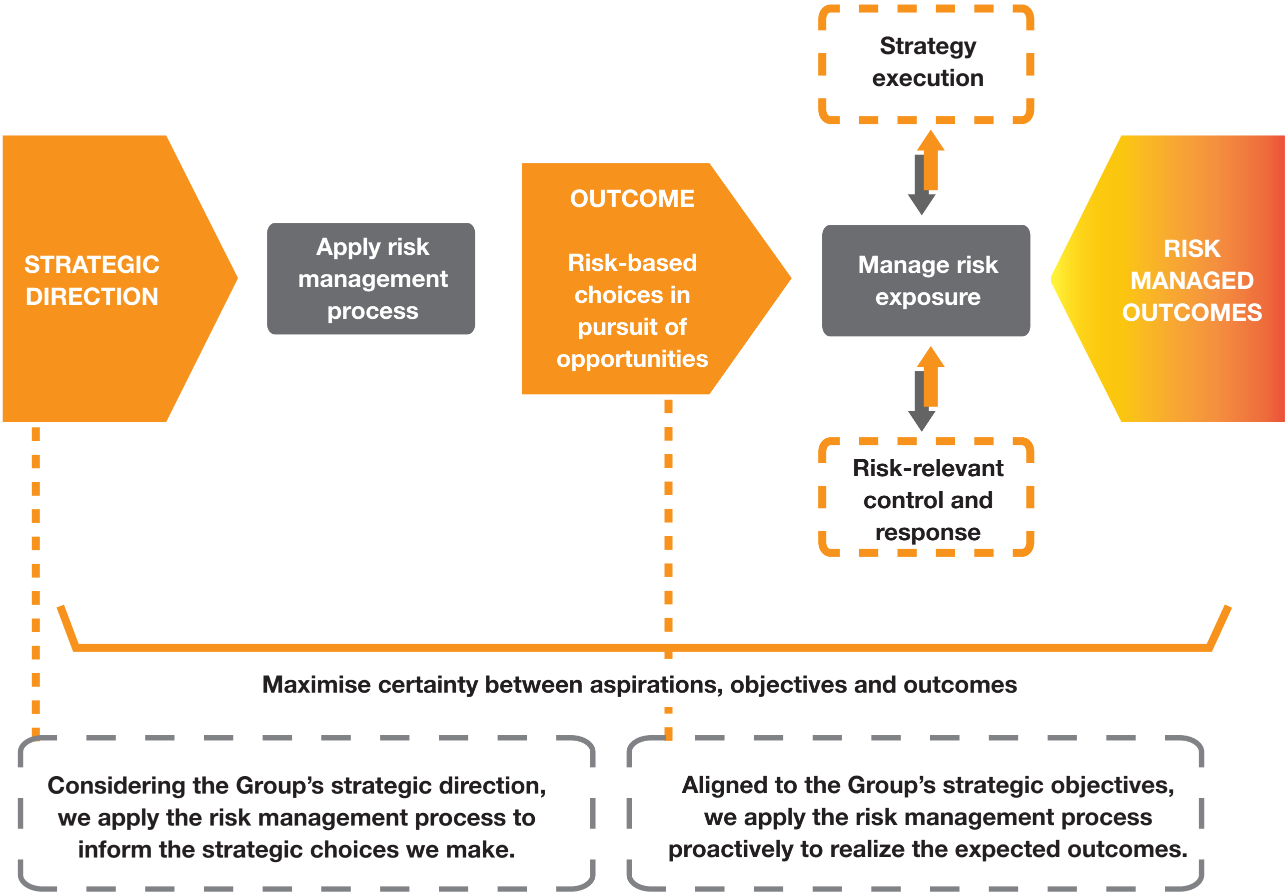
Our Board of directors has the ultimate responsibility for risk management in the organisation, and oversees the enterprise risk management process at CEF. The Board's Audit and Risk Committee works closely with management to ensure that the risk management process is effective as well as compliant with the relevant standards and governance requirements.

The leaders of Subsidiaries, Business Unit, and Group Function are responsible and accountable for the management of risks in their areas and may delegate specific responsibilities appropriately. Oversight of risk management at each subsidiary level takes place through the relevant Executive Committees.

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.

Responsibility and accountability for CEF's risk management process resides with the CEF Group Risk and Compliance Manager. We strive to align the governance and reporting of Risk and Compliance department to best practices. Our integrated approach as highlighted in Figure 2 below, aligns all risk identified with the strategic objectives of the organisation. This process seeks to achieve an appropriate balance between strategy, risk, opportunities and reward in our operations, taking cognizance of all stakeholders' interests.

Figure 1: Risk and Opportunity Management



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

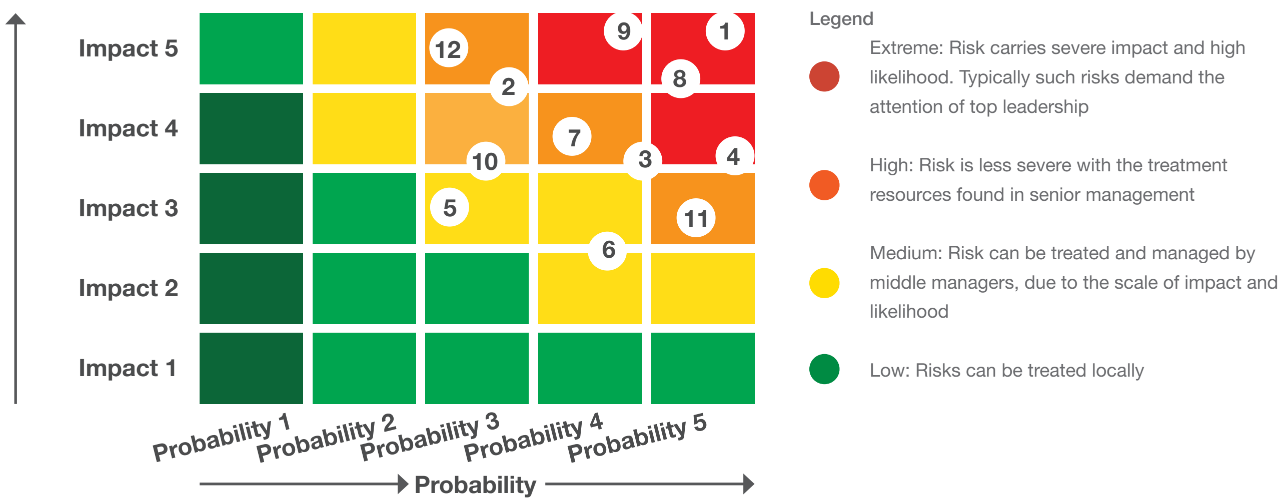
- Strategic risks or opportunities that could significantly affect CEF's ability to implement its strategy, with potential for mitigation if they are understood and proactively addressed;
- Operational risks or opportunities that are managed daily through implementing policies and process controls;
-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

Overview of the Group Risks (continued)

CEF's strategic risk profile is generated from CEF ERM Framework, based on ISO 31000, Public Sector Risk Management Framework and King III report on Corporate Governance. A strategic risk profile is generated and updated regularly for emerging risks. The output of the risk assessment is held in risk registers and risk treatment plans. Risks are allocated to specific risk owners for monitoring and review. The risk treatment actions are allocated to task owners to track and monitor completion thereof.

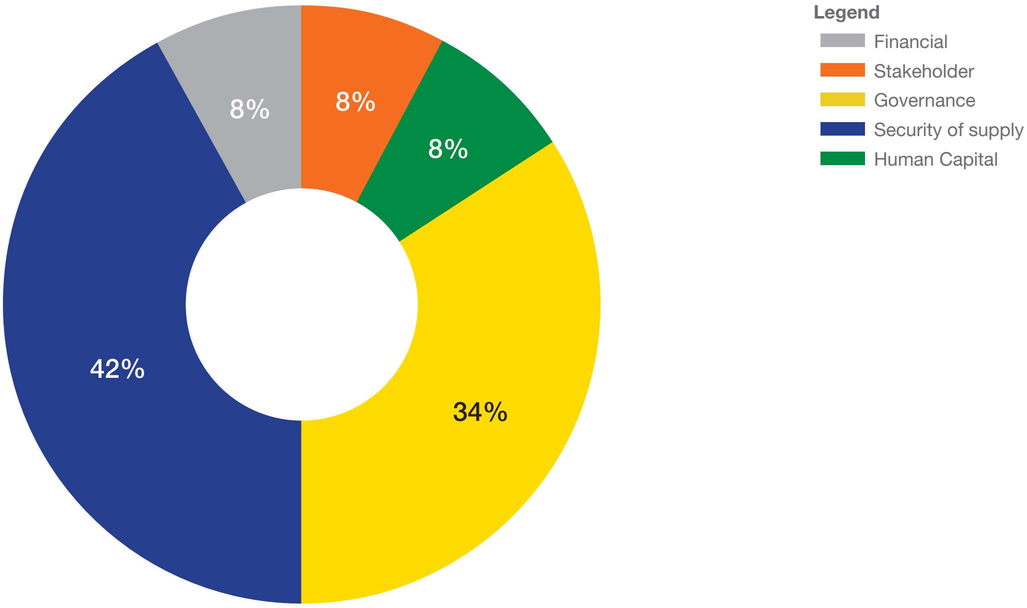
We have used our methodology to identify key risk to our strategic objectives as depicted below. There were twelve (12) Group strategic risks identified. Each risk is rated in accordance with the Integrated Risk Management (IRM) Methodology.

Figure 2: Key Strategic Risks



CEF's structured risk management process, which is aligned to industry standards, categorises each risk identified into strategic pillars, which include Financial, Stakeholder management, Corporate Governance, Security of supply and Human Capital objectives. This process is rolled out across the Group, and risk profiles are developed at business unit, functional, process and project levels.

Figure 3: Objectives linked to Risks



Figures 2 and 3 highlight key strategic risks to the organisation and their levels of exposure, although Figure 2 focuses on grouping the identified risk into each strategic objective for the year.

The pillars of Security of supply and Governance at 42% and 34% respectively, were the objectives most severely impacted by various risks, while the Financial, Human capital and Stakeholder pillars shared the same impact of 8% each. CEF Group Management have identified five (5) extreme risk scenarios impacting various objectives with the following extreme residual risks identified:

1. Inability to maintain going concern status
2. Inappropriate/inefficient use of capital
3. Inability to capture synergies
4. Inability to meet supply targets for fuel (6.7 million barrels of product)
5. Inability to maintain 10.3m barrels at all times.

In compliance with the Legislation, Corporate Governance and Standards of risk management process, CEF has identified the above strategic risks and has put in place mitigating actions to address these risks and to report on the respective controls regularly.

Overview of the Group Risks (continued)

Risk	Treatment plans
Inability to maintain going concern status	1. Implementation of PetroSA turnaround recommendations 2. Develop and implement a Group Operating Model and diversification strategy 3. Obtain strategic partnerships that do not require Group Balance Sheet 4. Develop strategy to deal with Abandonment Liability impact on the Group 5. Develop Group funding plan
Inefficient use of capital	1. PAMC to review and prioritise Group projects 2. Develop and implement a Group investment policy and procedure (Gated approach) 3. Prioritise investment into Brownfields projects and other strategic partnerships in viable projects 4. Review and improve the effectiveness of the PAMC
Inability to capture synergies	1. Sharing of resources across the Group. 2. Develop and implement a Group Operating Model to leverage on synergies 3. Review, develop and obtain approval for appropriate working governance structures 4. Inculcate a Group-wide management mind-set 5. Establish a Board Forum to deal with issues of misalignment
Inability to meet supply targets for fuel (6.7 million barrels of product)	1. Implementation of the feasibility survival Options for the feedstock. 2. Implement drilling assurance process 3. Revive existing wells to maintain production profiles 4. Increase condensate processing to 18000bbl. per day Increase efficiencies in trading department (Import finished product)
Inability to maintain 10.3m barrels	1. Develop and implement a strategic stock replenishment programme to replace stock shortfall and to take advantage of low oil prices

Enterprise Risk Management (ERM) achievements in 2016 and Future plans

CEF's risk management plan for 2015-2017 financial year details the ERM objectives, associated activities and initiatives. 2015-2017 risk management plans are to:

- Introduce and stabilise 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 enable the organisation to effectively manage risk.
- ERM focus areas with the planned deliverables were implemented. Risk Management continued to provide guidance and support to management for the long-term sustainability of the Group.
- The ERM plan for the year achieved implementation of key ERM deliverables at 75%, while 19% were still in progress and have been carried over to the 2016/17 ERM plan. 6% could not be achieved. It is important to note that all those in progress and not-achieved risk deliverables will be carried in the next financial year.

During the year under review we addressed the stabilising and standardisation of processes by:

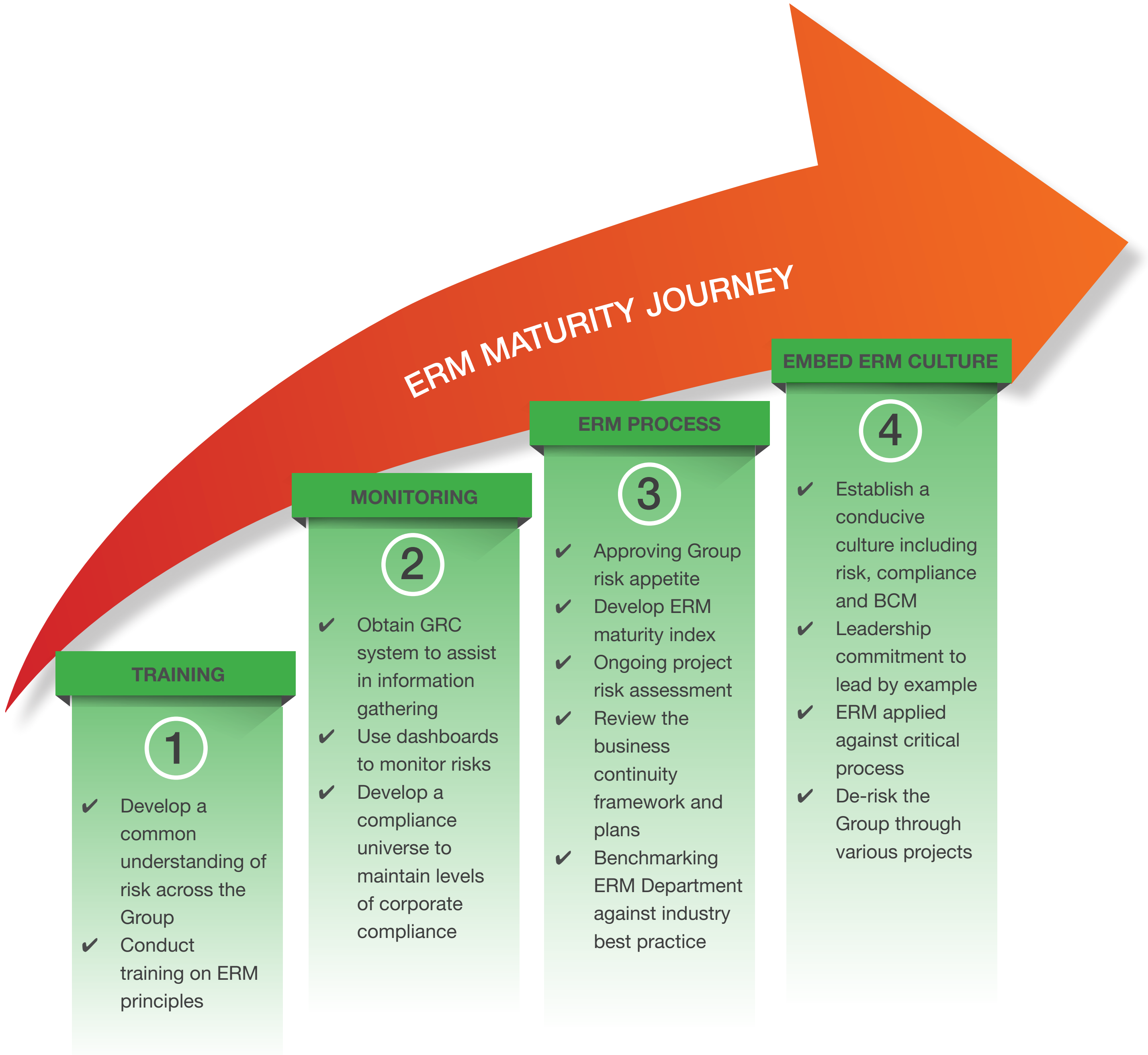
- Enhancing our risk governance structures through the establishment of Group Risk Forum and documenting the terms of reference for the forum.
- Developing a ERM training manual and initiating rollout to employees within the Group
- Standardising the reporting template within the Group.
- Developing a compliance policy for AEMFC.

- Approving a Group strategic risk register and cascading it into business operations
- Approving a risk appetite amount for PetroSA and cascading it into business units

ERM maturity journey and focus for the new financial year

Risk Management is an essential part of CEF's operations, however we understand that if it is not properly managed it can hamper growth. Therefore we strive 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 Maturity Journey and ERM Plans operates within an integrated risk management approach, ensuring that the appropriate processes are used to address all risks across the Group.



Financial Review

SECTION 6

Group Chief Financial Officer's Report

Overview of 2015/16 financial year

During the 2015/16 financial year, the CEF Group reported a total comprehensive income of R258 million versus a loss of R14.2billion for 2014/15 financial year. The increase in net comprehensive income of R14.5 billion is due to an increase in revenue of R2.2 billion, decrease in costs of R11.4 billion and an increase in income from associates of R45 million. A net loss for the year of R191 million was reported as a result of application of provisions of Section 3(A)(c) of the CEF Act, which requires a transfer of the R2,1 billion profit from the sale of Strategic Stock to EQF and this has been recorded as an expense for the Group.

The revenue increase of R2.2 billion is due to rotation of strategic stock which generated a revenue of R4.1 billion; increase in rental income of R406 million; increase in coal sales which resulted in additional revenue of R141 million. The positive variance in revenue was negatively affected by a decrease in revenue from PetroSA of R2.3 billion, which is due to lower oil price and lower production volume due to low gas volume. The basic fuel price, the price at which PetroSA earn from sale of their products, decreased by 27% during the financial year. The costs decreased by R11.4 billion. This decrease is due to a lower impairment charge that was recognised during the year. The impairment charge for 2015/16 is R254 million while the impairment charge for 2014/15 was R14.4 billion. Further to the lower impairment charge, the group reduced costs by R922 million and this reduction is mainly from PetroSA. The Group impairment on financial assets of R38.3 million (2015: R79.2 million) was recognised during the year.

The impairment of R254 million is due to weakening of the exchange rate, which resulted in an increase value of the abandonment liability. The abandonment liability is capitalized into the value of the assets and when an impairment test was done at year end on the revised value an impairment had to be recognized in the financial statements.

Financial performance

a. Return on equity

The Group earned a 2% return on equity during the 2015/16 financial year compared to a loss on equity of 49%.The improvement on loss on equity is due to a decrease in losses, which is attributable to a lower impairment charge and an increase on profit from the disposal of strategic stock.

b. Solvency

The Group has liabilities to the total value of R20 billion. Included is R11.6 billion which pertains to decommissioning and rehabilitation provisions. The external loans portion of the liability is R1.6 billion. The gearing ratio for the group is low. When the Group solvency is analysed from the perspective that total assets must exceed liabilities, the Group financial position is still robust because the assets exceed liabilities by R15 billion.

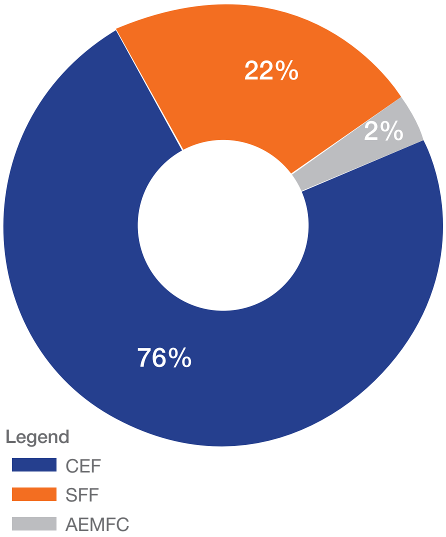
c. Liquidity

The group liquidity ratio is 3:1. Our current assets can settle our short term debt 3 times. If the rehabilitation provision is classified as current liability (because the law stipulates that the rehabilitation provision must be funded), the liquidity becomes 1.17:1. Technically CEF Group can settle the rehabilitation provision.

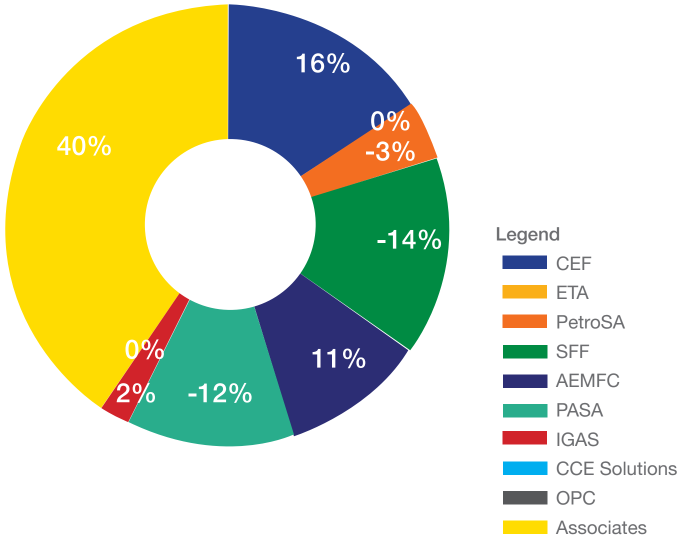
Business units financial performance

The Group generated revenue of R20.7 billion during the 2015/16 financial. 76% of revenue is derived from PetroSA which generated a revenue of R15.7 billion. 22% of the group revenue was generated by SFF, which generated a revenue of R4.5billion. R4.1 billion of the SFF revenue was derived from the sale of strategic stock. The other entities generated the remaining of the group revenue. The biggest contributor amongst the smallest entities is African Exploration which generated a revenue of R376 million. The group generated a comprehensive income of R258 million. 40% of the comprehensive income stems from equity accounting for associates which resulted into income of R305 million. The SFF profit and expense of R2.1 billion from the sale of strategic stock is highly unlikely to recur in the future. PetroSA generated a comprehensive loss of R0, 764 million. Despite the comprehensive loss of R0, 764 million, PetroSA generated R2.5 billion cash from operations. AEFMC and CEF company generated a combined profit of R202 million. IGAS generated a profit of R135 million before elimination of the dividend income from associate.

Revenue



Total Comprehensive Income



Cash flow generation and utilisation

Despite the collapse of oil price, the Group generated R7.4 billion cash from operations and invested R2 billion into Capital expenditure. The majority of the capital expenditure was incurred in the oil and gas section of our business, which is mainly PetroSA.

Capital

The Group raised a R345 million loan to fund the capital expenditure for the PetroSA operations. The Group has appointed a panel of transaction advisers who will assist in raising R3.4 billion capital for the mining projects. An amount of over R1 billion has been set aside for the two CSP projects that have been approved by the Board.

Key risks and uncertainties affecting the CEF Group

The CEF group derived 75% of the revenue from petroleum products. The price of petroleum products is heavily influenced by crude oil price. Any decline in crude oil price will result in the group impairing its assets and reporting a lower profit. The rehabilitation provision pertaining to the GTL Operations continues to pose a threat to the going concern of the CEF Group. If the NEMA regulations are implemented in February 2017, the group will need to set aside R11 billion cash in an escrow account and this cash will not be available to fund normal operations. Setting aside R11 billion will significantly hamper the operations of the group as it will not be able to fund its CAPEX programme.

After amassing a cash balance of more than R16 billion, the CEF group will be deploying the cash into sustenance and growth projects. The growth projects will be targeted at growing our market share in the renewable energy market, the coal business and our tank rental business. As we execute the sustenance and growth projects, we will be improving on our project execution to ensure that the projects deliver on their economic returns and socio-economic benefits. We believe that in future when we report results, the CEF group will be able to promise our stakeholders that the group is commercially sustainable and that viable solutions will have been implemented to prolong the life of the Gas to Liquid Refinery.

Thanks and acknowledgement

I would like to thank the CEF Board, Board Audit and Risk Committee, and the CEF Executive committee members for their invaluable guidance and unparalleled leadership and the finance team that made sure that we produce financial statements that meet the requirements of our stakeholders. Without the commitment of the finance team and the support of the subsidiaries CFOs, these consolidated financial statement will not have been possible. Thank you for your invaluable support.

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

Operations Review

SECTION 7

PetroSA NOC

Overview

PetroSA's strategy is to become a fully integrated, commercially competitive National Oil Company (NOC), supplying at least 25% of South Africa's liquid fuel needs by 2020, with the current focus being on the immediate stabilisation and sustainability of the organisation.

In order to achieve this, PetroSA is changing the planned operating mode of the GTL refinery to perform below its design capacity, in order to prolong the refinery's lifespan and enhance liquid condensate processing. The business continues to improve the performance of PetroSA's trading business. These improvements include the further implementation of cost control measures.

In the year under review, the Group recorded a net loss of R449 million (2015: R14.6 billion) on the back of a R254 million net impairment that was booked against overvalued onshore and offshore production assets. The Group impairment of R1.5 billion (2015: R14.4 billion) was offset by a reversal of a portion of the Ghana investment which amounted to R1.27 billion. This loss is mainly attributable to lower production volumes from our Mossel Bay GTL refinery, lower selling prices and an impairment charge. By the end of the financial year, the Company had a cash balance of R3.7 billion with total assets amounting to R20.8 billion.

Whilst the sustainability of the GTL refinery continued to be constrained during the year by a depleting gas supply from our South Coast gas fields, the rand depreciation alleviated most of the negative impact on overall company profitability. The F-O gas fields did not perform as expected, with the F-O10 well remaining shut for entire year. As a result, overall production from F-O wells (F-O9, F-O11) fell to 45 kNm^3/h in December 2015, and to 27 kNm^3/h by the end of the financial year.

Financial Performance

The Group achieved an Earnings before Interest, Taxes Depreciation and Amortisation (EBITDA) of R2.142 billion compared to R2.203 billion the previous year, a decline of 3%. Lower sales volumes in all three revenue-generating areas were experienced in an environment where the bulk of the operating costs are semi-fixed and thus could not be timely leveraged in the short term. The Group achieved an operating loss before impairment of R195 million (2015: R125 million operating loss) in the year under review. A net loss of R449 million (2015: R14.574 billion loss) was recorded for the year.

Gross revenue decreased 13% from R18 billion to R15.7 billion this year and was the result of lower product prices driven by the fall of the price of crude oil worldwide and lower volumes. The fall in the crude oil affected the Group negatively across all operational units, necessitating the total impairment of the Oribi/Oryx crude oil production division. The weakness of the rand against all major currencies, normally a positive influence on revenue, could not compensate for the reduction in crude oil prices and volumes.

The Group posted a net operating loss of R449 million (2015: R14.574 billion loss) after booking an impairment charge of R1 billion in the year to onshore and offshore production assets largely due to an increase in the rand value of the dollar-based cost of provision for abandonment emanating from the weakness of the rand against the dollar (28% weaker). This charge was partially offset by an impairment reversal of R757 million following a successful infill well drilling programme in Ghana that yielded more reserves than was originally estimated.

Investment income was R327 million compared to R409 million in 2015 due to a reduction in cash reserves from R4.3 billion at 31 March 2015 to R3.7 billion at 31 March 2016. Lower finance costs of R512 million were recorded for the year compared to R1.3 billion in 2015 due to a decrease in amortisation charge after the previous year's impairment.

Cost Management (WF)

Operating costs (cash) continued to be a focal area during the year and saw a decline of 13% compared to the previous year. Notwithstanding the volumetric challenges cited above, the initiatives identified under the Billion Plus cost optimisation project last year have now been entrenched in the Company and will require continuous scrutiny and discipline to ensure sustained benefits going forward.

Financial Position

The Group's financial position is an area for concern even though total assets increased to R20.9 billion (2015: R19.8 billion) as the available cash balance decreased to R3.7 billion (2015: R4.3 billion). Whilst a variety of options are under consideration including a review of

PetroSA

our partnership strategy, our ability to fund any expansionary projects is stunted by the reduced cash position.

Key Projects in 2015

Feedstock supply to the GTL refinery

PetroSA's activities on the South Coast focused on the following strategic objectives:

- Execution of the F-O field development project (Project Ikhwezi) which involved the drilling of five horizontal development wells
- On-going assessment of the Southern Cape's offshore hydrocarbon potential to supply feedstock to the GTL refinery, as well as to provide non-feedstock (oil) sources of revenue through the re-utilisation of the Orca FPSO (Floating Production, Storage and Offloading) facility.

Project Ikhwezi

The F-O Field Development project (Project Ikhwezi) aimed to extend the indigenous gas feedstock supply to the Mossel Bay Gas-to-Liquids (GTL) refinery, thus extending its lifespan and benefitting the local, regional and national economy. The drilling and completion of the wells was found to be challenging, given that the F-O reservoir is a structurally complex, high-temperature, high-pressure reservoir, with variable reservoir quality.

The project was concluded in October 2015, with a total of four wells having been drilled. Of these, three have been tied back to the FA platform; the fourth well has not yet been completed. At the time of this report, one of the three tied-back wells (F-010) was shut-in, with plans being developed to recommence in 2016. The project did not achieve its objectives to sustain production to the Mossel Bay GTL refinery in the medium term, thus necessitating the implementation of supplementary feedstock solutions.

Following the challenges related to feedstock supply from the F-O field development project (Project Ikhwezi), the strategy has been to operate the refinery below its minimum design capacity in order to prolong its lifespan, while making use of advanced technology to further develop enhanced processing of liquid condensates. The cumulative total production from the GTL Refinery was 13% below budget at 7.877 MMbbls, largely attributable to lower than budgeted indigenous production, as well as from unplanned outages and a dip in the Eskom power supply in March 2016.

Future Outlook

Cost Optimisation

The cost optimisation ideas devised under the Billion Plus project will require entrenchment in the ensuing periods, to ensure continued realisation thereof. The ongoing asset optimisation and revenue enhancement initiatives continue unabated and will require intensive focus, given the serious challenges currently faced.

Sustainability

With the current focus being mainly on the immediate stabilization and sustainability of the organization, PetroSA is changing the planned operating mode of the GTL refinery to perform below its design capacity. as well as striving for continued improvement of the company's trading business and cost control measures.

The Group is in the process of executing a sustainability plan that will ensure long-term supply of feedstock to the GTL Refinery beyond the end-of plateau of the indigenous reserves. This will require the development and implementation of a suitable funding plan, which will include recapitalization and sourcing commercial funding to support exploration and development activities across the Group.

SFF Association NPC

Overview

The mandate of the SFF is to manage strategic crude oil on behalf of the South African government. The key operating activities of SFF are located at Saldanha, Milnerton and Ogies.

In order to evaluate the effectiveness of the SFF business strategy and model, and craft the business strategy and model for the future, SFF conducted a risk assessment of the country's exposure. Through the risk assessment SSF strategically assessed the challenges and opportunities from a variety of perspectives.

In assessing the country's risk exposure SFF investigated the following factors:

- The country's strategic oil needs
- The probability of the size, duration and causes of another oil disruption
- The estimated value of the Strategic Petroleum Reserve (SPR)
- The cost of stockpiling of strategic oil reserves and
- The benefits of SPR

The assessment supported SFF in understanding the current and future strategic petroleum needs of the country, the risk and challenges the country faces in relation to the strategic petroleum reserves environment, and the issues that the country needs to address urgently in order to ensure security of supply.

Financial Performance

In respect of the normalised financial performance (i.e. Revenue excluding Strategic Stock rotation), the company built on what was an emerging upward trend of the 2014/15 financial year and both these performances were underpinned by a contango market play that surfaced in the second quarter of the 2014/15 financial year and gained further traction in the 2015/16 financial year.

The generated revenue from normal operations for the financial year 2015/16 breached the half-a-billion Rand mark ,which is an achievement that the company has not seen in the recent years. In comparison to the preceding financial year the 2015/16 financial year revenue from normal operations experienced a more than 300% growth.

Solvency and Liquidity

The company remains in a robust financial position as evidenced by a solvency ratio of 2.7 : 1 i.e. for every R1 owing the company has R2.7 worth of assets to cover that liability and the company is also liquid as the current assets are 2.4 to current liabilities.

Cashflows Generated

The cash-flows generated from normal operations in this reporting financial year (R434 Million) were 7-fold compared to the previous financial year (R59 Million), which attests to the robust growth in the tanks-rentals revenue segment over the past 12 months.

Strategic Crude sales lifted cash balances to R6.4 billion by 31 March 2016.

Key Projects

Rotation of strategic stocks

In December 2015, following a Ministerial Directive from the Department of Energy, which authorised the rotation of strategic stock through selling and repurchasing of stored strategic stocks with third parties, 10 million barrels of crude oil stock was sold based on a transparent market-related price formula. The sold stockpile still remains in tank at the SFF Saldanha terminal with SFF having the first right to buy the crude oil and supply the market in the event of a crisis. The Rotation of the Strategic Stock is financially and economically advantageous to government, as SFF will generate more than US$15 million on the storage or R180 million per annum over a period of five years. The alternative economic value proposition of the stock in tank, is that it could lose about 1% of the stock per annum.

Long-term storage rental agreements

SFF has in the year under review, concluded long-term storage rental agreements, which resulted in additional revenue stream for the company. The revenue generated from crude oil third party sales was in excess of US$280 million by year-end.

Business Challenges

During the reviewed year, SFF received a letter from a supplier's attorneys demanding damages to be paid to their client amounting to R10.5 million. The claimed damages resulted from the late delivery of tender documentation prepared by the supplier, which contained confidential information.

SFF was approached by a service provider who currently has a contract to salvage crude residues in the Ogies Mines) whereby the service provider claimed that they have discovered substantial crude oil volumes and were prepared to provide SFF with a lien on 600 000 barrels, on condition that SFF loan to them some of the strategic stocks. The company did the above without complying with PFMA Act no 1 of 1999 paragraph 51(iii), which calls for: An appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost- effective.

Outlook for 2016/17

Global oil markets continue to fall, further entrenching the already widened contango market structure for future crude oil prices. The discussion in April 2016 in Doha, amongst the oil producing countries, was geared to shedding light on the outlook for the crude oil market structure.

AEMFC SOC Ltd

Overview

In the year under review, African Exploration Mining and Finance Corporation SOC Limited (AEMFC) experienced unprecedented performance largely resulting from the increased volumes of coal that the Vlakfontein Mine delivered to Eskom SOC Limited.

The company is delivering on its mandate as a State-owned entity of ensuring the security of energy supply for the country and continues to grow from strength to strength, as can be seen from its performance.

Strategic Review

Current operations

The Vlakfontein Mine continues to produce for supply to the Eskom Kendal power station at a steady pace, on the back of the supply contract for up to the year 2020.

Performance against Objectives

The funding plan for the T Project for the entire capital expenditure (R2.9 billion) is on track with the market showing a keen interest in the investment, whilst a coal supply agreement is being finalised with Eskom SOC Limited. The T Project was also awarded an Integrated Water Use License, largely due to the tireless and commendable efforts of the project team over a number of years.

Other projects at an advanced stage include:

1. Klippoortjie which requires a total capital injection of R540 million.
2. Vlakfontein extension, which will assist in increasing the supply of coal from this site to 2.5 million tonnes in 2018.

Financial Performance

Financial Performance Revenue for the year increased significantly by 60% to R376 million from R235 million in the prior year. This was driven mainly by increased volumes to Eskom SOC Limited. Furthermore, the current year's profitability performance compared to the previous year is attributed to the following:

- Revenue from operations is the main stream of income that also supports the business development, including the project pipeline. The current year's revenue improvement is largely attributed to the team effort in securing a viable and medium-term coal supply contract, as well as the drive for production volumes in the current year.
- The containment of costs, which despite the increased volumes were below budget by 17%.

The business' asset base has increased by 29% to R492 million in the current year from R382 million in the previous year, largely due to cash and cash equivalents, as the company strives to accumulate invested cash resources and for equity in future projects and acquisitions that become available, among other things.

Key Projects

Vlakfontein Mine Extension

Extension plans to increase production at the existing mine to almost double the current production by the 2018/19 financial year, are at an advanced stage.

Klippoortjie Mine

Klippoortjie mine is situated about 40 km from the existing operations and covers an area of 593 hectares. The pre-feasibility study completed in the current financial year has shown good coal qualities that allow for blending with existing coal to materially improve margins. The area is also awaiting granting of the Integrated Water Use License. The acquisition of surface rights remains a challenge, which when secured will allow for the commissioning of the mine. It is estimated that this will be in the second half of the 2018 calendar year.

T Project

The T Project coal-mine is situated 12km north of the town of Kinross and covers an area of 6500 hectares. This project has gone through a review of the bankable feasibility study since the last models and the revised feasibility report was completed in the current financial year.

Coal production from Seam 4 of the T Project has been successfully tested by Eskom. Seam 5 is suitable for coal-to-liquids (crude oil) production and AEMFC will be seeking market interest in this resource. The T Project is raising capital in the financial markets and financial close is expected to be achieved in the third quarter of the coming year. The Integrated Water Use Licence for the T Project was received, and water is being procured from nearby sources.

The company is also employing all its efforts in securing an Eskom contract for this mine in time for the commissioning, which is expected to be in the 2018/19 financial year.

Future Outlook

AEMFC growth strategy consists of a drive to acquire existing private operating assets, and partnership with other mining entities with a similar outlook and mutual interest. A number of these have been identified and discussions held in the year under review. No resulting transactions have yet been concluded.

AEMFC continues searching for viable opportunities in this regard, in order to fast-track its growth and thus primarily deliver the mandated benefits for the country.
The company also has a number of prospecting rights in various provinces, mainly Mpumalanga, North West and the Northern Cape. These primarily consist of energy-related minerals and are in support of the State's Minerals and Beneficiation Strategy.

PASA SOC Ltd

Overview

In 2016, Petroleum Agency SA celebrates its 17th year in operation. The company is in a position to reflect back on a successful history marked by growth and diversification. As a company we strive for quality service delivery and a commitment to client satisfaction. This sets us apart in terms of excellence.

The Board and employees of the Agency have never wavered from their commitment to client satisfaction. Year-on-year growth and a network of repeat clients are testament to the company's continued success.

The financial year 2015/2016, was characterised by a global plunge in crude prices, resulting in a sharp and quick cutback in upstream oil and gas spending. This had a significant impact on the company, as it experienced a substantial decrease in exploration data requests and sales.

Despite the setback, the 2015/2016 focused plan of mapping out a comprehensive overhaul of operations within realistic time frames had a great deal of success in keeping the company sustainable. The plan included the renewal of corporate culture, systems and processes, and formed the basis for all business activities.

Accurately defining the oil and gas resource potential is a critical part in understanding the value of both onshore and offshore areas. Evaluation of the hydrocarbon potential of the West Coast, South Coast- and East Coast sedimentary basins, has been done through evaluation of the main elements essential for the presence of viable petroleum systems. All the offshore sedimentary basins of South Africa have demonstrated the presence of an active petroleum system in place. With regards to the prospective of deep-water areas of South Africa's offshore basins remain untested virgin territory. However, the models used to evaluate these deep-water areas show that they may be more suitable for oil generation and accumulation. This conclusion is based on the oil-prone nature of the main source rock and its maturity for oil (and not gas) for the West Coast. With respect to the source rock on the East Coast areas, the source potential is currently unknown.

The implementation of a GIS Web-portal data browser has been one of the key drivers of business success, and as such further progress was made in its integration into business processes. A commitment to innovation is also reflected in improved internal networking as a result of successfully capturing various datasets in the appropriate database, in a quest to provide clients with a world class service.

Performance against objectives

Petroleum Agency SA, with its responsibility of regulating the exploration for, and the exploitation of petroleum resources in South Africa in terms of the MPRDA, has been steadfast in ensuring that applications are processed within legislated and set time frames. This was evidenced by 77 new applications that were received and processed four to six days before the legislated time frame. 55 permits and rights were continuously monitored for compliance with the terms and conditions of the permits and rights that were issued in terms of MPRDA.

Extended Continental Shelf Project

Key objective of project

South Africa's ECSCP seeks to claim an additional zone to its existing territory, called the Extended Continental Shelf (ECS). The ECS is that portion of the continental shelf beyond 200 nautical miles from shore.

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

Contribution to mandate

The then Minister of Minerals and Energy directed the Petroleum Agency SA to manage the project with the support of the following organisations: DIRCO, Hydrographic Office, Institute of Maritime Technology, Department of Environmental Affairs, Department of Science and Technology, Department of Energy, Department of Mineral Resources. These organisations comprise the steering committee, which serves as an adviser to the Agency.

Summary of Execution Plan

South Africa is presently defending its submission for the extended continental shelf claim.

Achievements at year end

The examination of the RSA Mainland Submission is at an advanced stage. To date, following six rounds of meetings and exchange of views between the Delegation and the Sub-commission, the project has achieved an important milestone. In particular, the meetings at the 40th Session concluded very positively for South Africa. Agreement between the Delegation and the Sub-commission on the location of Foot of Slope points for the entire western and eastern margins is now established. Although the examination of the region of the saddle and Agulhas Plateau is now frozen pending the submission of additional data from South Africa, the significance of reaching agreement on the locations on the Foot of Slope points, is that the final outer Limits of the Continental Shelf can now be established for the Western and Eastern margins of the Mainland.

In respect of the Joint Island Partial Submission of France and South Africa, the Joint Delegation is at an impasse with the Sub-commission concerning the location of the Base of Slope. In particular, the Sub-commission does not view the Discovery II Ridge and part of the South West Indian Ridge to constitute part of the continental margin of the two coastal states.

Consequently, there has been no significant progress with the examination of the submission. No further meetings between the Joint Delegation and the sub-commission were held during the 40th Session, however a document was transmitted to the sub-commission on 12 February 2016 in response to requests for further clarification and information. A meeting between the delegates of the two countries is planned to discuss how best to deal with the impasse.

Financial Performance

The Agency continues to rely on its reserves to fund its operations. However, the Agency has received a funding allocation for the financial years 2017/18 and 2018/19, which should be sufficient to cover operational costs and capital expenditure once the reserves are depleted.

PASA SOC Ltd (continued)

Key Projects

Operation Phakisa

Operation Phakisa is an initiative that aims to address key national priority areas through bringing together all stakeholders in a workshop or "lab" environment, to address issues and fas-track solutions. The Oceans Economy Lab, under the leadership of the Department of Environmental Affairs, took place from July to August 2014, in Durban. The focus of this lab, attended by over 180 delegates from national and provincial government departments, the private sector, civil society, labour and academia, was on unlocking the economic potential of South Africa's oceans.

Four priority areas were identified.

1. Marine transport and manufacturing activities, such as coastal shipping, trans-shipment, boat building, repair and refurbishments
2. Offshore oil and gas exploration and production
3. Aquaculture and marine protection services, and
4. Ocean governance

These four focus areas have been selected as new growth areas in the ocean economy, with the objective of growing them and deriving value for the country. Petroleum Agency SA attended and contributed to the Oil and Gas Lab, where eleven initiatives were identified to help boost the oil and gas industry while ensuring maximum benefit to the South African economy. Detailed plans for projects continuing for a number of years and involving multiple organisations, were finalised and are now in progress. Progress is monitored by the Department of Monitoring and Performance Evaluation (DPME), and reported on through a website accessible to the public.

Petroleum Agency SA is involved in nine of the eleven initiatives and is the lead organisation in four of these. Each initiative plan is executed through a workgroup reporting to the Delivery Unit, which then reports to the DPME.

Petroleum Agency SA has attended all working group and task team meetings, and contributed as required through the year. All tasks assigned were completed before the due dates and submitted to the various workgroups. Petroleum Agency SA also took on the preparation of some deliverables assigned to other entities.

The initiative to migrate Petroleum Agency SA as a complete "one-stop-shop" entity to the DMR remains more than a year behind schedule as there is still no signed agreement between the relevant ministers.

Future Outlook

The Agency continues to focus on its mandate and its key initiatives that relate to this mandate.

During the year under review, the company applied for funding via the DMR and the MTEF process. A funding allocation has been received for the financial years 2017/18 and 2018/19, which will be sufficient to cover operational costs and capital expenditure for those years once reserves are depleted.

Energy Projects Division

Overview

CEF includes the Energy Projects Division (EPD), a division which was established in 2004 to pursue commercially viable investments in renewable energy (with the exception of natural oil and other already commercialised and developed energy technologies in Southern Africa). This division focuses on a number of niche areas, commercial projects, developmental projects which catalyze the renewable energy sector and social projects which benefit previously disadvantaged communities.

Performance against objectives

The EPD's strategic objectives for the year were:

1. To finalise the rationalisation of CEF's renewable energy portfolio i.e. disposal of non-performing assets
2. To procure approvals to invest in two utility scale renewable energy projects that have the potential to significantly contribute to CEF's income in the future
3. To manage CEF's operational renewable energy assets.

The three main achievements are:

- The commencement of construction for the 17MW landfill project in which CEF is a 29% shareholder.
- Even though no milestone has been achieved in progressing the 100MW CSP ACWA Redstone Project (in which CEF is a 15% shareholder) towards financial close, the progress made so far is a significant achievement as the project is CEF's largest investment
- The KPI of "2 PFMA Section 54 approvals for CEF to invest in utility scale renewable energy projects" was achieved.

Key Projects

Solar Park in the Northern Cape

The 1500MW Solar Park in which CEF will be a minority shareholder is of strategic importance.
The RE IPP Procurement Programme has successfully achieved the objective of delivering renewable power generation at competitive prices. In order to support the local manufacturing of renewable energy technologies, the Minister of Energy has promulgated the 1500MW Solar Park determination, in which CEF will be a minority shareholder. Since the 1500MW will be built over a long period of time and on a pre-determined timeline, the project will provide the required base-case demand to sustain local solar technology manufacturing.

This project is in line with CEF's mandate of supporting and implementing the government objective of diversifying the country's energy mix, while delivering on the national socio-economic imperatives.

Due to grid constrains and operational requirements, the 1500MW Solar Park will be implemented in 3 or 4 different sites. During the year under review, CEF started establishing the project team to finalise the feasibility study for the Upington Solar Park. The Khara Hais municipality recommitted about 6000ha of municipal land to the project.

Future outlook

In 2016/17, the feasibility study for the solar park will be updated and an implementation road map developed by the EPD team.

iGas SOC Ltd

Overview

iGas has progressed the gas transmission pipeline work by producing a Feasibility Study for the Saldanha to Ankerlig gas transmission pipeline. This includes a detailed Biodiversity Study for a number of alternate pipeline routes and a desktop Heritage study along the pipeline routes. This pipeline development is a priority, to enable gas usage at Saldanha Bay and to allow for shipping of gas to Eskom's Ankerlig power plant and to industries in the Western Cape. The major risk of introducing gas into Saldanha Bay is that the area's infrastructure planning does not include the option for gas to feed into industrial and commercial areas.

Together with partners in Rompco (Pty) Ltd the Loop Line 2 Final Investment Decisions were made in December 2015 and the construction of the Loop Line has progressed significantly. Refinancing of Rompco (Pty) Ltd was also approved in December 2015, after all the governance processes, were completed. This new Loop Line will, when complete, enable more gas to flow within Mozambique and to South Africa.

Financial Performance

Year on year comparison of financial performance

The following table tracks iGas' financial performance:

Financial Year	iGas Total Cash (R'000 000)	iGas Repayment of Bankers Loans (R'000 000)	iGas Repayment of Shareholder Loans (R'000 000)
2014/2015	199.3	55	60
2015/2016	561.3	28	70

iGas 2015/2016	
Total assets	R2,93 billion
Profit for the year	R147,6 million
Total cash at year end	R535,1 million

Key strategic performance objectives:

1. Expanding infrastructure measured by the start of the construction of Loop Line 2 in Mozambique.
2. Progress the pipeline development of one large gas transmission pipeline in South Africa or Mozambique. A feasibility study to be completed by March 2016.

Future gas transmission pipeline servitudes have progressed. In the relevant Committees iGas has oversight of the activities of Rompco. The Saldanha to Atlantis gas transmission pipeline feasibility study has been completed.

The procurement of gas for South Africa has started but not been completed. The key objective by Rompco and the shareholders of Rompco was to start the construction of Loop Line 2 in Mozambique by December 2015, in order to transport more gas to South Africa and Mozambique. The strategic importance of this loop line is to enable more gas usage in both countries.

This pipeline will at first transport gas to South Africa and then, if further gas is made available, more gas will be transported to customers in Mozambique and South Africa.

iGas' mandate is to develop gas and gas infrastructure, and Loop Line 2 enhances the gas connectivity between Mozambique and South Africa.

The execution of this project required financing, gas availability, a marketer of the gas, and environmental and engineering work including the sourcing of gas line pipes at commercially acceptable prices. By 31 March 2016, after three years of dedicated work by Rompco, the construction of Loop line 2 had started and already had all line pipe delivered, all servitudes swept for land mines, all bush clearance completed, a construction camp for 550 workers constructed and a few kilometres of pipe welds completed on site.

Future Outlook

Continued transmission of gas into South Africa and into Mozambique will benefit both countries and is a focus for iGas.

The introduction of LNG into Saldanha Bay will enable gas to power projects in Saldanha Bay and Atlantis. Wherever possible, iGas will be involved in the necessary infrastructure planning and investment.

The lower price of natural gas will enable more gas to be introduced into the South African economy, however it must be an objective to encourage local gas resources to be produced efficiently and with the required environmental sensitivities.

Sustainability of the Business

SECTION 8

Human Capital

Towards Vision 2025 and a High-Performance Organisation

In line with the Group's journey towards becoming a High Performing Organisation and aspiring to a position of leadership in the African Energy Market, the CEF Board approved in the 2014/15 financial year, a Project Genesis a turnaround strategy aimed at capacitating and restructuring the Holding company into a streamlined, effective entity that provides better strategic direction, oversight and control over its subsidiaries. The purpose was therefore to increase required capabilities to deliver on the CEF mandate and strategy, enable strategy execution through appropriate and effective structures, clarify the role of the holding company, and attract the right skills to the holding company, thus strengthening the Group's oversight capabilities. Towards this end, a new CEF SOC structure was developed, approved and capacitated as part of the project, and new skills sourced for the Holding Company. Substantial progress has also been made in the sourcing of the CEF, SFF and PetroSA CEO's positions and appointments will be made soon.

The Group Human Capital strategy was finalized, discussed and approved. Key Pillars of the Group Human Capital Strategy will focus on ensuring the following:

Aligned Organizational Brand: redesign the employer brand to resonate with employees and recruits to differentiate ourselves from competitors and position the Group as an Employer of Choice Empowered and Empowering

Leadership: ensure that there is an aligned leadership that is effective and goes deep within the organisation

Engaged High Calibre Employees: develop and retain the most capable individuals within the organisation

Integrated structures, policies and systems: ensure structures, processes, policies and systems that reflect the organisations strategic focus

Impact: articulate and surface the ROI of the Human Capital function and measure the improvement and progress through key Human Capital metrics

Progress against Employment Equity Targets

Despite the moratorium placed on recruitment and the issuing of voluntary severance packages across some of the major subsidiaries, Employment Equity remained a critical area of focus for the Group. Though the Group has just fallen shy of its numerical targets with respect to women and people with disabilities its demographic figures show that the Group on the whole is leading National and State Owned Entities in terms of representation of Africans and Females at Top Management Level.

According to the 15th Commission of Employment Equity Annual Report for the period 2014/2015, Africans occupy 13.6% of positions nationally at the Top Management Level, whilst 94% are represented at this level within the CEF Group.

The report further indicates that females occupy 20% of the positions nationally at this level of management, whereas 29% of women are represented at this level within the CEF Group. According to the same report 94% of Africans at this level within CEF Group compare highly favourably against the 59% at other State Owned Companies. The same can be said about the Group's 37% of Females versus the 33% of other State Owned Companies at this level.

Occupational Levels	Male				Female				
Demographic Profile by Occupational Level as at 31 March 2016									
	African	Coloured	Indian	White	African	Coloured	Indian	White	Total
Top Management	11			1	5	1		1	**19**
Senior Management	21	1	5	15	5		1	1	**49**
Professionally qualified, experienced specialists & mid-management	135	56	11	76	78	28	4	19	**407**
Skilled technical & academically qualified workers, junior management, supervisors, foremen, superintendents	209	232	10	149	137	79	9	55	**880**
Semi-skilled & discretionary decision making	155	113		13	82	27	1	86	**477**
Unskilled & defined decision making	18	4		1	9	1		1	**34**
Permanent	549	406	26	255	316	136	15	163	**1866**
Fixed Term	56	78	4	18	41	9	1	1	**208**
Grand Total	**605**	**484**	**30**	**273**	**357**	**145**	**16**	**164**	**2074**
People with Disabilities	10	5	1	13	4	5	0	6	**44**

National EAP Figures vs. CEF Group

	Male				Female			
	African	Coloured	Indian	White	African	Coloured	Indian	White
National EAP	40,7	5,8	1,9	6,4	34,2	5	1,1	4,9
CEF Group	29,17	23,34	1,45	13,16	17,21	6,99	0,77	7,91
Gap between CEF and EAP	11,53	-17,54	0,45	-6,76	16,99	-1,99	0,33	-3,01

CEF Group continues to be committed to Employment Equity by comparing its organisation profiles against the National Economically Active Population. The identified gaps between National EAP and CEF Group profile informs the organisations Employment Equity Strategy e.g. Organisation is below National EAP by 11.53% under African Male and 16.99% under African Females. The focus areas remains on the employment of African males and Females, Women, youth and people living with disabilities.

Human Capital (continued)

Skills Development

The Group considers its employees are of the utmost importance to the achievement of our objectives. To that end and despite our strained financial circumstances, the Group continued to invest in the training of its employees. A total of 1 514 people were trained to the tune of R4 964,165.

Total Employees Trained for the period: 1 April 2015- 31 March 2016									
Occupational Levels	**Male**				**Female**				
	African	**Coloured**	**Indian**	**White**	**African**	**Coloured**	**Indian**	**White**	**Total**
Top Management	1	0	0	0	1	0	0	0	**2**
Senior Management	11	1	3	5	3	0	0	0	**23**
Professionally qualified, experienced specialists & mid management	108	38	10	59	65	21	3	6	**310**
Skilled technical & academically qualified workers, junior management, supervisors, foreman, superintendents	158	186	9	116	106	69	5	32	**681**
Semi-skilled & discretionary decision making	91	59	0	7	40	15	1	3	**216**
Unskilled & defined decision making	58	39	2	15	35	18	0	1	**168**
Total permanent	**427**	**323**	**24**	**202**	**250**	**123**	**9**	**42**	**1400**
Non permanent employees	47	34	0	8	18	6	1	0	**114**
People with Disabilities	**6**	**2**	**0**	**9**	**3**	**3**	**0**	4	**27**
Total	**474**	**357**	**24**	**210**	**268**	**129**	**10**	**42**	**1514**

Occupational Categories	Training Spend as % of Payroll: 1 April 2015- 31 March 2016								
	Male				Female				
	African	Coloured	Indian	White	African	Coloured	Indian	White	Total
Total Spend for this period in Rand value:									4,964,165.23
Top Management	8 600,66	-	-	-	80 560,42	-	-	-	89 161,08
Senior Management	234 601,37	67 987,38	46 460,82	-	67 987,38	-	-	-	417 036,95
Professionally qualified, experienced specialists & mid management	770 069,49	291 048,51	200,00	27 060,00	408 397,59	211 017,63	-	R 200,00	1 707 993,22
Skilled technical & academically qualified workers, junior management, supervisors, foreman, superintendents	404 064,53	334 070,46	200,00	87 695,00	938 898,51	420 564,61	69 387,38	77 098,90	2 331 979,39
Semi-skilled & discretionary decision making	44 144,86	42 337,50	-	14 400,00	34 382,36	7 040,50	-	11 124,00	153 429,22
Unskilled & defined decision making	18 860,00	17 319,00	3 293,00	23 884,00	6 158,00	5 293,00	-	-	74 807,00
Total permanent	1 480 340,91	752 762,85	50 153,82	153 039,00	1 536 384,26	643 915,75	69 387,38	88 422,90	4 774 406,86
Non permanent employees	41 425,51	6 712,50	-	600,00	4 645,61	136 374,75	-	-	189 758,37
People with Disabilities	9 558,00	1 600,00	16 995,61	8 206,65	1 600,00	67 987,38	-	-	105 947,64
Total	**1 521 766,42**	**759 475,35**	**50 153,82**	**153 639,00**	**1 541 029,87**	**780 290,50**	**69 387,38**	**88 422,90**	**4 964 165,23**

Continuing to Drive Youth Employment

Despite many financial challenges, the Group was able to continue its contribution towards the alleviation of youth unemployment through its Learnerships, Apprenticeship, and Graduate in Training programmes. The recruitment for such programmes is aimed at developing a skills pipeline for the organization and at contributing towards the national initiative of youth development. These programmes spanning over two years, are designed to give university students and graduates challenging work assignments, developmental feedback, and exposure to leadership.

Types of training	Number Youth Trained for the period: 1 April 2015- 31 March 2016									
	Male				Female					
	African	Coloured	Indian	White	African	Coloured	Indian	White	Total	Cost of Employment
Total Spend for this period in Rand value:										**50 165 065,95**
Apprenticeships	68	52	1	15	30	13	0	1	180	12 274 129,00
Learnerships	137	132	3	39	112	44	0	3	470	21 155 203,00
Interns	4	1	0	0	0	0	0	0	5	247 728,00
Graduate-in-Training	7	3	0	1	3	1	0	2	17	13 975 198,00
Bursaries	11	4	0	1	12	4	0	0	32	2 512 807,95
Other	0	0	0	0	0	0	0	0	0	
Total	**227**	**192**	**4**	**56**	**157**	**62**	**0**	**6**	**704**	**50 165 065,95**

Human Capital (continued)

Employee relations climate

The climate across the Group was stable during the entire financial year with no work disruptions or strike incidents. At PetroSA, which has the largest employee complement, the last part of the multi-year wage agreement which came to an end in 2015 was implemented, culminating in an increase of 8.5% for the bargaining unit and 4.5% for the non-bargaining unit employees. A large part of the year at PetroSA was spent on consultation with employees focusing on cost reduction interventions in line with requirements of section 189 of the Labour Relations Act. The consultation process was rolled out through separate forums namely: CEPPWAWU, Solidarity and Non-Union Employees.

Voluntary Separation Process

As part of the Billion Plus cost reduction intervention, the PetroSA board approved a Head Count Reduction Framework on 18 February 2015. In compliance with section 189 of the Labour Relations Act 66 of 1995 (LRA), PetroSA Management embarked on a formal consultation process with the relevant stakeholders. The above process resulted in a total of 154 employees being released after accepting the offer to take a VSP. A total of R105.6 million was spent on these VSP's whereas the recurring cost savings that will be achieved by not filling the positions vacated by these employees is R121.7 million.

The voluntary release of the above-mentioned employees did however not achieve the targeted cost savings of R 300 million in Employee Related Cost as planned for 2016/17 FY, and as such it was decided to extend the closing date of the VSP Application process until 27 May 2016.

To mitigate the potential risk of losing critical skills that may be required by the business to work on sustainability projects and enable the new operating model, applications in this phase were restricted to employees in support functions. Having approved the VSPs of 28 employees at a cost of R 20.7 million, this extended phase was concluded on 30 June 2016. The recurring cost savings that will be achieved through the extended phase is R 25.2 million. For ease of reference the financial implications of the VSP Process are summarised in the table below:

Phase	Cost of VSP's	Savings on TGR	No. of Employees
I	R 105.6 mil	R 121.7 mil	154
II	R 20.7 mil	R 25.2 mil	28
Total	**R 126.3 mil**	**R 146.9 mil**	**182**

Group Remuneration Report
The CEF Group's Remuneration Philosophy and Strategy is aimed at ensuring that the manner in which employees are remunerated and rewarded, reflects the dynamics of the market, and the context in which the entities operate. The approach to remuneration and reward takes into cognizance the critical role remuneration and reward play in attracting and retaining high performing individuals, thereby supporting CEF's commitment to the achievement of its strategic objectives, which can only be attained through a highly motivated workforce. To that end, CEF's remuneration policy has been designed to:

- Motivate employees to improve performance;
- Encourage higher levels of skills development in employees; and
- Contribute towards the organisation achieving its targeted mission and objectives, as well as
- Retention of scarce resources.

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 will reward key employees for the contribution they make to the entity.
- Internal Equity: Remuneration differentiation between employees fulfilling roles of equal value will be based on criteria that are fair and objective, and will conform to all existing 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 they are a responsible corporate citizen
- Remuneration is non-discriminatory.

In the year under review, the Company sought to centralise as far as possible, the salary mandating process across the Group. Thus a common salary mandate was sought from the CEF Group Board and subsidiaries were given the flexibility to implement their salaries up the board approved mandate.

Though inflationary indicators played an overriding influence in wage and salary increases during the period, the low Oil Price, the financial challenges faced by the Group and other economic factors such as the constrained fiscus and GDP, had a strong moderating effect on how salary increases were applied. Therefore, the basis for determining the annual increases for the 2015/16 period included the following:

1. CPI of the previous year
2. The financial positions of the business and thus affordability;
3. Forecast salary budgets for 2015/16
4. Trade union agreements
5. The Remuneration and Reward strategy of the Company
6. Market Salary survey

Based on the 2014/15 CPI figure and the South African economic climate, an average salary increase mandate of 7% was approved by the board and allocated as follows:

- 5% Cost of Living Adjustment
- 2% Performance linked increase for 2015/16

The salary adjustments resulted in an average 7% increase across the Group. Where salary increases were negotiated in Bargaining Fora, the increases were higher. To promote and maintain a culture of performance, some subsidiaries paid out bonuses based on affordability. Where incentives were paid, the company's performance was measured by pre-determined and approved objectives in the business plan, and at an individual employee level it was done through measuring performance against individual key performance areas, reflected in the performance targets linked to Departmental/ Divisional objectives that are ultimately aligned with the overall CEF Objectives. R27 795 899,91 was paid in bonuses for the period across the Group.

Human Capital (continued)

Annual Salary Bill Report as at 31 March 2016 - Rand				
Occupational Categories	Male			
	African	Coloured	Indian	White
Top Management	23 661 364,00	-	-	2 191 267,92
Senior Management	37 714 611,15	1 412 923,96	7 349 161,60	26 535 537,53
Professionally qualified, experienced specialists & mid management	138 063 140,08	62 532 675,02	12 583 574,00	95 989 271,70
Skilled technical & academically qualified workers, junior management, supervisors, foreman, superintendents	97 922 496,57	116 929 290,47	6 306 234,00	82 089 317,83
Semi-skilled & discretionary decision making	29 707 687,01	30 846 563,34	-	3 493 827,56
Unskilled & defined decision making	6 580 819,56	705 673,00	-	-
Total permanent	**333 650 118,37**	**212 427 125,79**	**26 238 969,60**	**210 299 222,54**
Non-permanent employees	2 063 200,00	315 149,20	3 960 000,00	3 710 343,64
People with Disabilities	**3 273 064,00**	**3 353 192,96**	**830 770,80**	**7 309 959,72**
Total	**335 713 318,37**	**212 742 274,99**	**30 198 969,60**	**214 009 566,18**

Remuneration of Non-Executive Directors

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 45 of the annual financial statements.

Total Incentives Paid out in the year ending: 31 March 2016 - Rand				
Occupational Categories	Male			
	African	Coloured	Indian	White
Top Management	3 412 736,42	-	-	1 205 009,55
Senior Management	1 783 099,53	-	310 589,00	1 205 504,25
Professionally qualified, experienced specialists & mid management	1 488 870,00	487 026,78	194 746,20	1 200 412,63
Skilled technical & academically qualified workers, junior management, supervisors, foreman, superintendents	1 485 797,03	2 233 333,99	-	1 427 265,91
Semi-skilled & discretionary decision making	945 216,09	1 980 947,19	-	203 889,55
Unskilled & defined decision making	428 081,50	-	-	-
Total permanent	**9 543 800,57**	**4 701 307,96**	**505 335,20**	**5 242 081,89**
Non-permanent employees	-	-	-	-
People with Disabilities	-	-	-	-
Total	**9 543 800,57**	**4 701 307,96**	**R505 335,20**	**5 242 081,89**

Female				
African	**Coloured**	**Indian**	**White**	**Total**
7 087 219,56	1 590 000,00	-	-	**34 529 851,48**
13 241 909,74	809 980,40	2 221 986,00	1 688 903,06	**90 975 013,44**
79 191 099,67	26 044 518,82	4 107 391,60	17 832 853,00	**436 344 523,89**
56 654 008,31	37 782 826,30	3 345 241,76	26 444 423,97	**427 473 839,21**
16 509 457,88	6 904 342,23	303 195,00	2 862 156,49	**90 627 229,51**
2 820 524,52	362 930,52	-	-	**10 469 947,60**
175 504 219,68	**73 494 598,27**	**9 977 814,36**	**48 828 336,52**	**1 090 420 405,13**
828 261,00	652 122,00	-	482 224,40	**12 011 300,24**
957 055,00	**1 450 259,94**	**-**	**2 748 841,00**	**19 923 143,42**
176 332 480,68	**74 146 720,27**	**9 977 814,36**	**49 310 560,92**	**1 102 431 705,37**

Female				
African	**Coloured**	**Indian**	**White**	**Total**
1 305 687,00	-	-	-	**5 923 432,97**
1 283 283,66	-	-	-	**4 582 476,44**
1 643 168,19	576 504,78	R150 322,00	188 834,00	**5 929 884,58**
1 198 131,88	99 809,63	-	546 073,80	**6 990 412,24**
323 228,31	71 307,78	-	153 019,26	**3 677 608,18**
202 221,00	61 783,00	-	-	**692 085,50**
5 955 720,04	**809 405,19**	**150 322,00**	**887 927,06**	**27 795 899,91**
-	-	-	-	**-**
-	**-**	**-**	**-**	**-**
5 955 720,04	**809 405,19**	**150 322,00**	**887 927,06**	**27 795 899,91**

Corporate Social Investment

In the year under review the corporate social investment policy for the Group was revised and is still subject to approval by the CEF board.

Corporate Social Investment is a major cornerstone for good corporate citizenship and forms an integral part of corporate accountability at the CEF Group. As a state-owned company, the Group's mandate is to help government to achieve its developmental goals. In addition, the CEF Group has a responsibility towards its stakeholders and the communities within which it operates.

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 that of its performance as a corporate citizen. In order to achieve this, the CSI and sponsorship policy will outline key focus areas and criteria, that will ensure a sustained impact for beneficiaries and the Group. Consideration will therefore be given to the extent to which such projects will yield value to CEF Group in terms of:

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

CEF Group's business is underpinned by a set of core values. The initiatives that the Group supports in the community and in the energy sectors must be upheld and cherished by all our employees. These values are:

- Sustainability
- Integrity
- Professionalism
- Respect
- Communication

Key Focus Areas

The CEF Group's CSI will be considered strategic if it supports the corporate vision, mission and strategic objectives of the CEF Group. To this end, the policy is aimed at fundamentally improving the lives of historically disadvantaged South Africans.

Early Childhood & Basic Education

CEF will consider applications for initiatives in education that aim to benefit disadvantaged learners and under-resourced communities. Preference will be given to rural schools and communities.

- Support will only be confined to these areas:
- Infrastructure improvements (e.g. renovating school buildings)
- Equipment to be used for educational purposes (e.g. desks, computers, sport equipment)
- Skills development and training for educators (e.g. technology skills for teachers)
- Educational support programs in schools (e.g. learning and teaching of STEM subjects).

Capacity building and skills development for economic development

CEF will consider applications from public benefit organisations who aim to build skills and capacity in communities, in aid of economic development.

Preference will be given to projects in the energy sector, projects that benefit rural or under-serviced areas, and also projects that benefit youth, women or people with disabilities.

Support for energy security and environmental management

CEF will consider applications relating to community programs and initiatives that support energy security in general. This includes programs aimed at energy saving, energy efficiency and environment protection and conservation. Preference will be given to communities where the CEF Group operates.

Health and Wellness

CEF will consider applications from public benefit organisations or communities that require assistance with community healthcare and wellness programs, health equipment in under-resourced public facilities or capacity building within the health sector.

Case Study: PetroSA Youth Café, Great Brak Rivier

PetroSA has committed to funding the construction of a Youth Development Centre to the value of R6,5 million, as it forms part of the company's production license to operate FA-EM.

After performing an extensive needs assessment and conducting stakeholder engagements, including with the local municipality that is providing the land on which the facility will be built, PetroSA felt that the Youth Café concept, an initiative of the Department of Social Development, was the most feasible, as it intends to have a sustainable and lasting impact. The Youth Café's main purpose is to provide the youth with the necessary skills to be socially responsible individuals and better able to participate in the wider economy.

Construction of the Youth Café commenced in May 2016, with the completion targeted for November 2016. During the construction period, local jobs will be created. Once this development is completed, the Mossel Bay Local Municipality will receive the facility on behalf of the Community of Great Brak, and all ownership responsibilities will be passed on to the municipality.

Safety, Health, Environment and Quality

PetroSA

PetroSA acknowledges that its sustainability depends on its ability to safeguard the health and safety of its employees, reduce its environmental impacts, and continually improve the quality of its business operations. In the year under review, the company reports the following in terms of Safety, Health, Environment and Quality operations:

PetroSA has implemented a Health, Safety and Environmental Management System (HSE-MS) as a framework for managing the HSE risks of the business, which conforms to the requirements of internationally recognised standards and sets the expectations for conducting the business in a consistent and responsible manner. As part of the implementation of the Group Health Safety Environmental Management System PetroSA restructured the SHEQ scorecard to encompass the concept of dual assurance that key risk control systems are operating as intended. Both leading and lagging indicators are set in a structured and systematic way for each critical risk control identified in the PetroSA HSE Risk Management process. The investigation of incidents is an opportunity to learn and to apply these lessons in the prevention of future incidents. PetroSA utilises the SAP EHS module for the purpose of incident investigation.

Following the public enquiry into a fatal accident at PetroSA's GTL Refinery, the company was issued with a Section 54(1) instruction in terms of the Mine Health and Safety Act to implement fall arrestors on all fixed ladders. The instruction was implemented within the specified time period to the satisfaction of the Principal Inspector. This has constituted a major change to working norms at PetroSA's facilities.

Furthermore, PetroSA recorded a Disabling Injury Frequency Rate (DIFR) of 0.42 against the target of <0.4.

$$\text{LTIFR} = \frac{\text{Number of Lost Time Injuries} \times 200\,000 \text{ (hours)}}{\text{Hours Worked (over 12 months at end of period under review)}}$$

PetroSA maintains a system of medical surveillance that is proportionate to the health risk profile of the organisation, to assess the effectiveness of the occupational health risk controls in place for employees. Approximately 85, 2% of staff completed the necessary medical surveillance examination during the year under review, against a target of 80-85%.

There were seven environmental incidents recorded in the 2015/16 financial year, which is in line with the performance of the previous year but below the target of 0-6 incidents. The Auditor-General's annual environmental audit at PetroSA is focused on environmental legal compliance, specifically in relation to potential liabilities. There were no repeat findings recorded and progress has been made in the implementation of recommendations. There is progress in the long-term remediation at the Voorbaai tank farm, which will continue to be monitored by PetroSA on a quarterly basis.

PetroSA maintains a Quality Management System that conforms to the internationally recognised ISO 9001:2008 Standard. PetroSA retained its certification to the ISO9001: 2008 code and Mark-scheme requirements. The Company has a transition plan in place to manage the migration of the Quality Management System to the requirements of ISO 9001:2015.

A Lost Time Injury is defined as a work-related injury including occupational illness arising out of and in the course of duty, giving rise to any related temporary or permanent disablement or death, as determined by a medical practitioner. For the period under review, there were five (5) lost time incidents (LTIs) across the organization. The LTIFR for the period under review was 0.42 against the targeted LTIFR of <0.4.

Safety, Health, Environment and Quality (continued)

In the absence of any organisation we know of in our industry with similar definitions of environmental incidents, benchmarking is done by way of identifying historical incidents within PetroSA. There were seven (7) environmental incidents reported during the period under review.

As required by the South African health and safety legislation, which demands regular occupational hygiene surveys, 1 855 medicals were conducted in the year under review, vs. a target of 2 178. This translates to 85% completion for the period under review.

PetroSA's Quality Management System is currently certified under ISO9001:2008. The target is to retain ISO 9001 certification and complete 90% of internal Quality audits against plan.
The organisation retained its ISO certification + 45 audits were completed against 82 plans, which translates to 54.9%.

With regard to the Process Safety Management (PSM) performance as expressed in the PSM Dashboard, there are 41 KPIs, with targets covering the 13 PSM Elements. The overall dashboard score achieved on Process Safety Management was 67.5%.

African Exploration Mining and Finance Corporation SOC Limited

Safety in operations and the general working environment has been prioritised with strict adherence to statutory practices at a bare minimum. The year under review has seen a minor Lost Time Injury and no fatalities. Regular briefings and workshops are held at operations to ensure that these practices are entrenched as a key value, amongst others, and are part of the company's DNA which has produced pleasing results in the year under review.

AEMFC practices zero tolerance on unsafe practices and all incidents.

SFF Association NPC

SFF adheres strictly to all health and safety requirements. No fatalities were reported in the year under review. There were a total of 3 Lost Time injuries. There was one reportable environmental incident in Quarter Three of the year under review.

Petroleum Agency of South Africa

Petroleum Agency of South Africa adheres strictly to all health and safety requirements. No incidents have taken place in the period under review.

Corporate Governance

SECTION 9

Corporate Governance and Remuneration

Introduction

The Group Board of Directors (the Board) strives to promote the highest standard of corporate governance, by subscribing to the principles of good corporate governance as outlined in the King III Report on Corporate Governance, the Public Finance Management Act of 1999 (PFMA), the Companies Act of 2008 and the Protocol on Corporate Governance in the Public Sector. Good corporate governance includes the structures, processes and practices that the Board uses to direct and manage operations of CEF and the subsidiaries. This in turn ensures proper accountability by the Board to the shareholders and other key stakeholders.

It is the Board's understanding and belief that adherence to good corporate governance will improve the confidence of the shareholder, stakeholders and employees in the leadership of the Group. To ensure that the Group is managed in an efficient, accountable, responsible, moral and ethical manner in compliance with these principles, ongoing monitoring of the developments in the field of corporate governance is maintained and improvements are made to the extent deemed appropriate.

Continuous implementation of the Governance principles

The Group continues to adhere and comply with the provisions of the King III report and the Companies Act of 2008 as well as the provisions of 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 Central Energy Fund Act, No. 38 of 1977 ('CEF Act'), as amended, which permits 8 directors appointed by the Shareholder. In line with the recommendations of King III the positions of Chairman and Chief Executive Officer are separately held to ensure a clear division of duties.

The Board retains overall accountability for the running of the group and reserves, for itself, 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, 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 for submission of reports in compliance with the PFMA and other applicable laws affecting the business are adhered to, including submission of financial statements and ensuring that annually a Shareholder's Compact is concluded with the shareholder in respect of agreed performance indicators for the Company in the next year.
The non executive directors are appointed in terms of the CEF Act and re appointment is not automatic. The Board meets at least once every quarter.

Board committees

The Board has established several committees in order 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.

Board Audit and Risk Committee (BARC)

The BARC comprises of two non executive directors and one independent member appointed by the shareholder at each annual general meeting. The committee should meet on a minimum of two occasions per annum as per the approved Charter. The committee is chaired by an independent non executive director who is not the chairperson of the Board.

The committee consist of members with financial, internal and external audit, corporate law and other relevant experience. The committee's terms of reference is reviewed annually by the Board.
The committee functions are shared across all the subsidiaries under the ownership and control of the CEF group and are responsible for ensuring the integrity of financial reporting and monitoring the

adequacy and effectiveness of the governance, risk management, and control processes of the group. The External Auditor and Chief Audit Executive have unrestricted access to the committee and attend all meetings.

The Chief Executive Officer and Chief Financial Officer are permanent invitees to these meetings. Other executive managers are invited to the committee meetings at the discretion of the committee.

Social and Ethics committee

The committee has been appointed in compliance with the provisions of the Companies Act of 2008. It is tasked with monitoring the activities of the company having regard to any relevant legislation, other legal requirements or prevailing codes of best practice with regards to matters relating to:

- Social and Economic development;
- Good Corporate Citizenship;
- The environment, health and public safety, including the impact of the Companies' activities;
- Consumer relations, including advertising and public relations; and
- Labour and employment

Board Human Resource committee

This committee is chaired by a non executive director and comprises non executive directors appointed by the Board. The CEO and the Human Resource Manager attend the committee meetings by invitation.

This committee reviews and recommends annual remuneration increases, terms and conditions of employment, the payment of incentives and bonuses, general fringe benefits, human capital related policies and the appointment of senior staff at an executive level.

Project Assessment and Monitoring committee

The Committee is chaired by a non executive Director and comprises of Directors appointed by the Board. The Committee focuses on Group Projects and monitoring the progress thereof.

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 requires ministerial approval. The framework was finalised after consultation with the external auditors and has been formally approved by the board.

Internal Audit

The Group has an internal audit function that has the support and cooperation of both the board and management. The internal audit function has a written terms of reference, approved by the Board Audit and Risk Committee, setting out its purpose, authority and responsibilities.

The Internal Audit Department headed by the Chief Audit Executive, is accountable to the Board Audit and Risk Committee (BARC).

The internal audit function carries out its work in terms of an approved internal work plan based on the risk framework of the company. The annual work plan is approved by the board audit and risk committee. The Chief Audit Executive has full access to the chairperson of the board audit and risk committee and the board of directors.
The key responsibilities of the internal audit function are to the board, the board audit and risk committee, or both, in discharging its governance responsibilities and to perform the following functions:

- Evaluating the company's governance processes including ethics;
- Performing an objective assessment of the effectiveness of risk management and internal control framework;
- Systematically analysing and evaluating policies, business processes and associated controls; and
- Providing a source of information, as appropriate, regarding instances of fraud, corruption, unethical behaviour and irregularities.

The internal audit function adheres to the International Standards for Professional Practice of Internal Auditing and Code of Ethics. The Chief Audit Executive develops and maintains a quality assurance and improvement program.

The internal audit function is subjected to an external quality review at least every 5 years, the last review was conducted during 2013 and the evaluation result was "general conformance", which is the highest level of conformance. The next review will be done during the 2018 financial year.

Corporate Governance and Remuneration (continued)

Company Secretary

- The Company Secretary is responsible for ensuring that the company's affairs as well as the Board proceedings are properly carried out in accordance with the relevant laws and standards.
- The Company Secretary provides the board of directors with guidance and advice on matters of business ethics and good governance, as well as on the nature and extent of their duties and responsibilities and how such duties and responsibilities should be properly discharged.
- Each of the directors has unrestricted access to the advice and services of the Company Secretarial team and company information, and are entitled to seek independent professional advice, at the Company's expense in pursuance of their duties as directors. The company secretary reports to the Board.

Management reporting

There are comprehensive management reporting disciplines in place, which include the preparation of annual budgets by all divisions and reporting thereon on a quarterly basis. The budget and capital expenditure are reviewed and approved by the Board. Quarterly performance results and the financial status of the company and group are reported against approved targets. Profit projections and forecasted cash flows are updated monthly, while working capital and borrowing levels are monitored on an ongoing basis.

Executive management meet on a regular basis to consider day to day issues pertaining to the business of the company and the group

Code of Ethics

The Code of Ethics serves as a guide to assist the Board, Executive Management, Staff and Contractors of the group in making ethical decisions and engaging in appropriate and lawful conduct.

In addition Directors are required to annually declare their interests in contracts as well as Directorships in other companies in accordance with the provisions of the Companies Act and the PFMA.

The Group is committed to the eradication of fraud, corruption, misconduct and any irregularities. The company also has a Fraud Prevention Policy which addresses fraud risk management from both proactive and reactive perspectives.

The Group has contracted the services of an independent hotline service providing for the confidential reporting of fraud and other inappropriate behaviour.

Group Remuneration Report

In the Year under review, The CEF Group has continued to review HR policies with a view to harmonise these in order to support the strategic alignment and coordination of the Group. Key to this was the development of the CEF Total Remuneration and Reward Policy, Strategy and Philosophy.

The purpose of the Remuneration Philosophy and strategy is to ensure that the manner, in which the CEF Group and its subsidiaries (CEF) remunerate and reward employees, reflects the dynamics of the market and context in which the entities operate. The approach to remuneration and reward will play a critical role in attracting and retaining high performing individuals and thereby supporting CEF's commitment to the achievement of its strategic objectives, which can only be achieved through a highly motivated workforce.

CEF's remuneration policy has been designed to:

- Motivate an employee to improve performance;
- Encourage higher levels of skills development in an employee; and
- Contribute towards the organisation achieving its targeted mission and objectives as well as
- Retain scarce resources.

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 will reward key employees for the contribution they make to the entity.
- **Internal Equity:** Remuneration differentiation between employees fulfilling roles of equal value will be based on criteria that are fair and objective and will conform to all existing 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 they are a responsible corporate citizen.
- **Non-discriminatory Remuneration**

"Remuneration" at CEF is defined as the total package of financial benefits paid to every employee on a monthly or annual basis. This comprises a "Total Cost of Employment" package and excludes other varying financial benefits such as overtime, cell phone, shift and standby allowances and a performance bonus, which is paid in terms of the conditions stipulated in the Company's Performance Management system.

Corporate Governance and Remuneration (continued)

The table below provides a summary of how CEF will utilise monetary rewards to attract, retain and motivate employees:

Reward component	Impact on individual		
	Attract	Retain	Motivate
Guaranteed Remuneration	High	Medium	Low
Short Term Incentive Plan (STIP) – Bonus	Medium	Medium	High
Long term Incentive Plan (LTIP)	Medium	High	High

This means that CEF will utilise mainly High Guaranteed Pay to attract, Fair Bonuses to motivate and Long Term Incentives to retain its employees. All cash remuneration packages are reviewed on an annual basis as follows:

Market Related
Updated market information is obtained from external surveys conducted on an annual basis reflecting the typical cash remuneration payable in the RSA market for various positions. These figures are based on typical job descriptions and job gradings for specific functions. The current job grading system is the Peromnes system. The measure used in the determination of market related salary is the Consumer Price Index (CPI) for April of each and every year. Staff filling scarce skills positions may be awarded an additional increase above CPI.

Salary bands
A band of 20% below and 20% above the market midpoint is applied and management exercise discretion within such parameters. Senior and specialist posts, which do not have easily identified equivalent positions in the external survey, are independently reviewed by external consultants on an annual basis, also using the Peromnes system. In order to ensure that all positions within the Company can be properly compared to equivalent positions in the Remuneration Survey, all positions within the Company are evaluated in terms of the Job Evaluation Policy, M-26, when:

- Positions are established or
- When significant changes are made to the content or responsibilities of a position or
- If none of the previous conditions occur, at least every 3 years.

Performance Assessments
Performance of all employees is assessed in alignment with the Company's Performance Management Policy M-05 and the results of such review used on an annual basis to determine a performance bonus payment in line with the performance management system.

Board Decisions

The Board considers on an annual basis the following with regards to the Remuneration Policy:

- The quantum of increase to be given to employees;
- Approval of the payment or non-payment of annual incentives.

Pertinent Facts Relating to the 2015/2016 Remuneration at CEF

The company implemented a salary adjustment which was linked to inflation and on average 5.5% increase was granted. Where salary increases are negotiated in Bargaining Fora, the increases were higher. Performance bonuses were paid out based on the Performance management policy.

Remuneration of Non-Executive Directors

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 45 of the Annual Financial Statements.

Directors' Report

The directors have pleasure in submitting their report on the annual report of CEF SOC Limited and the Group for the year ended 31 March 2015.

Review of financial results and activities

The consolidated annual report have been prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act 71 of 2008. The accounting policies have been applied consistently compared to the prior year. The Group recorded a net loss after tax for the year ended March 31, 2016 of R191 million. This represented an increase of R14.2 billion from the net loss after tax of the prior year of R14.4 billion. Group revenue increased by 12% from R18.5 billion in the prior year to R20.7 billion for the year ended March 31, 2016. The Group cash flows from operating activities increased from R4, 5 billion in the prior year to R7.4 billion for the year ended March 31, 2016.

Share Capital

There have been no changes to the authorised or issued share capital during the year under review.

Insurance and risk management

The Group follows a policy of reviewing the risks relating to assets and possible liabilities arising from business transactions with its insurers on an annual basis. Wherever possible assets are automatically included. There is also a continuous asset risk control programme, which is carried out in conjunction with the group's insurance brokers. All risks are considered to be adequately covered, except for political risks, in the case of which as much cover as is reasonably available has been arranged.

Directorate

The directors of the holding company during the year and to date of this report are as follows:

Directors	Designation	Changes
Dr. X Mkhwanazi	Non Executive Chairperson	Appointed 10 December 2015
Mr. G Bezuidenhoudt	Non Executive	Appointed 03 November 2014
Mr. G Moagi	Non Executive	Appointed 10 December 2015
Mr. T Maqubela	Non Executive	Appointed 03 November 2014
Adv. L Mtunzi	Non-Executive	Appointed 10 December 2015
Ms. M Molope	Non-Executive	Appointed 10 December 2015
Mr. T Sethosa (Alternate)	Non Executive	
Mr. R Boqo	Non Executive	Term Ended 31 October 2015
Mr. R Jawoodeen	Non Executive	Resigned 7 July 2016

Directors' Report (continued)

Director	28/05/15 B	14/07/15 SP	29/07/15 B	10/09/15 SP	29/10/15 B	26/11/15 B	14/12/15 B	15/01/16 SP	28/01/16 B	25/02/16 B
Dr. S Mthembi-Mahanyele	Y	Y	N	N	N/A	N/A	N/A	N/A	N/A	N/A
Mr. G Bezuidenhoudt	Y	Y	N	Y	Y	Y	Y	Y	Y	Y
Mr. R Boqo	N	Y	Y	Y	Y	N/A	N/A	N/A	N/A	N/A
Mr. R Jawoodeen	Y	Y	Y	Y	Y	Y	Y	N	N	Y
Mr. T Maqubela	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Mr. T Sethosa (Alternate)	N	Y	Y	Y	Y	Y	N	N	Y	Y
Dr X Mkhwanazi	N/A	N/A	N/A	N/A	N/A	N/A	Y	Y	Y	Y
Mr. G Moagi	N/A	N/A	N/A	N/A	N/A	N/A	Y	Y	Y	Y
Adv. L Mtunzi	N/A	N/A	N/A	N/A	N/A	N/A	Y	Y	Y	Y
Ms. M Molope	N/A	N/A	N/A	N/A	N/A	N/A	Y	Y	Y	Y

Legend

B = Board

SP - Special meeting

Y - Attended meeting

N - Did not attend meeting

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

Board Audit and Risk Committee

The committees consist of the following members:

Name	Designation	Appointed	Resigned
Mr. G Moagi	Non-executive Chair	28 January 2016	
Mr. R Boqo	Non executive Chairperson	01 June 2012	12 October 2015
Mr. D Hlatshwayo	Non executive Member	01 March 2011	
Mr. T Sethosa	Non executive	22 January 2015	
Adv. L Mtunzi	Non-Executive	28 May 2016	

Name	24/04/2015	25/05/2015	27/07/2015	22/10/2015	26/01/2016	22/02/2016
Mr. R Boqo	Y	N	N	N/A	N/A	N/A
Mr. D Hlatshwayo	Y	Y	Y	Y	Y	Y
Mr. T Sethosa	Y	Y	Y	Y	Y	Y
Mr. MG Moagi	N/A	N/A	N/A	N/A	N/A	Y

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

Board Human Resource Committee

The Committee consists of the following members:

Name	Designation	Appointed	Resigned
Mr. R Jawoodeen	Non-executive	28 July 2011	
Dr. S Mthembi-Mahanyele	Non-executive Chairperson	28 July 2011	1 October 2015
Mr. G Bezuidenhoudt	Non-executive	14 April 2015	
Ms. M Molope	Non-executive	28 January 2016	

Name	06/11/2015
Mr. R Jawoodeen	Y
Dr S Mthembi-Mahanyele	Y
Mr. G Bezuidenhoudt	N
Ms. Molope	N/A

The Board of directors has delegated its function of ensuring that employees are fairly rewarded in accordance with their contributions to the company's performance to this Board human resources committee.

Social and Ethics Committee

The committee consist of the following members:

Name	Designation	Appointed
Mr. R Jawoodeen	Non-executive	28 January 2016
Mr. G Bezuidenhoudt	Non-executive	28 January 2016
Ms. M Molope	Non-executive	28 January 2016

No meetings were held between 1 April 2015 and 31 March 2016. The CEF Board was reconstituted in December 2015 which allowed for members in December 2015 to be elected to the various Board sub-committees.

Governance and Nominations Committee

This committee consists of the following members:

Name	Designation	Appointed	Resigned
Mr. T Maqubela	Non-executive	03 November 2014	
Mr. T Sethosa	Non-executive	01 September 2013	
Dr. S Mthembi-Mahanyele	Non-executive Chairperson	01 February 2012	1 October 2015
Dr. X Mkhwanazi	Non-executive Chairperson	28 January 2016	
Adv. L Mtunzi	Non-executive	28 January 2016	

Director	14/04/2015
Dr. S Mthembi-Mahanyele	Y
Mr. T Sethosa (Alternate)	Y
Mr. T Maqubela	Y
Dr. X Mkhwanazi	N/A
Adv. L Mtunzi	N/A

During the financial year, no contracts were entered into which directors or officers of the Group had an interest and which significantly affected the business of the Group.

Directors' Report (continued)

Going Concern

The directors believe that the Group has adequate financial resources to continue in operation for the foreseeable future and accordingly the Consolidated Annual Financial Statements have been prepared on a going concern basis. The directors have satisfied themselves that the Group is in a sound financial position and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements. The directors are not aware of any new material changes that may adversely impact the group. In spite of diminished reserves at PetroSA there is no intention to cease trading. The purchased product trading and PetroSA Ghana activities are unaffected and continue to expand. The directors are also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the Group.

Auditors

The Office of the Auditor-General of South Africa continued in office as auditors for the company and its subsidiaries for 2015.

At the AGM, the shareholder will be requested to re appoint the Auditor-General of South Africa as the independent external auditors of the company and to confirm the designated lead audit partner for the 2016 financial year.

Secretary

The company 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

Corporate Strategy

CEF has continued with the development of its strategy in terms of its mandate. All entities in the group review their corporate strategy on an annual basis and enter into shareholders compacts with the holding company. Performance against these compacts is monitored throughout the year.

Nature of Business

The principal activities of CEF are:

- the acquisition of coal, the exploitation of coal deposits, the manufacture of liquid fuel, oil and other products from coal, the marketing of the said products and any matter connected with the said acquisition, exploitation, manufacture and marketing;
- the acquisition, generation, manufacture, marketing or distribution of any other forms of energy and research connected therewith;
- any other object for which the Central Energy Fund may be applied, and which has been designated or approved by the Minister of Energy with the concurrence of the Minister of Finance; and
- to deliver sustainable development of the economy and communities through the targeting of skills development, the implementation of competitive supplier development programmes and the investment in social upliftment programmes of targeted groups through Corporate Social Investment programmes.

Irregular, Fruitless and Wasteful Expenditure

The directors are not aware of any irregular, fruitless and wasteful expenditure which has been incurred during the year under review other than that disclosed in note 51 and 52 of the Annual Financial Statements.

Review of Operations

Highlights of the financial year include:

The restructuring of the holding company under Project Genesis was completed during the year. Ministerial approvals for two renewable energy projects under the Energy Projects Division were received and this lays the foundation for additional activities in this area in line with the CEF mandate. The Minister of Energy signed a determination for CEF to implement (jointly with Eskom) the 1,500MW Solar Park. This would be a flagship project for CEF and will contribute to the sustainability of the CEF Group. The determination, however, still requires NERSA concurrence.

The performance against the predetermined financial objectives was achieved. Discretionary BBBEE spend at PetroSA and SFF exceeded the predetermined targets.

Environmental incidents and the disabling injury frequency rate (DIFR) were better than target, although the DIFR only marginally so. The Group takes compliance in these areas seriously and this does indicate an increased focus on this area of operations.

The PetroSA operations at Mossel Bay continued although at a reduced rate resulting from declining gas flow rates. Additional analysis of seismic data has assisted in firming up options for additional gas.

SFF has shown improved liquidity through rental agreements and the sale of strategic stocks as part of the stock rotation plans.

African Exploration exceeded coal sales targets flowing from the conclusion of a long term supply agreement with Eskom. This has resulted in improved profits for the company.

The iGas investment in the Rompco pipeline from Mozambique is now providing a solid dividend flow back to CEF. Work on the next phase of the pipeline capacity expansion began towards the end of 2015. iGas has further completed a biodiversity study for the proposed Saldanha to Ankerlig gas transmission pipeline.

Worth noting is that the 2014 CEF Integrated Report was in the top 10 of the Nkonki SOC Integrated Reporting Awards. PASA has completed the additional work required by the UN Commission on the Limits of the Continental Shelf on the South African extended continental shelf claim. These will be submitted to the next session of the Commission. A positive result will form a significant foundation to the objectives of Operation Phakisa.

Identified Challenges facing the Group are

Despite the intensive focus on safety an operational fatality at the PetroSA facility was recorded on 26 September 2015. The long-term financial health of PetroSA remains a serious concern as feedstock reserves are depleting and with more time required before a solution can be implemented. The low and volatile global oil prices have had a negative impact on the company. Further the largely unfunded decommissioning liability is cause for concern. The company has approached the Minister of Mineral Resources for a determination that will defer the need for full upfront funding of this liability. The company has transferred cash reserves into a ring-fenced decommissioning fund, and will do so in each of the next financial years. The total GTL indigenous GTL production at PetroSA was 25% below target for 2015/16.
At SFF, the Milnerton tank refurbishment did not progress as was expected. The project has had to use a different method of cleaning as a result of complications with High Pressure Blasting, unsafe conditions of the roofs and solids found inside the tanks. The sale of the strategic stock has exposed the group to a potential shortfall (based on prevailing oil prices and ZAR/US$ exchange rate) of US$173 million (R2, 5 billion) should new stock be purchased at the current oil price ($45/bbl).

Directors' Report (continued)

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 requires ministerial approval. The framework was finalised after consultation with the external auditors and has been formally approved by the Board.

Subsequent Events

On 14th July 2016, the Minister of Energy, Ms Tina Joemat-Pettersson, MP, convened a meeting with the CEF Group. In the meeting, the minister raised specific concerns around the Strategic Fuel Fund (SFF) and directed that a thorough review be conducted of SFF contracts from the 2014/15 financial year to date. This review will include all contracts and transactions entered into in terms of the Ministerial Directive Issued to the SFF, inclusive of the Strategic Stock Rotation and Storage and Leasing Agreements concluded. This process will establish whether the transactions were implemented in accordance with conditions as set out in Ministerial Directive, and whether these followed due process and were above board. Any lapse in governance process or irregular actions will be investigated. Refer to note 50 of the annual financial statements for disclosure of events after reporting date.

Other Activities administered by CEF

CEF SOC Limited administers the Central Energy Fund and the Equalization 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.

Shareholder

The company is controlled by the Department of Energy. All shares are held by the State and are not transferable. This shareholding is in terms of the Central Energy Fund Act.

Accounting Policies

With the promulgation of the new Companies Act of 2008, the South African Statements of GAAP were withdrawn with effect from 1 December 2012. The group subsequently received approval from National Treasury to prepare the annual financial statements in accordance with International Financial Reporting Standards, which standards have been used for the preparation of these financial statements.

Funding of the Decommissioning Liability Provision

At year-end the company had a future obligation to decommission (abandon and rehabilitate) its offshore and onshore facilities with the liabilities valued at R11 billion. These liabilities are currently not fully funded. As per the approved corporate plan the gap would be funded over time in line with the expected maturity of the liability. However, in terms of the recently promulgated National Environmental Management Act (NEMA) Regulation R1147 of 20 November 2015, PetroSA is required to have a fully funded rehabilitation liability within the next 12 months from year-end. There are current challenges with funding this gap (approximated at R8.8 billion at year-end) from equity due to PetroSA's weakened financial position. This has emanated from the depleting indigenous feedstock, the limited success of Project Ikhwezi and the significant decline in crude oil prices. CEF SOC has committed to assist PetroSA, through various support and oversight mechanisms, to close the funding gap. In addition, PetroSA is working closely with the regulator (Petroleum Agency of South Africa) to ensure PetroSA discharges its responsibilities as required under NEMA.

Litigation

The Group becomes involved from time to time in various claims and lawsuits incidental to the ordinary course of business. The Group is not currently involved in any such claims or lawsuits, which individually or in the aggregate, are expected to have a material adverse effect on the business or its assets. Refer to note 41 of the annual financial statements for the list of contingencies for the Group.

Acknowledgements

Thanks and appreciation are extended to all of our stakeholders in particular our shareholder, the management and staff, suppliers and consumers for their continued support of the Group. The annual financial statements set out on pages 110 to 208, which have been prepared on the going concern basis, were approved by the Board of directors on July 28, 2016 and were signed on its behalf by:

Dr. X Mkhwanazi
Chairperson

Mr. G Moagi
Non-executive

Reports and Financial Results

SECTION 10

Directors' Responsibilities and Approval

The directors are responsible for the maintenance of adequate accounting reports and the preparation and integrity of the Consolidated Annual Financial Statements and related information. The external auditors are responsible for the audit on the fair presentation of the Consolidated Annual Financial Statements.

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

The directors are also responsible for the Group's system of internal controls. These controls are designed to provide reasonable, but not absolute assurance as to the reliability of the Group's Consolidated Annual Financial Statements, and to adequately safeguard, verify and maintain accountability of assets and prevent and detect misstatements and losses.

The directors have reviewed the budgets and cash flow forecasts for the year ending 31 March 2016. On the basis of this review, and in view of the current financial position and existing borrowing facilities, the directors have every reason to believe that the company will be a going concern in the year ahead and have continued to adopt the going concern basis in preparing the Consolidated Annual Financial Statements.

To enable the directors to meet the above responsibilities, the board of directors sets standards and implements systems of internal controls and risk management that are designed to provide reasonable, but not absolute assurance against material misstatements and losses. The Group maintains internal financial controls to provide assurance regarding:

- The safeguarding of assets against unauthorised use or disposition.
- The maintenance of proper accounting records and the reliability of financial information used within the business and for publication.

The controls contain self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified. Even an effective system of internal control, no matter how well designed, has inherent limitations. This includes the possibility of circumvention or the overriding of controls. An effective system of internal control therefore aims to provide reasonable assurance with respect to the reliability of financial information and, in particular, Consolidated Annual Financial Statement presentation. Furthermore, because of changes in conditions, the effectiveness of internal financial controls may vary over time.

Unless otherwise stated elsewhere in the Consolidated Annual Financial Statements, nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The Consolidated Annual Financial Statements have been audited by the Auditor General of South Africa (AGSA) who was given unrestricted access to all financial records and related data, including minutes of all meetings of the shareholders, the board of directors, committees of the board, and management. The directors believe that all representations made to the independent auditors during their audit were valid and appropriate. The AGSA's audit report is attached.

The Consolidated Annual Financial Statements set out on page 110 - 208, for the year ended 31 March 2016, were approved by the board of directors in terms of Section 51(1) (f) of the Public Finance Management Act on July 28, 2016 and was signed on its behalf by:

Dr. X Mkhwanazi
Group Chairperson

Mr. M Moagi
Non-executive

28 July 2016

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

Report on the consolidated and separate financial statements

Introduction

1. I have audited the consolidated and separate financial statements of the CEF SOC Limited and its subsidiaries set out on pages 110 to 208, which comprise the consolidated and separate statement of financial position as at 31 March 2016, the consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity and statements of cash flows for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

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

2. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards (IFRS), 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), and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these consolidated and separate financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

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

Emphasis of matters

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

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

Significant uncertainties

8. With reference to note 41 to the consolidated financial statements, PetroSA Ghana's place of effective management changed to South Africa on 14 September 2012 and the company became a tax resident in South Africa. South African Income Tax legislation does not expressly deal with the tax treatment of the opening balances of capital expenditure on property, plant and equipment (and intangible assets) prior to becoming a tax resident. Clarity in this regard is being sought from the South African Revenue Service and National Treasury. Furthermore, the deductibility, for South African income tax purposes, of fees paid to a previous lender is unclear.
9. With reference to note 41 to the consolidated financial statements, PetroSA had notified employees in terms of section 189 of the Labour Relations Act 66 of 1995 of possible headcount reduction based on operational requirements, on 24 February 2015. It is not possible, at this time, to measure reliably the mandatory obligations arising from this notice, nor is it practicable to estimate their magnitude or possible timing of payment. Therefore, no amounts have been provided for these obligations as at 31 March 2016.

Restatement of corresponding figures

10. As disclosed in note 31 to the separate financial statements and note 42 to the consolidated financial statements, the corresponding figures for 31 March 2015 have been restated as a result of errors discovered during 31 March 2016 in the consolidated and separate financial statements of the CEF SOC Limited at, and for the year ended, 31 March 2015. The errors in the separate financial statements primarily relate to the investments in subsidiaries, and associates, loans to/from group companies, current tax receivable. The errors in the consolidated financial statements primarily relate to incorrect equity accounting for joint ventures and associates as well as individual subsidiary adjustments affecting retained income.

Material impairments

11. As disclosed in note 5 to the separate financial statements, investments in subsidiaries were impaired by R49, 4 million. Loans to subsidiaries and loans to associates, as disclosed in note 7 to the separate financial statements, were impaired by R81, 7 million and R24, 4 million respectively.

Funding of abandonment provision

12. I draw attention to note 26 to the consolidated financial statements relating to the funding of the abandonment and rehabilitation provision. PetroSA has an obligation to rehabilitate and abandon its offshore and onshore operations valued at R10, 7 billion which is currently under funded by R8.8 billion. In terms of the recently promulgated National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA), PetroSA is required to have the rehabilitation liability fully funded within the next 8 months. There are currently challenges with funding this gap due to PetroSA's weakened financial position. The holding company (CEF SOC Limited) has committed to assist PetroSA, through various support and oversight mechanisms, in closing the funding gap. In addition, PetroSA is working closely with the regulator (South African Agency for Promotion of Petroleum Exploration and Exploitation) to ensure PetroSA discharges its responsibilities as required under National Environment Management Act (NEMA). Other stakeholders involved include the Departments of Treasury, Mineral and Resources and Environmental Affairs.

Additional matters

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

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

Review of contracts entered into by SFF Association

14. With reference to paragraph 22 of the chairpersons report, subsequent to year end, the Minister of Energy raised specific concerns around the Strategic Fuel Fund (SFF) and directed that a thorough review be conducted of SFF contracts from the 2014-15 financial year to date. This review will include all contracts and transactions entered into in terms of the Ministerial Directive issued to the SFF, inclusive of the Strategic Stock Rotation and Storage and Leasing Agreements concluded. This process will establish whether the transactions were implemented in accordance with conditions as set out in the Ministerial Directive, and also that due process was above board. Any lapse in governance processes or irregular actions will be investigated.

Unaudited supplementary schedules

15. The supplementary information set out on page 209 does not form part of the consolidated and separate financial statements and is presented as additional information. I have not audited this information and, accordingly, I do not express an opinion thereon.

Other reports required by the Companies Act

16. As part of my audit of the consolidated and separate financial statements for the year ended 31 March 2016, I have read the directors' report, the audit committee's report and the company secretary's certificate for the purpose of determining whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports, I have not identified material inconsistencies between the reports and the audited consolidated and separate financial statements. I have not audited these reports and accordingly do not express an opinion thereon.

Report on other legal and regulatory requirements

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

Predetermined objectives

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

- Objective 1: Financial sustainability on pages 38 to 39.
- Objective 2: Contribute to security of energy supply on pages 38 to 39.
- Objective 3: Improve safety, health and environmental compliance on pages 38 to 39.

19. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
20. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
21. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

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

Predetermined objectives (continued)

22. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following objectives:

- Objective 1: Financial sustainability
- Objective 2: Contribute to security of energy supply
- Objective 3: Improve safety, health and environmental compliance

Additional matters

23. Although I raised no material findings on the usefulness and reliability of the reported performance information for the selected objectives, I draw attention to the following matters.

Achievement of planned targets

24. Refer to the annual performance report on pages 38 to 39 for information on the achievement of the planned targets for the year.

Adjustment of material misstatements

25. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for financial sustainability and improve safety, health and environmental compliance. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

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

Annual financial statements

27. The consolidated and separate financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 55(1)(b) of the PFMA and section 29(1)(a) of the Companies Act of South Africa. Material misstatements of expenditure, current liabilities and disclosure items identified by the auditors in the submitted consolidated and separate financial statements were subsequently corrected, resulting in the consolidated and separate financial statements receiving an unqualified audit opinion.

Expenditure management

28. Effective steps were not taken to prevent irregular expenditure, amounting to R1 million as disclosed in note 38 of the separate financial statements and R82,6 million as disclosed in note 52 of the consolidated financial statements, as required by section 51(1)(b)(ii) of the PFMA.
29. Effective steps were not taken to prevent fruitless and wasteful expenditure of R5.4 million as disclosed in note 38 of the separate financial statements and R11 million as disclosed in note 51 of the consolidated financial statements, as required by section 51(1)(b)(ii) of the PFMA.

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

Internal control

30. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with legislation. 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.

Financial and performance management

31. Management did not put adequate processes in place to ensure that the internal review procedures could identify and correct timely material misstatements of commitments disclosures, current assets, current liabilities and expenditure in the financial statements thereby ensuring reliable financial reporting.
32. Controls were not adequately designed to prevent and detect non-compliance with laws and regulations.

Auditor-General

Pretoria
1 August 2016

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Report of the Board Audit and Risk Committee

This report is provided by the audit committee appointed in respect of the 2016 financial year of CEF SOC Limited.

Charter

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

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

Purpose

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

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

Membership

The Committee members were appointed by the board of directors and comprise of at least three non-executive members. The committees consist of the members listed hereunder and are required to meet on a minimum of two occasions per annum as per the approved Charter. During the financial year, six meetings were held.

Director	Number of meetings
Mr M Moagi	1
Mr D Hlatshwayo	6
Mr T Sethosa	6
Mr R Boqo	1

External Audit

The audit committee, in consultation with executive management, agreed to the engagement letter, terms, nature and scope of the external audit plan as presented by the Auditor-General of South Africa. The audit committee has reviewed the Auditor-General of South Africa's Strategic Audit Plan for the 2016 financial year and have approved the fees. The audit committee has satisfied itself that the Auditor General of South Africa exercised their duties in an independent and objective manner.

Internal Audit

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

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 2013 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 the IIA Standards. The next external assessment will be conducted in 2018 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 Audit committee and the chairperson must concur with the appointment and dismissal of the Chief Audit Executive.

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

Internal Control Effectiveness

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

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

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

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 monthly and quarterly reports prepared and issued by the Interim Group Chief Executive Officer during the year under review were properly formulated and have complied with the PFMA in this regard.

Risk Management

The Board assigned the oversight of the risk management function to the risk committee. The Group implemented a risk management strategy which includes the fraud prevention plan and combined assurance plan. The risk committee monitored the significant risks faced by the company through reviewing risk reporting and participation in the risk assessment workshop. We are satisfied that significant risks were managed to an acceptable level.

Conclusion

We therefore recommend that the Board approve the audited Consolidated Annual Financial Statements for 2015/2016.

Appreciation

The committee expresses its sincere appreciation to the Department of Energy, the CEF SOC Limited's Interim Group Chief Executive Officer, Management, Internal Audit and the Auditor-General of South Africa.

On behalf of the Audit Committee

Adv L Mtunzi
Chairperson Board Audit and Risk Committee
26 July 2016

Statement of Financial Position for the year ended 31 March 2016

Figures in Rand thousand	Note(s)	2016	Restated 2015
Assets			
Non-current Assets			
Property, plant and equipment	3	10 616 462	9 457 903
Intangible assets	4	1 911 296	1 779 626
Investments in subsidiaries	5	–	–
Investments in joint ventures	6	–	1 196
Investments in associates	7	670 988	503 943
Loans to Group companies	8	236 062	165 867
Other financial assets	9	344 837	218 534
Finance lease receivables	10	556	939
Prepayments	14	933	1 037
Strategic inventory	15	971 895	2 930 227
Inventory on loan	16	–	–
		14 753 029	**15 059 272**
Current Assets			
Inventories	17	1 992 402	2 213 232
Loans to Group companies	8	–	299 703
Trade and other receivables	18	2 155 393	2 975 133
Finance lease receivables	10	265	376
Prepayments	14	351 464	389 587
Current tax receivable		5 557	–
Cash and cash equivalents	19	16 153 554	10 364 006
		20 658 635	**16 242 037**
Non-current assets held for sale and assets of disposal groups	20	60 669	60 669
Total Assets		**35 472 333**	**31 361 978**
Equity and Liabilities			
Equity			
Equity Attributable to Equity Holders of Parent			
Reserves		2 137 047	1 700 830
Retained income		12 929 050	13 094 835
		15 066 097	14 795 665
Non-controlling interest		(904)	(483)
		15 065 193	**14 795 182**
Liabilities			
Non-current Liabilities			
Other financial liabilities	25	1 201 666	865 824
Operating lease liability	11	14 991	13 550
Retirement benefit obligation	12	121 172	107 646
Deferred income	28	750	703
Deferred tax	13	1 381 403	973 069
Provisions	26	11 605 387	10 125 692
		14 325 369	**12 086 484**

Statement of Financial Position for the year ended 31 March 2016 (continued)

Figures in Rand thousand	Note(s)	2016	Restated 2015
Current Liabilities			
Trade and other payables	27	5 461 743	4 001 972
Loans from Group companies	8	430	405
Other financial liabilities	25	55 772	46 843
Operating lease liability	11	1 465	922
Current tax payable		6 607	48 555
Provisions	26	138 395	94 544
Unearned finance income		150	310
Bank overdraft	19	417 209	286 761
		6 081 771	**4 480 312**
Total Liabilities		**20 407 140**	**16 566 796**
Equities		15 065 193	14 795 182
Liabilities		20 407 140	16 566 796
Total Equity and Liabilities		**35 472 333**	**31 361 978**

Statement of Profit or Loss

and other Comprehensive Income for the year ended 31 March 2016

Figures in Rand thousand	Note(s)	2016	Restated 2015
Revenue	29	20 716 465	18 510 105
Cost of sales	30	(16 248 004)	(17 162 838)
Gross profit		**4 468 461**	**1 347 267**
Other income	31	386 217	264 336
Operating expenses		(5 135 856)	(16 544 759)
Operating loss	**32**	**(281 178)**	**(14 933 156)**
Investment revenue	33	709 134	732 464
Income from equity accounted investments		305 212	259 751
Finance costs	34	(555 958)	(1 329 724)
Profit (loss) before taxation		**177 210**	**(15 270 665)**
Taxation	35	(368 329)	837 120
Profit (loss) for the year from continuing operations		(191 119)	(14 433 545)
Loss for the year		**(191 119)**	**(14 433 545)**
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurements on net defined benefit liability/asset		(3 807)	(3 880)
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations	37	453 757	239 275
Effects of cash flow hedges		(108)	(349)
Total items that may be reclassified to profit or loss		453 649	238 926
Other comprehensive income for the year net of taxation		449 842	235 046
Total comprehensive income (loss) for the year		258 723	(14 198 499)
Loss attributable to:			
Owners of the parent		(190 938)	(14 438 845)
Non-controlling interest		(181)	5 300
		(191 119)	**(14 433 545)**
Total comprehensive income (loss) attributable to:			
Owners of the parent		258 904	(14 203 799)
Non-controlling interest		(181)	5 300
		258 723	(14 198 499)

Statement of Cash Flows for the year ended 31 March 2016

Figures in Rand thousand	Note(s)	2016	Restated 2015
Cash flows from operating activities			
Cash generated from operations	38	6 593 615	3 866 611
Interest income		709 134	732 464
Dividends received		150 950	18 760
Finance costs		(12 253)	(155 726)
Tax paid	39	(12 594)	(2 881)
Net cash from operating activities		**7 428 852**	**4 459 228**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(2 088 322)	(5 803 576)
Sale of property, plant and equipment	3	39 478	20 055
Purchase of other intangible assets	4	(67 134)	(172 352)
Sale of other intangible assets	4	2 812	314
Investments in Associates		(167 045)	(79 411)
Movement in loans to Group companies		229 508	(1 303)
Movement in other financial assets		(126 303)	84 640
Net cash flows of discontinued operations		–	(82 020)
Net cash from investing activities		**(2 177 006)**	**(6 033 653)**
Cash flows from financing activities			
Movement in other financial liabilities		344 771	720 960
Movement in Unearned finance Income		160	66
Movement in loans from Group companies		25	(36 001)
Operating Lease payments		1 984	3 621
Finance lease receipts		494	826
Net cash from financing activities		**347 434**	**689 472**
Total cash movement for the year		**5 599 280**	**(884 953)**
Cash at the beginning of the year		10 077 245	10 953 251
Effect of exchange rate movement on cash balances		59 820	8 947
Total cash at end of the year	19	**15 736 345**	**10 077 245**

Statement of Changes in Equity for the year ended 31 March 2016

Figures in Rand thousand	Foreign currency translation reserve	Hedging reserve	Revaluation reserve	Fair value adjustment assets-available-for-sale reserve
Opening balance as previously reported	142 547	–	1 319 310	5 499
Adjustments				
Prior period error	–	314	–	(5 499)
Balance at April 1, 2014 as restated	**142 547**	**314**	**1 319 310**	**–**
Loss for the year	–	–	–	–
Other comprehensive income	239 275	(349)	–	–
Total comprehensive Loss for the year	**239 275**	**(349)**	**–**	**–**
Adjustments on retained earnings	–	–	–	–
Adjustment on opening reserves balance	–	(267)	–	–
Total contributions by and distributions to owners of company recognised directly in equity	**–**	**(267)**	**–**	**–**

Figures in Rand thousand	Foreign currency translation reserve	Hedging reserve	Revaluation reserve	Fair value adjustment assets-available-for-sale reserve
Opening balance as previously reported	387 297	–	1 319 310	5 454
Adjustments				
Prior period errors	(5 475)	(616)	–	45
Balance at April 1, 2015 as restated	**381 822**	**(302)**	**1 319 310**	**–**
Loss for the year	–	–	–	–
Other comprehensive income	453 757	(108)	–	–
Total comprehensive Loss for the year	**453 757**	**(108)**	**–**	**–**
Transfer between reserves	–	–	(17 305)	–
Adjustments on retained earnings	–	–	–	–
Adjustment on opening reserves balance	–	(127)	–	–
Total contributions by and distributions to owners of company recognised directly in equity	**–**	**(127)**	**(17 305)**	**–**
Balance at March 31, 2016	**835 579**	**(537)**	**1 302 005**	**–**
Note(s)	22&37	23&37	24&37	37

Other NDR	Total reserves	Retained income	Total attributable to equity holders of the group / company	Non-controlling	Total equity
400	1 467 756	27 680 250	29 148 006	(9 896)	29 138 110
(400)	(5 585)	(81 657)	(87 242)	4 113	(83 129)
–	**1 462 171**	**27 598 593**	**29 060 764**	**(5 783)**	**29 054 981**
–	–	(14 438 845)	(14 438 845)	5 300	(14 433 545)
–	238 926	(3 880)	235 046	–	235 046
–	**238 926**	**(14 442 725)**	**(14 203 799)**	**5 300**	**(14 198 499)**
–	–	(61 033)	(61 033)	–	(61 033)
–	(267)	–	(267)	–	(267)
–	**(267)**	**(61 033)**	**(61 300)**	**–**	**(61 300)**

Other NDR	Total reserves	Retained income	Total attributable to equity holders of the group / company	Non-controlling	Total equity
(7 987)	1 704 074	13 400 287	15 104 361	(895)	15 103 466
(7 587)	(13 633)	(223 799)	(237 432)	(3 701)	(241 133)
–	**1 700 830**	**13 094 835**	**14 795 665**	**(483)**	**14 795 182**
–	–	(190 938)	(190 938)	(181)	(191 119)
–	453 649	(3 807)	449 842	–	449 842
–	**453 649**	**(194 745)**	**258 904**	**(181)**	**258 723**
–	(17 305)	34 610	17 305	–	17 305
–	–	(5 650)	(5 650)	(240)	(5 890)
–	(127)	–	(127)	–	(127)
–	**(17 432)**	**28 960**	**11 528**	**(240)**	**11 288**
–	**2 137 047**	**12 929 050**	**15 066 097**	**(904)**	**15 065 193**
37					

Accounting Policies for the year ended 31 March 2016

1. Presentation of consolidated annual financial statements

The consolidated financial statements of the CEF Group have been prepared in accordance with the Companies Act of 2008 and the requirements of the Public Finance Management Act of 1999, International Financial Reporting Standards (IFRS),Financial Reporting Pronouncements (FRP's) and IFRS Interpretations Committee (IFRS IC) interpretations applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of inventory, property, plant and equipment, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. They are presented in South African Rands and rounded to the nearest Rands in thousands. Assets and liabilities will not be offset, unless it is required by the standard.

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

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

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

Income taxes
The Group is subject to income taxes in numerous jurisdictions. Significant judgement 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. Where the actual final outcome (on the judgement areas) of expected cash flows to differ by 10% from management's estimates, the Group would need to make an adjustment to the income and the deferred tax liabilities if unfavourable or favourable.

Mineral reserves and resource estimates
The minerals reserves are estimates of the amount minerals that can be economically and legally extracted from the Group's minerals properties. The Group estimates this reserve 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 minerals and recovery rates. The recoverable reserves are also determined based on foreign exchange rates, future capital development and productions costs.

Accounting Policies for the year ended 31 March 2016 (continued)

1.1 Significant judgements and sources of estimation uncertainty (continued)

Environmental, decommissioning and rehabilitation provision
Provision is made for environmental, decommissioning and rehabilitation costs where either a legal or a constructive obligation is recognised as a result of past events. These costs will be incurred by the Group at the end of the operating life of some of the facilities and properties. The ultimate costs are uncertain and cost estimates made in determining the present obligation can vary in response to many factors, including changes to relevant legislation requirements, new technological changes costs increases and changes to the discount rate used and the expected timing. Therefore, significant estimates and assumptions are made in determining the probable obligation. As a result, there could be significant adjustments to the provisions established which would affect future financial results. Estimates are based upon 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.

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 and these include movements in exchange rates, commodity prices and the economic environment its businesses operate in. Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm’s length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived mainly from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset’s performance. 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. Some of the 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 assets and/or CGUs.

Units of production/Life of minerals-depreciation/amortisation of mineral assets
Mineral rights, project development costs, certain plant and equipment and certain intangible assets are depreciated/amortised using the units of production or the life of the reserves basis. The calculation of the UOP rate of depreciation/amortisation, and therefore the annual charge to operations, can fluctuate from initial estimates. This could generally result when there are significant changes in any of the factors or assumptions used in estimating mineral reserves and resources, notably changes in the geology of the reserves and resources and assumptions used in determining the economic feasibility of the reserves.

Estimates of proven and probable reserves and resources are prepared by experts in extraction, geology and reserve determination. Assessments of units of production or the life of the reserves rates against the estimated reserve and resource base and the operating and development plan are performed regularly.

Accounting Policies for the year ended 31 March 2016 (continued)

1.1 Significant judgements and sources of estimation uncertainty (continued)

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 which may arise from legal action as well as the possible non-compliance of 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.

Evaluation of the useful life of assets
On an annual basis, management evaluate the useful life of all assets. In carrying out this exercise, experience of asset's historical performance and the medium-term business plan are taken into consideration.

Exploration and evaluation expenditure
The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement to determine whether it is likely that future economic benefits are likely, from either future exploitation or sale, or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves.

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 DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

Judgements 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.

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently remeasured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

Allowance for slow moving, damaged and obsolete stock
Management make an allowance for stock to write it down to the lower of cost or net realisable value. The net realisable value is based on commodity prices at year end. On certain inventory items, estimates of the selling price and direct cost are made. The write down is included in the operating expenses.

Accounting Policies for the year ended 31 March 2016 (continued)

1.1 Significant judgements and sources of estimation uncertainty (continued)

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

African Exploration Finance and Mining Company SOC Limited (AEMFC) holds 33.3% of the voting rights of its joint arrangement. AEMFC representation on the PAMDC board was removed due to their participation in the operation as a partner on the exploration activities. This arrangement takes away the ability for AEMFC to exercise joint control, in substance. At Group level the investment is accounted for under IAS 28.

Loans and receivables

The Group assesses its loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

1.2 Consolidation basis of consolidation

The consolidated annual financial statements incorporate the consolidated annual financial statements of the company and all investees which are controlled by the Group as at 31 March each year.

The Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns. Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
  - The contractual arrangement with the other vote holders of the investee
  - Rights arising from other contractual arrangements
  - The Group's voting rights and potential voting rights. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Accounting Policies for the year ended 31 March 2016 (continued)

1.2 Consolidation basis of consolidation (continued)

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in operating expenses except the costs to issue debt which are amortised as part of the effective interest and costs to issue equity which are included in equity.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3: Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal company) that are classified as held-for-sale in accordance with IFRS 5 Non-current assets held-for-sale and discontinued operations, which are recognised at fair value less costs to sell.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument is measured at fair value with change in fair value recognised either in profit or loss or as a change to OCI. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is not amortised, but tested for impairment at least annually.

Transactions with non-controlling interest that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owners in their capacity as owners.

Accounting Policies for the year ended 31 March 2016 (continued)

1.2 Consolidation basis of consolidation (continued)

The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on the acquisition of non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets and liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Goodwill arising on acquisition of foreign entities is considered an asset of the foreign entity. In such cases the goodwill is translated to the functional currency of the Group at the end of each reporting period with the adjustment recognised in equity through to other comprehensive income.

An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The considerations made in determining significant influence is similar to those necessary to determine control over subsidiaries.

An investment in associate is accounted for using the equity method, except when the investment is classified as held-for-sale in accordance with IFRS 5 Non-current assets held-for-sale and discontinued operations. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost adjusted for post acquisition changes in the Group's share of net assets of the associate, less any impairment losses.

Losses in an associate in excess of the Group 's interest in that associate are recognised only to the extent that the Group has incurred a legal or constructive obligation to make payments on behalf of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Profits or losses on transactions between the company and an associate are eliminated to the extent of the company's interest therein.

Any goodwill on acquisition of an associate is included in the carrying amount of the investment, however, a gain on acquisition is recognised immediately in profit or loss.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group. Associates, whose financial year-ends are within three months of 31 March, are adjusted for material transactions and events in the intervening period. When the Group reduces its level of significant influence or loses significant influence, the Group proportionately reclassifies the related items which were previously accumulated in equity through other comprehensive income to profit or loss as a reclassification adjustment. In such cases, if an investment remains, that investment is measured to fair value, with the fair value adjustment being recognised in profit or loss as part of the gain or loss on disposal.

Accounting Policies for the year ended 31 March 2016 (continued)

1.2 Consolidation basis of consolidation (continued)

Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation or a joint venture.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining joint control is similar to those necessary to determine control over subsidiaries. An interest in a joint venture is accounted for using the equity method, except when the investment is classified as held-for-sale in accordance with IFRS 5 Non-current assets held-for-sale and discontinued operations. Under the equity method, interests in joint ventures are carried in the consolidated statement of financial position at cost adjusted for post acquisition changes in the company's share of net assets of the joint venture, less any impairment losses.

Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Profits or losses on transactions between the group and a joint venture are eliminated to the extent of the company's interest therein.

The financial statements of the joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group. Joint ventures, whose financial year ends are within three months of 31 March, are adjusted for material transactions and events in the intervening period.

When the Group loses joint control, the Group proportionately reclassifies the related items which were previously accumulated in equity through other comprehensive income to profit or loss as a reclassification adjustment. In such cases, if an investment remains, that investment is measured to fair value, with the fair value adjustment being recognised in profit or loss as part of the gain or loss on disposal.

Joint operations

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

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

Accounting Policies for the year ended 31 March 2016 (continued)

1.3 Property, plant and equipment

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

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 initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset, including the capitalisation of borrowing costs on qualifying assets and adjustments in respect of hedge accounting, where appropriate.

The initial estimate of the costs of dismantling/decommissioning and removing an item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the Group is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when regular major inspections are performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. Costs capitalised for work in progress in respect of activities to develop, expand or enhance items of property, plant and equipment are classified as part of assets under construction.

Major spare parts and stand by equipment which are expected to be used for more than one year are included in property, plant and equipment.

All other repair and maintenance costs are recognised in profit or loss as incurred.

Refer to significant accounting judgements, estimates and assumptions section 1.2 and provisions (Note 26) for further information about the recorded decommissioning and shut down provision.

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

Property, plant and equipment is subsequently stated at cost less accumulated depreciation and any accumulated impairment losses, except for land which is stated at cost less any accumulated impairment losses.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in statement of profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the Group. Leased assets are depreciated in a consistent manner over the shorter of their expected useful lives and the lease term. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised.

Accounting Policies for the year ended 31 March 2016 (continued)

1.3 Property, plant and equipment (continued)

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	5 – 65 years
Mineral assets	Straight line	Life of reserves/units of production
Plant and machinery	Straight line	3 – 35 years
Furniture and fixtures	Straight line	3 – 20 years
Motor vehicles	Straight line	4 – 15 years
Office equipment	Straight line	3 – 20 years
IT equipment	Straight line	2 – 10 years
Restoration costs	Straight line	Life of reserves/units of production
Infrastructure (Tanks)	Straight line	5 – 80 years
Shutdown costs	Straight line	3 – 5 years

An exception is made for Mineral assets and its Restoration costs where the unit of production method or life of the reserves is used to calculate depreciation.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

Improvements to leased premises are capitalised and written off over the period of the lease.

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.

1.4 Stripping costs

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 commences 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 being 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.

Accounting Policies for the year ended 31 March 2016 (continued)

1.4 Stripping costs (continued)

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

1.5 Site restoration and dismantling cost

The Group has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling, abandonment and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in profit or loss.
- if the adjustment results in an addition to the cost of an asset, the entity considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in profit or loss.

1.6 Intangible assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Accounting Policies for the year ended 31 March 2016 (continued)

1.6 Intangible assets (continued)

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end. Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

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.

Mineral licences for exploring mineral resources are granted for periods ranging between 5 and 10 years depending on the specific licences. The licences may be renewed at little or no cost to the Group. As a result, those licences are assessed as having an indefinite useful life.

Software licences for the use of intellectual property are granted for periods ranging between 2 and 10 years depending on the specific licences.

Research and development costs

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use.

Accounting Policies for the year ended 31 March 2016 (continued)

1.6 Intangible assets (continued)

The costs incurred on development have a useful life of the related project. Amortisation is recorded in cost of sales or operating costs depending on the use of the underlying asset. During the period of development, the asset is tested for impairment annually.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Indefinite useful life intangible assets are not amortised, however tested for impairment on annual basis. Finite useful life intangible assets are amortised on a straight- line basis over the contract term or period of expected life of reserves or units of production

Mineral licenses	5 – 10 years
External Patents	5 – 10 years
Developed Patents	Indefinite useful life
Software licenses	2 – 10 years
Intangible assets under development	0 – 1

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. Pre-licensing 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 with regards to developing the property.
– It has been determined that sufficient oil and gas resources or reserves exist which 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.

Accounting Policies for the year ended 31 March 2016 (continued)

1.7 Exploration, evaluation and development (continued)

Progress in this regard 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 prove 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.

Oil and Gas
Life-of-mine 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 which 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.

(a) Development tangible and intangible assets
Expenditure on the construction, installation or completion of infrastructure facilities such as mines, platforms, 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.

(b) Mineral assets
Mineral production properties are aggregated exploration and evaluation tangible assets, and development expenditures associated with the production of proved reserves. Subsequent expenditure, which enhances or extends the performance of mineral, oil and gas production assets beyond their original specifications is recognised as capital expenditure and added to the original cost of the asset.

Accounting Policies for the year ended 31 March 2016 (continued)

1.7 Exploration, evaluation and development (continued)

(c) Depreciation/amortisation
Mineral assets are depreciated over their expected useful lives using the unit of production or the life of reserves method. This applies from the date production commences, based on the ratio of minerals, oil and gas production in the period to the estimated quantities of proved and probable reserves at the end of the period plus the production in the period, on a field-by-field basis. Costs used in the calculation comprise the net book value of capitalised costs plus the estimated future field development costs required to recover the commercial reserves remaining. The rates are based on the proved and probable developed reserves, which are mineral, oil, and gas estimated to be recoverable from existing facilities using current operating methods. Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively as a change in estimate.

(d) Impairment – exploration and evaluation 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 cash-generating unit 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

Classification
The Group classifies financial assets and financial liabilities into the following categories:
- Financial assets at fair value through profit or loss – held for trading
- Loans and receivables
- Financial liabilities at fair value through profit or loss – held for trading
- Financial liabilities measured at amortised cost

Classification
Classification depends on the purpose for which the financial instruments were obtained/incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through profit or loss, which shall not be classified out of the fair value through profit or loss category.

Initial recognition and measurement
Financial instruments are recognised initially when the Group becomes a party to the contractual provisions of the instruments.

The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument.

Accounting Policies for the year ended 31 March 2016 (continued)

1.8 Financial instruments (continued)

Transaction costs on financial instruments at fair value through profit or loss are recognised in profit or loss.

Subsequent measurement
Financial instruments at fair value through profit or loss are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in profit or loss for the period.

Net gains or losses on the financial instruments at fair value through profit or loss exclude dividends and interest.

Dividend income is recognised in profit or loss as part of other income when the Group's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

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

Derecognition
Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Fair value determination
The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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.

Classification
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.

Accounting Policies for the year ended 31 March 2016 (continued)

1.8 Financial instruments (continued)

Reversals of impairment losses are recognised in profit or loss.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which 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.

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

Loans to Group companies are classified as loans and receivables.

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

Trade and other receivables
Trade receivables are measured at fair value and subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

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

Classification
Trade and other receivables are classified as loans and receivables.

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

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Accounting Policies for the year ended 31 March 2016 (continued)

1.8 Financial instruments (continued)

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the company's accounting policy for borrowing costs.

1.9 Tax

Current tax assets and liabilities

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

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

Deferred tax assets and liabilities

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

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

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

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

Tax expenses

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

- a transaction or event which is recognised, in the same or a different period, to other comprehensive income, or
- a business combination.

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

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

Accounting Policies for the year ended 31 March 2016 (continued)

1.9 Tax (continued)

Royalties' taxes
In addition to corporate income taxes, the Group recognises taxes on royalty income. Royalty tax is treated as 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.

Sales tax/VAT
Expenses and assets are recognised net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable - When receivables and payables are stated with the amount of sales tax included. The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

1.10 Leases

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

Finance leases – lessor
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.

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. For a financier type of a lease, initial direct costs incurred in negotiating and arranging a finance lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

The finance income is allocated to an accounting period in such a way that it will emerge as a constant periodic rate of return on the Group's net investment in the lease.

Finance leases – 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.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability, using the effective interest rate method to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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.

Accounting Policies for the year ended 31 March 2016 (continued)

1.10 Leases (continued)

Operating leases – lessor
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.

Operating leases – lessee
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.

Any contingent rents are expensed in the period they are incurred.

1.11 Inventories

Inventories are valued at the lower of cost and net realisable value and the costs are determined using the weighted average method.

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.

There are four types of inventory in the Group:

Unpumpable crude oil/crude oil sludge
The part of the 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, are considered as part of non-current assets. These items are initially measured at historical and subsequently measured at costs less accumulated impairment.

Strategic inventory
These inventories are being held in accordance with Ministerial Directives as prescribed by the Minister. Inventory costs includes purchase cost, transport, handling costs as well as allocated operating overheads.

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 and the net realisable value is calculated on a discounted cash flow basis.

Also included in strategic inventory is diesel. The diesel was acquired by Group but has been pumped into Transnet's pipeline in order 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 Group and will be returned to Group in the same condition (quality) when the pipeline ceases to operate.

Accounting Policies for the year ended 31 March 2016 (continued)

1.11 Inventories (continued)

Trading Inventory

Inventory costs includes production expenditure, depreciation and a proportion of triennial turnaround expenses and replacement of catalysts, as well as transport and handling costs. No account is taken of the value of raw materials and work in progress prior to it reaching intermediate storage tanks. Provision is made for obsolete, slow moving and defective inventories. The net realisable value of crude oil and refined products is based on 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.

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.

Spares, catalysts and chemical

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) (disposal groups)

The Group classifies non-current assets and disposal groups as held for sale 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 is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate disposal 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.

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 are presented separately as current items in the consolidated statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
- Is a subsidiary acquired exclusively with a view to resale.

Accounting Policies for the year ended 31 March 2016 (continued)

1.12 Non-current assets held for sale (and) (disposal groups) (continued)

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.

Upon classification of a non-current asset or disposal group as held for sale, it is reviewed for impairment. The impairment loss charged to the disposal group is the excess of the its carrying amount over its expected fair value less costs to sell. Any subsequent increase in fair value less costs to sell of a disposal group:
(a) to the extent that it has not been recognised; but
(b) not in excess of the cumulative impairment loss that has been recognised, either in accordance with IFRS 5 or previously in accordance with IAS 36, on the non-current assets that are within the scope of the measurement requirements of IFRS 5.

If a non-current asset or disposal group is classified as held for sale, but the criteria for classification as held for sale are no longer met, the classification of such non-current asset or disposal group as held for sale is ceased.

On ceasing such classification, the non-current assets are reflected at the lower of:
– for any depreciation or amortisation that would have been recognised had the assets not been classified as held for sale; the carrying amount before classification as held for sale adjusted or
– the recoverable amount at the date the classification as held for sale ceases. The recoverable amount is the amount at which the asset would have been recognised after the allocation of any impairment loss arising on the cash-generating unit as determined in accordance with the Group's policy on impairment of non-financial assets.

Any adjustments required to be made on reclassification are recognised in the profit or loss on reclassification, and included in income from continuing operations Comparative information relating to the classification as a discontinued operation is restated accordingly.

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 cash-generating units (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, and 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.

Accounting Policies for the year ended 31 March 2016 (continued)

1.13 Impairment of assets (continued)

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 Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

1.15 Employee benefits

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

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

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

Defined contribution plans
Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the Group's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans
Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

The Group provides defined benefit plans for pension and post-retirement health care to certain retirees. The entitlement to pension and post-retirement health care 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.

Accounting Policies for the year ended 31 March 2016 (continued)

1.15 Employee benefits (continued)

Remeasurements, comprising of 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 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 consolidated 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. The Group recognises termination benefits at the earlier of the following dates:
(a) when the Group can no longer withdraw the offer of those benefits; and
(b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer.

Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

1.16 Provisions and contingencies

Provisions are recognised when:
- the Group has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the 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.

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

Provisions are not recognised for future operating losses.

Accounting Policies for the year ended 31 March 2016 (continued)

1.16 Provisions and contingencies (continued)

If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the business or part of a business concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for terminating their services;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 41.

1.17 Government grants

Government grants are recognised when there is reasonable assurance that:

- the Group will comply with the conditions attaching to them; and
- the grants will be received.

<u>Conditional grant/grants for execution of projects on behalf of governance</u>
Government grants are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate.

<u>Unconditional grant/grants available to the industry</u>
A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as income of the period in which it becomes receivable.

Non-monetary grants, such as land or other resources, are accounted for at fair value.

Government grants related to assets are presented in the statement of financial position by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

Grants relating to income are reported separately as 'other income' or deducted from the related expense.

Repayment of a grant related to income is applied first against any unamortised deferred credit set up in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or where no deferred credit exists, the repayment is recognised immediately as an expense.

Repayment of a grant related to an asset is recorded by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised to date as an expense in the absence of the grant is recognised immediately as an expense.

Accounting Policies for the year ended 31 March 2016 (continued)

1.18 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 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.

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

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the end of the reporting period.

The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the end of the reporting period. Stage of completion is determined by surveys of work performed.

Contract revenue comprises:
- the initial amount of revenue agreed in the contract; and
- variations in contract work, claims and incentive payments:
  - to the extent that it is probable that they will result in revenue; and
  - they are capable of being reliably measured.

Exchanged items
When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue.

When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

Accounting Policies for the year ended 31 March 2016 (continued)

1.18 Revenue (continued)

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.

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.

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

Dividend income

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

1.19 Cost of sales

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

The related cost of providing services recognised as revenue in the current period is included in cost of sales.

Contract costs comprise:

- costs that relate directly to the specific contract;
- costs that are attributable to contract activity in general and can be allocated to the contract; and
- such other costs as are specifically chargeable to the customer under the terms of the contract.

1.20 Borrowing costs

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

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

The capitalisation of borrowing costs commences when:

- expenditures for the asset have occurred;
- borrowing costs have been incurred, and
- activities that are necessary to prepare the asset for its intended use or sale are in progress.

Accounting Policies for the year ended 31 March 2016 (continued)

1.20 Borrowing costs (continued)

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.21 Translation of foreign currencies

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Rands, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous consolidated annual financial statements are recognised in profit or loss in the period in which they arise.

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

Cash flows arising from transactions in a foreign currency are recorded in Rands by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

Investments in subsidiaries, joint ventures and associates

The results and financial position of a foreign operation are translated into the functional currency using the following procedures:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each item of profit or loss are translated at exchange rates at the dates of the transactions; and
- all resulting exchange differences are recognised to other comprehensive income and accumulated as a separate component of equity.

Exchange differences arising on a monetary item that forms part of a net investment in a foreign operation are recognised initially to other comprehensive income and accumulated in the translation reserve. They are recognised in profit or loss as a reclassification adjustment through to other comprehensive income on disposal of net investment.

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 of that foreign operation are treated as assets and liabilities of the foreign operation.

Accounting Policies for the year ended 31 March 2016 (continued)

1.21 Translation of foreign currencies (continued)

The cash flows of a foreign subsidiary are translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.

1.22 Related parties

The services received or rendered from or to related parties arise mainly from service transactions, including management fees for services performed on behalf of associates,joint ventures, subsidiaries and companies under the same control of the ultimate shareholder.

The receivables from related parties arise mainly from services transactions and are due on month after the date of the services.

The receivables are unsecured in nature and bear no interest. There are no provisions held against receivables from related parties.

1.22 Related parties (continued)

The payables to related parties arise mainly from service transactions, including management fees and are due one month after the date of purchase. The payables bear no interest.

The loans to or from related parties arise from loan agreements entered into, or cash held on behalf of others for the year under review. These loans may be subordinated by CEF SOC Limited.

1.23 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.

1.24 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.

Fruitless and wasteful expenditure means expenditure that was made in vain and would have been avoided had reasonable care been exercised.

When determining whether expenditure shall be classified as fruitless and wasteful or irregular the following will be considered:

- Could reasonable steps have been taken to avoid the expenditure?
- Were there policies and/or procedures governing the incurred expenditure?
- Is it material? (for disclosure purposes)

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 company and Group.

Accounting Policies for the year ended 31 March 2016 (continued)

2. New Standards and Interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
Clarifies the requirement for accounting for stripping costs in surface mining. Specifically, it provides requirements on when to recognise costs as assets, when they provide improved access to ore. The depreciation requirements are also clarified.

The effective date of the amendment is for years beginning on or after 01 January 2015.

The company has adopted the amendment for the first time in the 2016 consolidated annual financial statements. The impact of the amendment is not material.

Amendment to IFRS 5: Non-current Assets Held for Sale and Discontinued Operations: Annual Improvements project
The amendment clarifies that non-current assets held for distribution to owners should be treated consistently with non-current assets held for sale. It further specifies that if a non-current asset held for sale is reclassified as a non-current asset held for distribution to owners or visa versa, that the change is considered a continuation of the original plan of disposal.

The effective date of the company is for years beginning on or after January 1, 2016.

The company expects to adopt the amendment for the first time in the 2016 consolidated annual financial statements. The impact of the amendment is not material.

Amendment to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
The amendment will apply to the acquisitions of interest in joint operations. When an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3, it shall apply, to the extent of its share, all of the principles on business combinations accounting in IFRS 3, and other IFRSs, that do not conflict with the guidance in this IFRS and disclose the information that is required in those IFRSs in relation to business combinations. This applies to the acquisition of both the initial interest and additional interests in a joint operation in which the activity of the joint operation constitutes a business.

The effective date of the amendments is for years beginning on or after January 1, 2016.

The Group has early adopted the amendments for the first time in the 2016 consolidated annual financial statements. The impact of the amendments is not material.

2.2 Standards and interpretations not yet effective

The Group has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the Group's accounting periods beginning on or after April 1, 2016 or later periods:

IFRS 9 Financial Instruments
IFRS 9 issued in November 2009 introduced new requirements for the classification and measurements of financial assets. 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.

Accounting Policies for the year ended 31 March 2016 (continued)

2.2 Standards and interpretations not yet effective (continued)

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 tthe 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 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.
- With regard to 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 January 1, 2018.

The effective date has not yet been established as the project is currently incomplete. The IASB has communicated that the effective date will not be before years beginning on or after January 1, 2018. IFRS 9 may be early adopted. If IFRS 9 is early adopted, the new hedging requirements may be excluded until the effective date.

The Group expects to adopt the standard for the first time in the first annual financial period after the effective date. 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.

Accounting Policies for the year ended 31 March 2016 (continued)

2.2 Standards and interpretations not yet effective (continued)

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 January 1, 2017.

The Group expects to adopt the standard for the first time in the 2018 consolidated annual financial statements. The impact of this standard is currently being assessed.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
The amendment clarifies that a depreciation or amortisation method that is based on revenue that is generated by an activity that includes the use of the asset is not an appropriate method. This requirement can be rebutted for intangible assets in very specific circumstances as set out in the amendments to IAS 38.

The effective date of the amendment is for years beginning on or after January 1, 2016.

The company expects to adopt the amendment for the first time in the 2017 consolidated annual financial statements. The impact of this amendment is currently being assessed.

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

3. Property, Plant and Equipment

	2016			2015		
	Cost or revaluation	**Accumulated depreciation**	**Carrying value**	**Cost or revaluation**	**Accumulated depreciation**	**Carrying value**
Land	55 517	–	55 517	57 065	–	57 065
Buildings	327 271	(76 240)	251 031	313 424	(69 992)	243 432
Assets under development	343 458	(33 326)	310 132	3 313 754	(2 691 285)	622 469
Plant and machinery	1 866 204	(242 211)	1 623 993	1 887 200	(245 379)	1 641 821
Furniture and fixtures	658 997	(570 889)	88 108	664 376	(553 937)	110 439
Motor vehicles	97 048	(52 595)	44 453	87 295	(51 719)	35 576
Office equipment	6 106	(4 966)	1 140	5 921	(4 544)	1 377
IT equipment	21 142	(11 581)	9 561	18 730	(10 891)	7 839
Computer software	2 344	(1 931)	413	2 035	(1 864)	171
Production assets	37 471 832	(29 800 259)	7 671 573	37 980 263	(31 680 658)	6 299 605
Shutdown costs capitalised	637 846	(619 931)	17 915	637 837	(586 091)	51 746
Restoration cost	3 664 739	(3 152 979)	511 760	2 810 009	(2 460 577)	349 432
Mine infrastructure	51 928	(21 062)	30 866	50 581	(15 446)	35 135
Capital – Work in progress	–	–	–	1 796	–	1 796
Total	**45 204 432**	**(34 587 970)**	**10 616 462**	**47 830 286**	**(38 372 383)**	**9 457 903**

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

3. Property, Plant and Equipment (continued)

Reconciliation of property, plant and equipment – 2016

	Opening balance	Additions	Disposals	Transfers
Land	57 065	–	(1 548)	–
Buildings	243 432	1 824	–	11 661
Assets under development	622 469	184 199	(745)	(462 465)
Plant and machinery	1 641 821	–	(4 524)	–
Furniture and fixtures	110 440	13 669	(362)	–
Motor vehicles	35 576	14 757	–	–
Office equipment	1 377	205	–	(21)
IT equipment	7 838	4 852	(28)	–
Computer software	171	309	–	–
Production assets	6 299 605	1 696 937	(32 271)	402 636
Shutdown costs capitalised	51 746	9	–	–
Restoration costs	349 432	168 603	–	–
Mine infrastructure	35 135	2 235	–	–
Capital – Work in progress	1 796	723	–	(2 519)
	9 457 903	**2 088 322**	**(39 478)**	**(50 708)**

Reconciliation of property, plant and equipment – 2015

	Opening balance	Additions	Disposals	Transfers
Land	57 065	–	–	–
Buildings	248 182	382	(209)	837
Assets under development	7 000 226	4 921 732	–	(8 608 204)
Plant and machinery	1 498 000	–	–	–
Furniture and fixtures	107 905	22 063	(905)	45 602
Motor vehicles	16 565	21 202	(499)	84
Office equipment	1 456	156	–	282
IT equipment	5 161	2 881	–	2 771
Computer software	–	176	–	–
Production assets	8 983 631	786 537	(18 442)	8 577 001
Shutdown costs capitalised	416 498	1 909	–	–
Restoration Costs	1 337 220	44 633	–	–
Mine infrastructure	50 110	109	–	2 297
Capital – Work in progress	–	1 796	–	–
	19 722 019	**5 803 576**	**(20 055)**	**20 670**

Change in estimate	Foreign exchange movements	Depreciation	Impairment loss	Total
–	–	–	–	55 517
–	–	(5 863)	(23)	251 031
–	–	–	(33 326)	310 132
–	–	(13 304)	–	1 623 993
–	3	(28 625)	(7 017)	88 108
–	–	(5 880)	–	44 453
–	–	(421)	–	1 140
–	–	(3 056)	(45)	9 561
–	–	(67)	–	413
–	529 626	(1 670 684)	445 724	7 671 573
–	–	(32 676)	(1 164)	17 915
748 286	30 349	(126 342)	(658 568)	511 760
–	–	(5 631)	(873)	30 866
–	–	–	–	–
748 286	**559 978**	**(1 892 549)**	**(255 292)**	**10 616 462**

Change in estimate	Foreign exchange movements	Write-offs	Depreciation	Impairment loss	Total
–	–	–	–	–	57 065
–	–	–	(5 760)	–	243 432
–	–	–	–	(2 691 285)	622 469
169 761	–	–	(25 940)	–	1 641 821
–	(2)	(32)	43 600	(107 790)	110 439
274	–	–	(2 050)	–	35 576
–	–	–	(517)	–	1 377
–	–	–	(2 925)	(49)	7 839
–	–	–	(5)	–	171
–	294 164	(73)	(1 855 228)	(10 422 985)	6 299 605
–	–	–	(161 854)	(204 807)	51 746
317 337	14 140	–	(341 028)	(1 022 870)	349 432
11	–	(8 773)	(8 619)	–	35 135
–	–	–	–	–	1 796
487 383	**308 302**	**(8 878)**	**(2 360 326)**	**(14 449 786)**	**9 457 903**

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

3. Property, Plant and Equipment (continued)

AEMFC

Property, plant and equipment encumbered as security

The property, plant and equipment are held as collateral against the due performance by the company of its obligations on the loan from the holding company (CEF SOC Ltd).

Changes in estimates

The company reassesses the useful lives and residual values of items of property, plant and equipment at the end of each reporting period, in line with the accounting policy and IAS 16 Property, Plant and Equipment. These assessments are based on historic analysis, benchmarking, and the latest available and reliable information.

Write-off of assets

Write offs in property, plant and equipment relate to assets that are damaged and not in good working condition.

A regulatory assessment of the Financial Mine Closure Quantum (Mine Infrastructure) as contemplated in terms of the Mineral and Petroleum Resources Development Act (Act 28 of 2002) conducted during the current year realised a financial provision of R18.5 million (2015 : R18.7 million). The write down of R709 414 (2015 : R8.7 million) is because backfill rehabilitation was conducted, resulting in a smaller void size. The reversal in the rehabilitation provision has been accounted for as a decrease in mine infrastructure assets.

PetroSA

Restoration expenditure relates to the abandonment provision (note 26) and is amortised on a units of production basis. The units of production method is also used in calculating depreciation on producing assets. Due to the nature of the business, the gas and oil reserves at the end of each financial year differ from the previous year. This necessitates a change in the estimated remaining useful lives of these assets at the end of each financial year. The effect on the current year is a increase of R8.2 million in profit. Due to the number of variables involved in the depreciation calculation it is not practicable to estimate the effect in future years.

Oil and gas reserves are used in assessing oil and gas producing properties for impairment. A significant reduction in the oil and gas price and a downgrade of proved and probable reserves triggered an impairment review. When such indicators are identified, management must exercise further judgement in making an estimate of the recoverable amount (value in use) of the asset against which to compare the carrying value. The outcome of the review necessitated an impairment of R254 000 (2015: R14.5 billion) based on a recoverable amount of R1.8 billion (2015: R3.2 billion). This was determined by comparing the CGU's carrying value at year-end against the expected present value of the free cash flows (net present value) from this CGU, based on a 5-year business plan approved by the Board of Directors. These cash flows are management's best estimate taking into account past experience and future economic assumptions, such as forward curves for crude oil, product prices and exchange rates and discounted using the company WACC of 14% (2015: 14%). The impairment loss was recorded as part of operating expenses.

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

3. Property, Plant and Equipment (continued)

A sensitivity analysis indicates that a R1 weakening of the Rand against the US Dollar will result in a increase in the impairment charge of R182 million (2015: R467 million) and a $1 increase in the Brent crude oil price will decrease the impairment charge by R87 million (2015: R107 million).

Macroeconomic assumptions

The macroeconomic assumptions used in the net present value computation include Brent crude oil prices at $46.56 (2018: $64, 2019: $70, 2020: $75), a Rand/US Dollar exchange rate of R14.79 (2018: R13.70, 2019: R13.49, 2020: R13.62), Rand- based WACC of 14% (2015: 14%) and US Dollar-based WACC of 11% (2015: 11%). PetroSA will continue to review the recoverable amounts of the CGUs in the event of future changes in reserves and relevant macroeconomic indicators.

4. Intangible Assets

	2016			2015		
	Cost/ Valuation	Accumulated amortisation	Carrying value	Cost/ Valuation	Accumulated amortisation	Carrying value
Patents, trademarks and other rights	57 424	(52 965)	4 459	57 424	(52 687)	4 737
Computer software	68 278	(55 976)	12 302	66 974	(43 567)	23 407
Intangible assets under development	203	–	203	–	–	–
Exploration evaluation	1 877 331	(539)	1 876 792	1 732 390	(539)	1 731 851
Restoration costs	17 540	–	17 540	19 631	–	19 631
Total	**2 020 776**	**(109 480)**	**1 911 296**	**1 876 419**	**(96 793)**	**1 779 626**

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

4. Intangible Assets (continued)

Reconciliation of intangible assets – 2016

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

Reconciliation of intangible assets – 2015

	Opening balance	Additions	Disposals
Patents, trademarks and other rights	5 014	–	–
Computer software	22 265	12 355	(83)
Exploration evaluation	1 566 822	159 957	(231)
Restoration costs	20 651	40	–
	1 614 752	**172 352**	**(314)**

Transfers	Foreign exchange movements	Change in estimate	Amortisation	Total
–	–	–	(278)	4 459
–	–	–	(13 268)	12 302
–	–	–	–	203
48 168	34 864	–	–	1 876 792
–	4 142	(6 282)	–	17 540
48 168	**39 006**	**(6 282)**	**(13 546)**	**1 911 296**

Transfers	Foreign exchange movements	Change in estimate	Amortisation	Impairment loss	Total
–	–	–	(277)	–	4 737
–	–	1 053	(12 183)	–	23 407
(16 266)	21 705	–	–	(136)	1 731 851
–	3 120	(4 180)	–	–	19 631
(16 266)	**24 825**	**(3 127)**	**(12 460)**	**(136)**	**1 779 626**

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

5. Interests in Subsidiaries

The following table lists the entities which are controlled directly by the company, and the carrying amounts of the investments in the company's separate financial statements.

Name of company	Held by	% holding 2016	% holding 2015	Carrying amount 2016	Carrying amount 2015
PetroSA Sudan SOC Ltd		100.00 %	100.00 %	–	–
PetroSA Gryphon Marin Permit SOC Ltd		100.00 %	100.00 %	–	–
Cotec Development SOC Ltd		100.00 %	100.00 %	–	–
Cotec Patrade SOC Ltd		100.00 %	100.00 %	–	–
ETA Energy SOC Ltd		100.00 %	100.00 %	–	–
African Exploration Mining and Finance Corporation SOC Ltd		100.00 %	100.00 %	–	–
PetroSA Iris SOC Ltd		100.00 %	100.00 %	–	–
PetroSA Themis SOC Ltd		100.00 %	100.00 %	–	–
PetroSA Equatorial Guinea SOC Ltd		100.00 %	100.00 %	–	–
Klippoortjie Koolemyne SOC Ltd		100.00 %	100.00 %	–	–
Mahnes Areas SOC Ltd		100.00 %	100.00 %	–	–
PetroSA Europe BV		100.00 %	100.00 %	–	–
PetroSA SOC Ltd		100.00 %	100.00 %	–	–
CEF Carbon SOC Ltd		100.00 %	100.00 %	–	–
SANERI SOC Ltd		- %	100.00 %	–	–
CCE Solutions (Pty) Ltd		89.20 %	89.20 %	–	–
PetroSA Synfuel International SOC Ltd		100.00 %	100.00 %	–	–
PetroSA Ghana SOC Ltd		100.00 %	100.00 %	–	–
PetroSA Namibia SOC Ltd		100.00 %	100.00 %	–	–
PetroSA Egypt SOC Ltd		100.00 %	100.00 %	–	–
Petroleum Agency SA SOC Ltd		100.00 %	100.00 %	–	–
Oil Pollution Control South Africa NPC		100.00 %	100.00 %	–	–
PetroSA Brass SOC Ltd		100.00 %	100.00 %	–	–
South African Gas Development Company SOC Ltd		100.00 %	100.00 %	–	–
Strategic Fuel Fund NPC		100.00 %	100.00 %	–	–
				–	–

Subsidiaries pledged as security

PetroSA has provided its shares in PetroSA Ghana as security to the lenders for the Reserve Based Lending Facility of R1 201 245 billion (2015: R865 496 million) - refer to note 25.

Reporting period

The end of the reporting period of PetroSA Ghana was Thursday, December 31, 2015.

Subsidiaries not consolidated

The Group did not consolidate SANERI SOC Ltd on 31 March 2016. In terms of section 13 (2) (b) of the National Energy Act (NEA) of 2008, all assets and liabilities which vested in SANERI as a subsidiary of CEF SOC Ltd, immediately before the NEA effective date, vest in the South African National Energy Development Institute. As a result, the assets and the liabilities recorded in the company's books should not have been recorded pursuant the promulgation of NEA. As a consequence, management took a decision to reverse all the assets and liabilities pursuant the NEA promulgation. Refer to the prior period error note 42.

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

5. Interests in Subsidiaries (continued)

Impairment

PetroSA SnyFuel International SOC Ltd was impaired in full at year end.

6. Joint Arrangements/Joint Operations

The following joint operations are material to the Group:

The above joint operations are for PetroSA SOC Ltd for gas exploration. The country of incorporation is the same as the principle place of business for all joint operations. As at 31 March 2014, PetroSA along with the other current joint venture partners, namely Forest Oil and Anschutz, had withdrawn from Block 2C. A simultaneous application for a new exploration right over Block 2C was made, with Anadarko as operator, with an equity split of 35% for PetroSA and 65% for Anadarko.

Joint operation	Partner	% Ownership interest	
		2016	2015
Block 2A	Sunbird	24 %	24 %
Block 2C	Arnadako	35 %	35 %
Block 3A/4A	Sasol	50 %	50 %
Block 5/6/7	Arnadako	20 %	20 %
Block 1	Cain	40 %	40 %

In accordance with the Group's accounting policy, the results of joint operations are accounted for on a line by line basis. The information provided below includes intercompany transactions and balances. The information below includes Group's share of the joint operations.

Joint ventures

The following table lists all of the joint ventures in the Group:

Name of company	Held by	% ownership interest 2016	% ownership interest 2015	Carrying amount 2016	Carrying amount 2015
GTL.F1 AG	PetroSA	50.00 %	33.00 %	–	–
Pan African Mineral Development Company	AEMFC (Pty) Ltd	50.00 %	33.00 %	–	1 196
				–	1 196

PAMDC

The governments of South Africa, Zimbabwe and Zambia created a special purpose vehicle, 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. South African government, through AEMFC SOC Limited, is a co share owner in PAMDC (Pty) Ltd.

The memorandum of agreement states that decisions on the relevant activities require the unanimous consent of all the parties. PAMDC (Pty) Ltd is a joint venture since the partners have rights to the net assets of PAMDC (Pty) Ltd and the memorandum give the parties the rights to a share of the net outcome generated by the economic activity.

Notes to the Consolidated Annual Financial Statements
for the year ended 31 March 2016

6. Joint Arrangements/Joint Operations (continued)

GTL.F1 AG

GTL.F1 AG is the proces licensor of the Low Temperature Fischer Tropsch (LTFT) technology and its principal place of business is in Germany.

Aggregated individually immaterial joint ventures accounted for using the equity method

Figures in Rand thousand	2016	2015
Carrying amount	–	1 196
Share of profit or (loss) from continuing operations	(1 388)	(2 950)

Reporting period

The reporting date of GTL.F1 is not the same as that of the Group. GTL.F1 AG's year end is 31 December 2015.

Unrecognised losses PAMDC

Share of losses recognised in the current year were limited to the carrying amount of the investment of R1,746 million.Therefore no amount was recognised on the investement which resulted to unrecognised losses of R0,801 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 joint venture. The total unrecognised losses for the current period amount to R29.9 million (2015: R30.8 million). The accumulated unrecognised losses to date amount to R124.8 million (2015: R94.9 milion).

7. Investments in Associates

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

Name of company	Held by	% holding 2016	% holding 2015	Carrying amount 2016	Carrying amount 2015
Rompco (Pty) Ltd		25.00 %	25.00 %	648 143	489 589
Darling Wind Power (Pty) Ltd (DWP)		– %	49.00 %	–	–
Banniettor (Pty) Ltd		49.00 %	49.00 %	–	–
Ener-G Systems (Pty) Ltd		29.00 %	29.00 %	8 541	–
Thin Solar Film Technology (Pty) Ltd		45.00 %	45.00 %	14 304	14 354
				670 988	503 943

Divestitures

DWP (Pty) Ltd

The investment at DWP (Pty) Ltd was written off in full in the current financial year subsequent to disposal of the company.

Ener-G Systems (Pty) Ltd

An additional investment to the value of R15,089 million was made to Ener-G Systems (Pty) Ltd in the current financial year as the project has reached financial close. The additional investment has not affected the ownership interest in the associate.

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

7. Investments in Associates (continued)

Material associates

The following associate is material to the Group:

	Country of incorporation	Method	% Ownership interest	
			2016	2015
Rompco (Pty) Ltd	South Africa	Equity	25 %	25 %

Rompco (Pty) Ltd

Shares beneficially owned in the company which is involved in the transportation of gas from Mozambique to South Africa. The percentage voting rights is equal to the percentage ownership.

Summarised financial information of material associates

Summarised Statement of Profit or Loss and Other Comprehensive Income	Rompco (Pty) Ltd	
	2016	2015
Revenue	1 816 000	1 594 000
Other income and expenses	(385 000)	(410 000)
Profit before tax	1 431 000	1 184 000
Tax expense	(450 000)	(356 000)
Profit (loss) from continuing operations	981 000	828 000
Total comprehensive income	1 131 000	955 500
Dividends received from associate	150 000	127 500

Summarised Statement of Financial Position	Rompco (Pty) Ltd	
	2016	2015
Assets		
Non-current	5 448 000	4 886 000
Current	1 322 000	819 000
Total assets	6 770 000	5 705 000
Liabilities		
Non-current	3 472 000	1 315 000
Current	521 000	2 250 000
Total liabilities	3 993 000	3 565 000
Total net assets	2 777 000	2 140 000

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

7. Investments in Associates (continued)

Reconciliation of net assets to equity accounted investments in associates	Rompco (Pty) Ltd	
	2016	2015
Interest in associates at percentage ownership	648 143	489 589
Carrying value of investment in associate	648 143	489 589
Investment at beginning of period	489 589	410 705
Adjustment on opening balance	(128)	(56 190)
Share of profit	308 790	262 923
Share of OCI	(108)	(349)
Dividends received from associate	(150 000)	(127 500)
Investment at end of period	648 143	489 589

Share of profit from associate after accounting for intercompany transactions at year end is R308,806 million (2015: R262,980 million).

Aggregated individually immaterial associates accounted for using the equity method

Carrying amount of the investment	22 845	14 354
Share of profit or (loss)	(2 206)	(280)

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

Unrecognised share of losses of associates

Baniettor

The company discontinued recognising its share of the losses of Baniettor, as the investment is held at Rnil and the company has no obligation for any losses of the associate. The share of profit has been subsequently generated from the company is recognised against the accumulated unrecognised losses. The share of profit for the current year is R0,133 million (2015: R1,090 million). The accumulated unrecognised losses to date amount to R21,244 million (2015: R24,505 million).

Associates pledged as security

Rompco (Proprietary) Limited, with a carrying value of the investment of R 648 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.

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

8. Loans to/(from) Group Companies/Joint Ventures

Figures in Rand thousand	2016	2015
GTL.F1 AG	213 159	153 190

The loan accrues interest at EURIBOR + 0.75%. This loan is repayable by 31 December 2016. Should settlement not be possible at this date, a new instalment plan may be agreed on the same day.

Associates		
Rompco (Pty) Ltd	–	299 703
Darling Wind Power (Pty) Ltd	502	17 000
Banniettor Pty Ltd	23 933	23 933
Ener-G Systems (Pty) Ltd	22 903	12 677
Darling Wind Power Pty Ltd (Cash on call)	(429)	(405)
	46 909	352 908
Impairment of loans to associates	(24 435)	(40 933)
	22 474	**311 975**

Rompco (Pty) Ltd

The loan of R299 million to Rompco (Pty) was fully repaid in the current financial year.

Baniettor (Pty) Ltd and Darling Wind Power (Pty) Ltd

All the loans to the associates are interest free, with no fixed determinable repayment terms, until such time the companies have sufficient profits and have enough capital to sustain themselves.

Ener-G Systems (Pty) Ltd

Ener-G (Pty) Ltd loan attracts an annual interest rate at prime as from 1 October 2015. The annual interest rate before 01 October 2015 was prime plus a margin of 2%. This loan has no fixed determinable repayment terms.

Cash on call

Cash on call is surplus funds invested by CEF SOC Ltd on behalf of subsidiaries and associates in the money market.

Non-current assets	236 062	165 867
Current assets	–	299 703
Current liabilities	(430)	(405)
	235 632	**465 165**

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 cashflow 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 2016 approximates fair value.

Loans to Group companies impaired

As of March 31, 2016, loans to Group companies of R24 423 million (2015: R40 933 million) were impaired and provided for in full. The loans impaired were granted to DWP (Pty) and Banniettor (Pty) Ltd.

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

8. Loans to/(from) Group Companies/Joint Ventures (continued)

The loan amount of R16,5 million granted to DWP (Pty) Ltd was written off in the current financial year.

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	2016	2015
Loans and receivables	126 645	52 330
Ghana National Petroleum Corporation (GNPC)		
The loan in respect of TEN Development capital expenditure bears interest at LIBOR plus a margin percentage of 1.5% per annum and the loan in respect of the TEN Development gas export pipeline expenditure bears interest at 15 % per annum. The loan will be repaid with 40% of GNPC's receivables per each lifting of TEN production until the liability is fully discharged. TEN production is scheduled to commence in August 2016.		
Lurgi	198 400	153 732
The amount owing by Lurgi is in respect of a purchase of a 12.5% share in the GTL.F1 AG Joint Venture. 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.		
Methcap investment	1 475	1 475
19% investment at Methcap		
AEMFC SOC Ltd restricted cash guarantee	17 667	12 472
An insurance rehabilitation guarantee is in place whereby the insurer guarantees to pay Department of Mineral Resources R39.1 million and R42.9 million for environmental rehabilitation of Vlakfontein Mine and T Project respectively. A portion of the premium is invested and earn interest to meet environmental obligations at the end of life of mine. The cash is restricted for use.		
AEMFC SOC Ltd investment	650	–
Payment made to secure an investment		
	344 837	220,009
Loans and receivables (impairments)	–	(1 475)
	344 837	**218 534**
	–	–
	–	–
	–	–
	–	–
	344 837	218 534
Non-current assets		
Loans and receivables	344 837	218 534
Non-current assets	344 837	218 534
Current assets	–	–

Notes to the Consolidated Annual Financial Statements
for the year ended 31 March 2016

9. Other Financial Assets (continued)

Figures in Rand thousand	2016	2015
Fair values of loans and receivables		
Fair values of AEMFC SOC Ltd restricted cash for environmental rehabilitation guarantee	82 163	82 163

The carrying amount of the loans and receivables at 31 March 2016 approximates fair value except for the above disclosed financial asset.

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. Finance Lease Receivables

Gross investment in the lease due		
– within one year	264	376
– in second to fifth year inclusive	649	939
	913	1 315
less: Unearned finance income	(150)	(310)
Present value of minimum lease payments receivable	763	1 005
less: allowance for uncollectable minimum lease payments	(294)	(397)
	469	**608**
Non-current assets	556	939
Current assets	265	376
	821	**1 315**

The Finance lease receivable is from ETA Energy SOC Ltd. The company entered into finance leasing arrangements for Solar Water Heaters with customers in Nelson Mandela Bay and Ekurhuleni Municipalities

The average lease term is 6 years and the average effective interest rate is 10%(2015: 10%).

Finance lease receivables impaired
As of 31 March 2016, finance lease receivables of R0,294 million (2015: R0,397 million) were impaired and provided for all expected payments as per lease agreement till 31 March 2016 outstanding for over 90 days were provided for.

The ageing of impaired finance lease receivables is as follows:

Finance lease receivables		
3 to 6 months	–	(162)
Over 6 months	(294)	(235)
	(294)	(397)

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

11. Operating Lease Liability

Figures in Rand thousand	2016	2015
Non-current liabilities	(14 991)	(13 550)
Current liabilities	(1 465)	(922)
	(16 456)	(14 472)

Contracts relating to rental payable have been smoothed over the contract period. Refer to note 40 for disclosure of commitments.

12. Retirement Benefits

Defined benefit plan

Post Employment Medical Aid Scheme

Two subsidiaries of the Group, SFF and PetroSA, have a post retirement medical scheme in place that is governed by the Medical Aid Schemes Act of 1998. The post-employment medical arrangement provides health benefits to retired employees and certain dependants. The benefit was applicable and on offer only to employees in the service of the affected Group companies before the changes to the new current benefit policy.

PetroSA

The obligation is partially funded and was valued using the “projected unit credit method”. A discount rate of 9.8% and a health care cost inflation of 8.25% were assumed. Mortality assumptions were in line with standard table SA56/62 ultimate (pre- retirement) and PA(90) rated down by two years (post-retirement)

SFF

The obligation is not funded and was valued using the “projected unit credit method”. A discount rate of 9.6% and a health care cost inflation of 9.06% were assumed. Mortality assumptions were in line with standard table PA (90) ultimate (pre-retirement) rated by between +one and -one years (post-retirement)

Post Retirement Benefit Pension Plan

PetroSA had a defined benefit pension plan, the Mossgas Pension Fund, for the benefit of its employees. The plan was governed by the Pension Funds Act, 1956 (Act no. 24 of 1956). The assets of the plan were administered by trustees in a fund independent of the company.

The fund was closed to new entrants during 1996. With effect from 1 October 2007 all in-service members were transferred out of the fund to the PetroSA Retirement Fund, and future accrual of benefits under the Pension Fund ceased. Application was made to the Registrar to transfer the accrued benefits of in-service members to the PetroSA Retirement Fund, and to transfer the pensioner liabilities to individual annuity policies with Old Mutual. The Registrar’s approval was granted and all liabilities have been fully transferred.

The trustees have appointed a liquidator, the Registrar approved of this appointment and the fund was placed into liquidation in October 2010. Approval for the liquidation of the Mossgas Pension Fund was granted by the Registrar of Pension Funds on 25 September 2014 and amounts due were paid to the beneficiaries. The fund was liquidated in the current year.

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

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

12. Retirement Benefits (continued)

Figures in Rand thousand	2016	2015
Carrying value		
Present value of the defined medical benefit obligation-wholly unfunded-SFF	(121 166)	(85 605)
Present value of the defined medical benefit obligation-partially or wholly funded	(97 285)	(125 497)
Fair value of medical plan assets	97 279	103 456
	(121 172)	**(107 646)**
The fair value of plan assets includes:		
Movements for the year		
Opening balance	107 646	94 885
Contributions by members	2 414	3 349
Past year service costs	3 380	2 976
Net interest return (costs)	6 225	5 670
Net benefits paid	(4 404)	(3 473)
Net actuarial gain or (loss)	5 911	4 239
	121 172	107 646
Key assumptions used		
Assumptions used on last valuation on Thursday, March 31, 2016.		
Discount rates used by SFF	9.60 %	8.09 %
Discount rates used by PetroSA	9.75 %	8.50 %
Medical inflation rate used SFF	9.06 %	7.75 %
Medical inflation rate used by PetroSA	8.25 %	6.75 %
Sensitivity of the benefit obligations to 1% or 1 year downgrade in the weighted principal assumptions		
Mortality rate (1% downward rating)	11 060	23 287
Discount rate (1% downward rating)	26 360	7 187
Inflation cost (1% downward rating)	25 967	23 067
Mortality rate (1 year downward rating)	11 285	7 321
Discount rate (1 year downward rating)	22 985	19 721
Inflation cost (1 year downward rating)	22 997	19 516
	120 654	**100 099**

Defined contribution plan

It is the policy of the of the Group to provide retirement benefits to all its employees eligible employees. All eligible Group employees are members of the respective CEF Group subsidiaries retirement fund and medical aid contribution fund all of which are subject to the Pensions Fund Act of 1956 and the Medical Aid Schemes Act of 1998 respectively.

The respective CEF Group companies is under no obligation to cover any unfunded benefits.

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

13. Deferred Tax

Figures in Rand thousand	2016	2015
Deferred tax liability		
Provisions	61 937	39 414
Property plant and equipment and intangible assets	(1 767 780)	(1 158 974)
Prepayments	(224)	253
Tax losses available for set off against future taxable income	324 664	146 238
Total deferred tax liability	**(1 381 403)**	**(973 069)**

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

Deferred tax liability	(1 768 004)	(1 158 974)
Deferred tax asset	386 601	185 905
Total net deferred tax liability	**(1 381 403)**	**(973 069)**

Reconciliation of deferred tax asset/(liability)		
At beginning of year	(973 069)	(1 810 467)
Increases (decrease) in tax loss available for set off against future taxable income	197 978	(23 709)
Increases (decrease) in provisions	2 972	(281)
Taxable/(deductible) temporary difference movement on tangible and intangible assets	(659 002)	726 603
Taxable/(deductible) temporary difference movement property at fair value	50 197	134 148
Taxable/(deductible) temporary difference on prepayments	(479)	637
	(1 381 403)	**(973 069)**

PetroSA is an oil and gas company as defined in the Tenth Schedule to the Income Tax Act. As an oil and gas company, PetroSA qualifies for additional tax deductions in respect of its capital expenditure on exploration and production activities. This assessed loss position is directly attributable to PetroSA's oil and gas activities.

PetroSA continued with its development programme of the F-O field, known as project Ikhwezi. Project Ikhwezi will contribute toward further increasing PetroSA's assessed loss position. 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 R5.2 billion (2015: R5.4 billion). The unused estimated/ assessed tax loss at year-end is R18.6 billion (2015: R19.1 billion).

Unrecognised deferred tax asset		
Unused tax losses tax value	5 208 000	5 348 000

Use and sales rate

The deferred tax rate applied to the fair value adjustments of investment properties/ financial assets is determined by the expected manner of recovery. Where the expected recovery of the property/financial assets is through sale the capital gains tax rate of 22.4% (2015: 18,6%)) is used. If the expected manner of recovery is through indefinite use the normal tax rate of 28% (2015: 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.

14. Prepayments

Prepayments relate mainly to the insurance of the Group's onshore and offshore assets. The premium is paid annually in advance.

15. Strategic Inventory

These inventories are being held in accordance with Ministerial Directives as prescribed by the Minister of Energy. The carrying amount of these inventories are expected to be realised past 12 months after the reporting date, thus it is included in non-current assets.

8,8 million barrels of crude oil were sold to commercial customers during the current financial year, as per a Ministerial Directive which was issued by the Minister of Energy, which authorised SFF to rotate strategic stocks.

An amount of R1.074 billion was spent to purchase the 155 million litres of diesel white product was injected into the New National Multi-Products Pipeline by the company during the 2011/2012 financial year. The product is valued (net realisable value) at R716 million as at 31 March 2016 (2015: R886 million).

The volume of crude oil of 1 271 142 barrels are unpumpable.

Figures in Rand thousand	2016	2015
Crude Oil	255 932	2 044 701
Diesel	715 964	885 526
	971 896	**2 930 227**
Volumes of product held:		
Crude oil (barrels):		
Barrels held at year-end	1 304 142	10 380 544
Consignment stock	(33 000)	(33 000)
	1 271 142	**10 347 544**
Diesel (litres)	155 000 000	155 000 000

16. Inventory on Loan

Write down of inventory

Write down relates to the coal with low qualities written down to net realisable value. Included in the write down of inventory is 300 000 barrels of Basra that were advanced to Envirosure to return the same number of barrels of Bonny Light. It came to management attention that the counterparty will not be able to fulfill the obligation and therefore the stock was written down by R60,402 million.

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

17. Inventories

Figures in Rand thousand	2016	2015
Petroleum fuels	1 652 055	1 895 820
Crude oil	43 185	31 199
Consumable stores, spares and catalysts	292 562	282 647
Production supplies	2 731	2 628
Run of mine stock (ROM)	3 078	4 877
Crushed coal	2 412	1 372
	1 996 023	2 218 543
Inventories (write-downs)	(3 621)	(5 311)
	1 992 402	**2 213 232**

Run of mine stock (ROM)

The run of mine stock(ROM) stock is the coal directly extracted from the pit. This is either sold to external customers or crushed according to customer specification and converted to crushed coal.

18. Trade and Other Receivables

Trade receivables	1 487 003	2 303 509
Statutory receivables	283 063	160 010
Deposits	9 694	9 491
VAT	99 516	332 446
Underlift	2 941	17 697
Payroll receivable	13 522	7 915
Interest receivable	107 201	45 079
Sundry debtors	152 453	98 986
	2 155 393	**2 975 133**

Trade and other receivables pledged as security

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

Credit quality of trade and other receivables

The maximum exposure to credit risk at 31 March 2016 is the carrying value of trade receivabe, payroll 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 (Moodley's) or to historical information about counterparty default rates:

Counterparties(Eskom SOC Ltd) with external credit rating (Moody's) in R'000		
BA1	43 007	35 520

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 is individually impaired debtors.Individual debtors which are more than 3 months past due are not considered to be impaired. Furthermore, the ability to settle outstanding debts and financial status of the individual debtors are considered when the assessment for impairment is conducted. At March 31, 2016 R48,040 million, R – (2015: R51,898 million-) were past due but not impaired.

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

18. Trade and Other Receivables (continued)

Figures in Rand thousand	2016	2015
The ageing of amounts past due but not impaired is as follows:		
1 month past due	867	24 184
2 months past due	340	1 167
3 months past due	46 833	26 547

Trade and other receivables impaired

As of March 31, 2016, trade and other receivables of R38,387 million (2015: R79,340 million) were impaired for the current reporting period. The value of the provision for doubtful debts was R184,367 million as of March 31, 2016 (2015: R149,797 million).

Over 90 days	184 369	149 797

Reconciliation of provision for impairment of trade and other receivables

Opening balance	149 797	75 688
Allowance for doubtful debts additions	38 387	79 340
Amounts written off as uncollectable	(3 713)	(2 123)
Amounts recovered	(102)	(3 108)
	184 369	**149 797**

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

19. 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 of the following:

Cash on hand	3 449 870	3 741 750
Bank balances	1 456 881	676 969
Short-term deposits	11 246 803	5 945 287
Bank overdraft	(417 209)	(286 761)
	15 736 345	**10 077 245**
Current assets	16 153 554	10 364 006
Current liabilities	(417 209)	(286 761)
	15 736 345	**10 077 245**

Short term deposits of R13 million serve as collateral for bank guarantees.

The carrying amount of cash and cash equivalents approximates the fair value due to the short term nature of the instruments.

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

19. Cash and Cash Equivalents (continued)

Figures in Rand thousand	2016	2015

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:

Cash and cash equivalents restricted		
Deposits	477	477
Demand Site Levy	24 340	21 292
Cash held on behalf of third parties	31 860	25 956

An insurance rehabilitation guarantee is in place whereby the insurer guarantees to pay Department of Mineral Resources R39.1 million and R42.9 million for environmental rehabilitaion of Vlakfontein Mine and T Project respectively. A portion of the premium is invested and earn interest to meet environmental obligations at the end of life of mine. The cash is restricted for use. In the prior year the rehabilitation funds were disclosed seperatley as other financial assets and in the current year they are allocated to cash and cash equivalents.

20. Discontinued Operations or Disposal Groups or Non-Current Assets held for Sale

CCE Solutions SOC Ltd

The CEF Board of directors resolved to dispose of its 8.8 MW Biomass to electricity generation power plant components. The sale of equipment and project rights was concluded with the George Wood Waste Consortium at an ask price of R50 million. A section 54(2) of the Public Finance Management Act No. 1 of 1999 to dispose the asset was sought from the Minister of Energy and its still pending.

OPC NPC

The Minister of Energy's approval in terms of section 54(2) of the Public Finance Management Act No. 1 of 1999 to dispose of the OPC was received on 26 October 2012. The Minister approved the CEF SOC Board's request to dispose of the business of OPC and to transfer the assets, worth R10,7 million to SFF.

Profit and loss

Assets and liabilities		
Non-current assets held for sale		
Property, plant and equipment	60 669	60 669
	60 669	60 669

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

21. Share Capital

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

22. Foreign Currency Translation Reserve

Figures in Rand thousand	2016	2015

Translation reserve comprises exchange differences on consolidation of foreign subsidiaries.

FCTR arising from consolidation of PetroSA foreign subsidiaries	835 579	381 822

23. Hedging Reserve

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

Cashflow hedge reserve arising from equity accounting of an associate	(537)	(302)

24. 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	1 319 310	1 319 310
Realised to retained income	(17 305)	-
	1 302 005	**1 319 310**

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

25. Other Financial Liabilities

Figures in Rand thousand	2016	2015
Held at amortised cost		
Reserve based lending facility	1 201 245	865 496
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 an producing/developing assets. The available facility amount most sensitive to economic assumptions such as the Brent crude oil price and changes to independently audited oil reserves.		
Upstream Training Trust Cash on call	31 432	25 551
These are funds held and invested in call accounts on behalf of the Upstream training trust that is managed by Petroleum Agency South Africa (PASA).		
Environmental deposits	421	328
These relate to cash deposits received from operators and licencees in terms of issued rights and permits.		
The environmental deposits can only be paid back to the holder 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 site levy	24 340	21 292
The are levies collected by CEF SOC Ltd on behalf of the Deparment of Energy from the oil companies as mandated by the Central Energy Fund Act 38 of 1977.		
	1 257 438	**912 667**
Non-current liabilities		
At amortised cost	1 201 666	865 824
Current liabilities		
At amortised cost	55 772	46 843
	1 201 666	865 824
	55 772	46 843
	1 257 438	**912 667**

26. Provisions

Reconciliation of provisions – 2016

	Opening balance	Additions	Utilised during the year	Reversed during the year	Change in discount factor	Interest expense	Total
Environmental rehabilitation	10 139 529	168 652	19 377	(1 315)	805 846	486 672	11 618 761
Product warranties	64	–	(30)	–	–	–	34
Bonus	46 491	78 264	(41 995)	(3 106)	(530)	–	79 124
Social investment	34 152	–	(9 945)	–	–	–	24 207
Restructuring	–	21 656	–	–	–	–	21 656
	10 220 236	**268 572**	**(32 593)**	**(4 421)**	**805 316**	**486 672**	**11 743 782**
Reconciliation of provisions – 2015							
Environmental rehabilitation	8 419 516	243 812	(463)	(8 773)	328 213	1 157 224	10 139 529
Product warranties	93	–	(29)	–	–	–	64
Bonus	212 625	33 363	(193 387)	(541)	(5 569)	–	46 491
Social investment	36 862	–	(2 710)	–	–	–	34 152
	8 669 096	**277 175**	**(196 589)**	**(9 314)**	**322 644**	**1 157 224**	**10 220 236**

Non-current liabilities	11 605 387	10 125 692
Current liabilities	138 395	94 544
	11 743 782	**10 220 236**

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

26. Provisions (continued)

Environmental rehabilitation

PetroSA

This amount of R12,437 million (2015: R13,437 million) is for the rehabilitation of the land at the Voorbaai terminal.

The abandonment provision of R10,720 billion (2015: R9,330 billion) represents the present value of abandonment costs relating to oil and gas interests, the majority of which are expected to be incurred up to 2023.

However, actual abandonment costs will ultimately depend upon future market prices for the necessary abandonment works required which will reflect market conditions at the relevant time. Furthermore, the timing of abandonment 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.

Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. Major assumptions included in the calculation of provisions is that the South African inflation decreased from 6.9% to 5.4% and US inflation of 2.2%. sensitivity analysis indicates that a R1 weakening of the Rand against the US Dollar translates into R493 million increase in the provision and a US$1 decrease in the Brent crude oil price translates into a decrease in the provision by R19 million. These estimates are reviewed regularly to take into account any material changes to the assumptions.

The total cost of future restoration is estimated at R10,721 billion. This cost includes the net expenditure to abandon and to rehabilitate both the onshore and offshore facilities as well as other related closure costs. PetroSA has commissioned an external expert to assess the quantum and scope of the Group abandonment provision. This assessment occurs every 5 years. The current year assessment includes additional research into the requirements to fully close or decommission redundant exploration wells. For these wells, no reliable estimate of the cost can be made at present and therefore no amounts have been provided for these items.

SFF NPC

The provision amounts of R516,403 million (2015: R485,799 million) relates to the abandonment of the Milnerton and Saldanha tank farms and the environmental rehabilitation at Ogies

Saldanha

The six Saldanha In-Ground tanks will be decommissioned and withdrawn from service but not demolished. The Scope of Work includes for 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.

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 their expense.

Milnerton

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.

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

26. Provisions (continued)

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. Environment mental damage affects ground water, soil that produces food In the surrounding arear, property and trading damages such as human life and mineral rights. The assumptions used in the calculation takes into account the probability of occurrence.

AEMFC

As at 31 March 2016 the environmental rehabilitation balance of R18,.5 million (2015 : 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 8.38% for 2018 cashflows and 9.79% for 2039 cashflows (2015: 7.11% and 8.33% respectively) and inflation rate of 5.5% (2015 :5.5%) in line with South African Reserve Bank long term inflation targets. Current mine plans envisage the expected outflow to occur at the end of the life of mine.

In respect of the rehabilitation provision, a corresponding asset write down of R709 414 (2015: R8,7 million) was recognised in property, plant and equipment in the mine infrastructure asset class. The decrease in the liability exceeds the carrying amount of the asset to an amount of R605 114, and this excess is recognised in profit or loss.

Funding of rehabilitation provision

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

Figures in Rand thousand	2016	2015
Rands (Millions)		
Cash deposits	477	477
Cash in Escrow account	1 453	31
Financial Guarantee	180	180
	2 110	688

Social investment

This provision amount of R24,207 million (2015: R34,152 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 R79,301 million (2015:R46,491 million) represents incentives for employees who qualify in terms of their performance during the current year.

Included in the above bonus provision is a rentention bonus of R17,760 million which is payable after 12 months. This resulted to a discounting factor of R530,000 due to the time value of money.

The estimate is based on the expected average performance of the Group and employees using the variables as determined in the CEF Group incentive bonus policy. The bonus liability is anticipated to be paid within the next twelve months.

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

27. Trade and other payables

Figures in Rand thousand	2016	2015
Trade payables	1 106 453	1 759 648
Amounts received in advance	6	6
Payroll related liabilities	32 956	14 545
With holding tax	111	111
Accrued leave pay	66 819	97 015
Accrued expense	1 529 117	1 337 256
Statutory payables	574 101	791 330
Transfer payable in terms of S 3(A)(c) of the CEF Act	2 150 896	–
Deposits received	23	23
Other payables	1 261	2 038
	5 461 743	**4 001 972**

Fair value of trade and other payables
The carrying amount for trade and other payables at 31 March 2016 approximates fair value.

Transfer payable
Included in other payables is an amount of R2,1 billion due to the Equalisation Fund as a result of the application of the provisions of Section 3 (A) (c) of the CEF Act applicable to the sale of Strategic Stock.

28. Deferred income

The deferred grant was received by CEF SOC Ltd from the Department of Energy. These funds grant is used to fund feasiblity studies for the Vaal Dam projects.

29. Revenue

Sale of goods	20 114 693	18 315 632
Rendering of services	25 195	24 167
Rental Income	576 432	170 097
Interest received (trading)	145	209
	20 716 465	**18 510 105**

30. Cost of sales

Sale of goods	16 248 004	17 164 922
Cost of goods sold	16 248 004	17 164 922

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

31. Other income

Figures in Rand thousand	2016	2015
Profit and loss on sale of assets and liabilities	2 483	3 960
Profit and loss on exchange differences	28 689	270 063
Fees earned	–	130
Royalties received	198	10 562
Rental income	8 329	6 468
Recoveries	1 618	(2 069)
Revaluation and impairment	121 608	(207 940)
Recovery of coal transport costs	81 886	27 315
Other income	51 263	80 975
Income from price variance	9	7
Management fees	8 475	8 208
Insurance claims	2 639	295
Harbour costs	3 168	–
Gantry fee	75 852	66 362
	386 217	264 336

32. Operating loss

Operating loss for the year is stated after accounting for the following:		
Operating lease charges		
Premises		
• Contractual amounts	25 372	20 379
Equipment		
• Contractual amounts	1 981	2 658
	27 353	23 037

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

32. Operating loss (continued)

Figures in Rand thousand	2016	2015
Property, plant and equipment	(2 116)	2 996
Loss on sale of intangible assets	(2 595)	(339)
Impairment on property, plant and equipment	1 526 343	14 449 893
Reversal of impairment on property, plant and equipment	1 271 761	–
Restatement of financial assets/financial liabilities	111 633	–
Commitment fees	10 666	725
Impairment on loans to Group companies	–	(9)
Transfer in terms of s(3A)(c) of the CEF Act	2 150 896	–
Administration and management fees	5 077	4 141
Accounting fees	3 333	13 341
Reversal of impairment on other financial assets	1 475	–
Travel – overseas	10 495	8 787
Travel – local	10 058	8 863
Municipal expenses	6 806	5 341
Impairment of trade and other receivables	38 386	80 045
Reversal of impairment on trade and other receivables	3 713	–
Storage,transport and freight	364 940	330 815
Training	6 084	4 722
(Profit)/loss on exchange differences	357 489	(269 537)
Amortisation on intangible assets	13 543	12 056
Auditors remuneration	8 104	7 737
Consulting and professional fees	30 174	41 772
Repairs and maintenance	14 157	15 165
Depreciation on property, plant and equipment	1 900 678	2 346 755
Insurance	35 171	26 683
Employee costs	1 377 568	1 235 362
Research and development costs	8 777	9 210

33. Investment revenue

Dividend revenue		
Unlisted financial assets – Local	950	760
Interest revenue		
Associates	1 067	1 303
Interest received from money market investments	692 528	718 222
Loans	2 888	502
Bank	7 798	6 158
Other interest	3 903	5 471
Loans to directors managers and employees	–	48
	708 184	**731 704**
	950	760
	708 184	731 704
	709 134	**732 464**

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

34. Finance costs

Figures in Rand thousand	2016	2015
Group companies	27	1 033
Non-current borrowings	–	148 756
Discounting of other receivables	24 775	–
Bank	3 031	2 573
Current borrowings	–	145
Late payment of tax	6 160	1 415
Interest on rehabilitation provision	518 930	1 174 352
Other interest paid	3 035	1 450
	555 958	**1 329 724**

Capitalisation rate used during the period was 3.09% (2015: 0.82%). Total borrowing costs capitalised were R50,107 million (2015: 9,772 million).

35. Taxation

Major components of the tax expense

Current		
Local income tax – current period	46 814	36 291
Local income tax – recognised in current tax for prior periods	(126)	–
Foreign income tax or withholding tax – current period	4 200	8 830
	50 888	**45 121**
Deferred		
Originating and reversing temporary differences	454 908	(937 163)
Changes in tax rates	105	–
Benefit of unrecognised tax loss/tax credit/temporary difference used to reduce deferred tax expense	(137 572)	54 922
	317 441	(882 241)
Current	50 888	45 121
Deferred	317 441	(882 241)
	368 329	**(837 120)**

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

35. Taxation (continued)

Figures in Rand thousand	2016	2015
Reconciliation of the tax expense		
Reconciliation between accounting profit and tax expense.		
Accounting profit	177 210	(15 270 665)
Tax at the applicable tax rate of 28% (2015: 28%)	49 619	(4 275 786)
Tax effect of adjustments on taxable income		
Income not subject to tax	(1 348 947)	(120 407)
Expenses not deductible for tax purposes	1 434 829	150 543
Associates results reported net of tax	(85 233)	(73 268)
Temporary differences	492	(2 281)
Effects of tax rates in different jurisdictions	(35 875)	177 654
Tax losses carried forward	359 549	3 309 040
Changes in tax rates	105	–
Tax expense in respect of prior years	(6 210)	(2 614)
	368 329	**(837 119)**

The average effective tax rate is 2% (2015: 5%). The decrease of the average effective tax rate is due to a significant increase of non deductible expenses in the current year.

During the year, as a result of the change in the capital gains tax inclusion rate from 66.6% to 80% that was substantively enacted on February 2016 and that will be effective from 1 April 2016, the relevant deferred tax balance has been re- measured.

Deductible temporary differences unused tax losses and unused tax credits for which no deferred tax asset has been recognised.	18 600 000	19 100 000

36. Auditors remuneration

Fees	8 104	7 737

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

37. Other comprehensive income

Components of other comprehensive income – 2016

	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	(3 807)	–	(3 807)
Items that may be reclassified to profit or loss			
Exchange differences on translating foreign operations			
Exchange differences arising during the year	453 757	–	453 757
Effects of cash flow hedges			
Gains (losses) on cash flow hedges arising during the year	(108)	–	(108)
	(3 807)	–	–
	453 649	–	–
Total	**449 842**	**–**	**449 842**

Components of other comprehensive income – 2015

	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	(3 880)	–	(3 880)
	(3 880)	–	–
	–	–	–
Items that may be reclassified to profit or loss			
Exchange differences on translating foreign operations			
Exchange differences arising during the year	239 275	–	239 275
Effects of cash flow hedges			
Gains (losses) on cash flow hedges arising during the year	(349)	–	(349)
	239 275	–	–
	–	–	–
	(349)	–	–
Total items that may be reclassified to profit or loss	**238 926**	**–**	**238 926**
	(3 880)	–	–
	238 926	–	–
Total	**235 046**	**–**	**235 046**

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

38. Cash generated from operations

Figures in Rand thousand	2016	2015
Profit before taxation	177 210	(15 270 667)
Adjustments for:		
Depreciation and amortisation	1 914 221	2 358 811
Net profit (loss) on disposal of property, plant and equipment	2 228	(6 617)
Doubtful debt allowance	128 333	80 045
Profit on foreign exchange	(921 011)	(603 276)
Income from equity accounted investments	(305 212)	(259 751)
Operating lease rental	27 353	23 037
Interest received – investment	(709 134)	(732 464)
Finance costs	555 958	1 329 724
Impairment reversal	–	(50 000)
Impairment loss	374 715	14 241 944
Movements in operating lease assets and accruals	–	(66)
Movements in retirement benefit assets and liabilities	13 526	9 786
Movements in provisions	1 523 546	1 505 062
Other non-cash items	49 303	(6 493)
write-off property, plant and equipment	–	8 878
Change in estimates	(742 004)	(484 256)
Changes in working capital:		
Inventories	2 179 162	959 582
Trade and other receivables	827 527	729 845
Prepayments	38 123	(377 651)
Trade and other payables	1 459 771	412 559
Deferred income	–	(1 421)
	6 593 615	**3 866 611**

39. Tax paid

	2016	2015
Balance at beginning of the year	(48 555)	(51 158)
Current tax for the year recognised in profit or loss	(50 888)	(45 121)
Balance at end of the year	1 050	48 555
	(98 393)	**(47 724)**

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

40. Commitments

Authorised capital expenditure

Figures in Rand thousand	2016	2015
Already contracted for but not provided for		
• AEMFC	188 736	64 496
• CEF SOC Ltd	2 052	2 640
• PASA	937	–
• PetroSA	862 614	1 504 410
Not yet contracted for and authorised by directors (CEF SOC LTD)	1 028 548	57 034

This committed expenditure relateing to the above and will be financed by available bank facilities, retained profits, existing cash resources, funds internally generated, etc.

Operating leases – as lessee (expense)

Minimum lease payments due		
– within one year	21 653	20 526
– in second to fifth year inclusive	77 571	82 740
– later than five years	42 494	56 479
	141 718	**159 745**

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

Operating leases – as lessor (income)

Minimum lease payments due		
– within one year	769	6 322
– in second to fifth year inclusive	1 025	10 503
	1 794	16 825

Certain of the company's equipment is held to generate rental income. Rental of equipment is expected to generate rental yields of CPI + 1% on an ongoing basis. Lease agreements are non-cancellable and have terms from 3 to 6 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	67 992	30 900

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

41. Contingencies

Figures in Rand thousand	2016	2015
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	5 000	5 000
Revenue Service		
The Group has issued an evergreen VAT guarantee in favour of the Dutch VAT	8 392	6 546
Authorities (€0.5 million)		
The Group has issued a guarantee in lieu of a lease in the Netherlands (Eur0.016 million)	268	209
DME for Rehabilitation of E-BT/E-AR mining lease	27 100	27 100
Eskom for payment of guarantee for electrical supply	2 435	2 435
Eskom for payment of guarantee for electrical supply	9 485	9 485
Department of Energy 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 SA Gas Development Deed of Suretyship	2 100	2 100
	686 780	**684 875**

Claims		
PetroSA is considering settling a claim made by a former employee	–	4 000
PetroSA is considering settling claims made in terms of contracts	13 978	81 834
	13 978	85 834

Contingencies arising out of litigious matters

SFF NPC

Dispute with a customer

Litigation is in progress against the company relating to a dispute with a customer for a damages claim resulting from SFF's alledged failure to deliver 50 596 barrels of crude oil. The claim for the damages is R86 719 334 (USD 5 865 240.10) plus interest, calculated at 15.5% per annum, from September 2011. SFF is defending the claim and has filed a counter claim against the customer for the recovery of the amount of R45 967 791.69, being cargo dues, due and payable to SFF in respect of the handling and storage of crude oil under the Storage Agreements for Tanks at the Saldanha and Milnerton Storage Terminals. The company's legal representatives and management consider the likelihood of the action against the company being successful as 50/50. Should SFF be unsuccessful in defending this case, the company could be liable for the customer's claim.

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

41. Contingencies (continued)

Dispute with a former employee
The company has been served with Court papers where the former Chief Executive Officer is making financial demands regarding what he claims to be a restraint of trade agreement signed with the company. The company's legal representatives and management consider the likelihood of 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.

Tank refurbishment
The National Energy Regulator of South Africa (NERSA) is defending an action brought by a property developer as a result of NERSA having awarded SFF Association NPC a licence to operate Milnerton Tank Farm. NERSA issued the license to SFF with a condition that it must undertake refurbishments to the Milnerton Tank Farm at an SABS standard, whilst the property developer preferred a higher standard to which the Milnerton Tank Farm be refurbished to. A court decision favourable to the property developer against NERSA, would result in SFF having to incur higher refurbishment costs than the condition of the license.

Tender process damages claim
SFF Association received a letter from a supplier's attorneys after year-end demanding damages to be paid to their client amounting to R10.5 million. The claimed damages resulted from the late delivery of tender documentation prepared by the supplier, which contained confidential information.

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.

Restructuring
PetroSA had notified employees in terms of section 189 of the Labour Relations Act 66 of 1995 of possible headcount reduction based on operational requirements, on 24 February 2015. It is not possible, at this time, to measure reliably the mandatory obligations arising from this notice, nor is it practicable to estimate their magnitude or possible timing of payment. Therefore, no amounts have been provided for these obligations as at 31 March 2016.

PetroSA Ghana Ltd Corporate Tax
On 14 September 2012 PetroSA Ghana's place of effective management changed to South Africa and the company became a tax resident in South Africa. The South African Income Tax legislation does not expressly deal with the tax treatment of the opening balances of capital expenditure on property, plant and equipment (and intangible assets) prior to commencing to be tax resident. Clarity in this regard is being sought from the South African Revenue Service and National Treasury. Furthermore, the deductibility, for South African income tax purposes, of fees paid to a previous lender is unclear. In the event that no deduction is allowed in respect of capital expenditure prior to 14 September 2012, nor for fees paid to a previous lender, the aggregate estimated normal tax liability for the 2012 to 2014 years would be in the region of R269 million (USD22 million).

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

42. Prior period errors

During the current reporting period, management of the Group identified prior period errors and items that needed to be reclassified in the statement of financial position. The table below reflects the affected accounts that were adjusted for and the impact to other affected accounts.

Reconciliation of equity at March 31, 2015

	Note	As reported previously	Adjustment	Reallocation	Restated
Investment in joint ventures		11 199	(10 003)	–	1 196
Investment in Associates		951 991	(153 421)	(294 627)	503 943
Intangible assets		1 779 651	(24)	–	1 779 627
Loans to Group companies		9 716	8 037	148 114	165 867
Other financial assets		371 724	–	(153 190)	218 534
Prepayments		–	–	1 037	1 037
Strategic inventory		3 118 505	(188 278)	–	2 930 227
Total non-current assets		**6 242 786**	**(343 689)**	**(298 666)**	**5 600 431**
Trade and other receivables		3 373 900	(12 090)	(386 677)	2 975 133
Loans to Group companies		–	–	299 703	299 703
Prepayments		–	(35)	389 622	389 587
Finance lease		773	(397)	–	376
Cash and cash equivalents		10 364 012	(6)	–	10 364 006
Current tax receivable		16 337	(16 337)	–	–
Total current assets		**13 755 022**	**(28 865)**	**302 648**	**14 028 805**
Deferred income		1 031	–	(328)	703
Trade and other payables		4 024 649	(26 161)	3 486	4 001 974
Employee benefits		85 599	22 047	–	107 646
Provisions		10 236 196	(15 534)	(426)	10 220 236
Current tax liability		20 774	27 781	–	48 555
Other financial liabilities		912 339	–	328	912 667
Operating lease		9 302	4 248	922	14 472
Liabilities of a disposal group		76 649	(76 649)	–	–
Total liabilities		**15 366 539**	**(64 268)**	**3 982**	**15 306 253**
Total non-current assets		6 242 786	(343 689)	(298 666)	5 600 431
Total current assets		13 755 022	(28 865)	302 648	14 028 805
Total liabilities		(15 366 539)	64 268	(3 982)	(15 306 253)
Total assets less total liabilities		**4 631 269**	**(308 286)**	**–**	**4 322 983**
Reserves		1 704 074	(11 231)	7 987	1 700 830
Retained earnings		13 400 287	(297 467)	(7 987)	13 094 833
Non controlling interest		(895)	412	–	(483)
Total equity		**15 103 466**	**(308 286)**	**–**	**14 795 180**

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

42. Prior period errors (continued)

Adjustments affecting equity on consolidation

Investment in joint ventures

This error was due to incorrect equity accounting for PAMDC, the cost of the investment was not reduced to reflect the losses the associate incurred and the adjustment resulted in reduction in assets and retained income by R10,003 million.

Investment in associates

These error in this subparagraph are as a result of incorrect equity accounting in the 2015 reporting period and the adjustments made resulted to the folowing:

Rompco (Pty) Ltd

At consolidation level, investment in associates are equity accounted for. Fair value adjustment on investment at Rompco (Pty) Ltd of R 412 million was not reversed in the prior year. This reversal has resulted into a decrease in investment in associates

Due to different reporting dates between the Group which reports in March and an Associatel which reports in June there was R286,312 million profit which was not accounted for in the Group Financial Statement for the prior year.

TFST (Pty) Ltd

The carrying value of the TFST investment was reduced by R6,921 million. The reduction is due to accumulated losses that were not accounted for in the prior year as prescribed by IAS 28.

Ener-G Systems (Pty) Ltd

The carrying value of the Ener-G investment was reduced by R0,357 million. The reduction is due to accumulated losses that were not accounted for in the prior year as prescribed by IAS 28.

Methcap (Pty) Ltd

Methcap has been reclassified by R1.9 million from investment in Associate to a financial asset as the investment does not meet the definition of an Associate as defined in IAS 28.

Loan to Group

Loans to Associates of R8,039 million were accounted for proportionally, however this is not in consonant with IAS 28 as IAS 28 requires the investor to account for changes in equity.

Non-controling interest

This error was due to incorrect data used for non-controlling interest (NCI) for CCE and the incorrect percentage holding of 18,5%, compared to the the correct holding of 10,8%, used for the allocation of profits or losses to NCI. resulting in increase in NCI and reduction to retained income by R0,412 million.

Reserves

In the current year we've processed an adjustment of R10,975 million which is made up of:

- an adjustment of R5,475 million in non-distributable reserves and
- an adjustment of R5,500 million in reserves relating to a CCE minority shareholder loan.

R7,987 million of accumulated actuarial gains and losses was reclassified from reserves to retained income for consistency at Group level.

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

42. Prior period errors (continued)

Finance lease receivable
The current portion of the finance lease receivable was incorrectly calculated at consolidation level resulting into an adjustment of R397,000.

Liaibilities of a disposal group
This error is due to the loan from CEF to CCE of R77,726 million was not elimininated and also the incorrect classification of Sundry creditors of R1,077 million as liabilities of a disposal group which is not in line with the requirements of IFRS5. This adjustment resulted in reduction of the liabilities of a disposal group by R 76,649 million and a decrease in sundry creditors by R1,077 million.

Trade and other receivable/Trade and other payable
- The inter-company interest payable by CEF to PetroSA of R2,485 million was not eliminated in the prior year financial statements.
- Inter-company trade and other payables of R816 000 were not eliminated in the prior year.

Individual subsidiary adjustments affecting retained income

CEF SOC Ltd

Current tax payable
An adjustment of R43,858 million on tax was due to dissallowance of deduction of certain expenses incurred in the prior year.

Intangible assets
The restatement is due to a software maintanence contract incorrectly accounted for as an intangible asset. The cost of R29,000 and the accumulated amortisation of R8,000 recognised were reclassfied to expenses.

Prepayments
Expenses incurred in the 2015 financial year of R35,000 which were incorrectly classified as prepayments.

Investment in associates
Capital redistribition of R18 million from TSFT (Pty) Ltd was incorrectly classified as dividend income.This has been reclassifed as a reduction in investment in associate.

Reclassification of an investment at TSFT(associate) of R5,076 million which was incorrecIty classified as loan to Group companies to investment in associate.

Trade and other payables
In the prior year, services of R418 000 that were never received were accrued for.

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

42. Prior period errors (continued)

SFF NPC

Employee benefits
In the prior year the valuation of the employee benefit obligation was not performed. During the current year, the valuation was performed for the prior and current years resulting in the adjustment of R22,047 million.

Strategic inventory
The Strategic inventory was overvalued in the prior year as a result of using wholesale fuel price rather than the basic fuel price. This resulted into an adjustment of R188,278 million.

Operating lease liability
The operating lease accrual was incorrectly calculated in the previous financial year resulting into an adjustment of R4,248 million.

Trade and other payable
The decrease of R7,657 million on trade and other payables is due to a bonus provision payment that was incorrectly accounted for as salary expense payment.

SANERI SOC Ltd

The following financial statement line items were derecognised due to loss of control in the company. The loss of control were triggered by the National Energy Act of 2008 which stated that all assets and liabilities of SANERI SOC Ltd must be transferred to the new entity SANEDI.

- Provisions for VAT penalties and interest and fruitless and wasteful expenditure of R15,533 million
- Trade and other payable from VAT liability of R13,621 million
- Trade and other receivable from VAT asset of R9,6 million

iGas SOC Ltd

Income tax payable
Current tax in the prior years was understated by R260,000 due to dissallowance of deduction of certain expenses subsequent to SARS audit.

Trade and other payables
In the prior year services of R77,000 that were not received were accounted for.

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

42. Prior period errors (continued)

Reclassification adjustments

Investment in Associate

Included in the investment in Associate in the prior year is the loan of R299,703 million which has subsequently been paid. The loan has been reclassified to loans to Group companies.

Other financial asset

A loan of R153,190 million from PetroSA to GTL.F1 AG was incorrectly classified as a financial asset instead of a loan to Group companies.

Prepayments

- Included in trade and other receivable is R360,344 million which is prepayments. Prepayments has been reclassified to its own line as they do not meet the requirements of IAS 32 as a financial instrument.
- Further to the reclassification above, there were prepayments of R30,305 million which were incorrectly classified as trade and other payable which has been subsequently removed from trade and other payable.

Other financial liabilities

Environmental deposits of R328,000 were incorrectly classified as deferred income instead of reflecting it as other financial liabilities.

Trade and other payable

Payroll liabilities of R426,000 were reclassified from provisions to trade and other payable.

Operating lease liabilities of R922,000 were reclassified from trade and other payable to operating lease liabilities.

Trade and other receivable

Employee related costs such as study loans, rebates of R2,2 million was reclassified from trade and other payable to trade and other receivable.

VAT of R28,539 million was reclassified from trade and other payable to trade and other receivable.

43. Related parties

Relationships	
Holding company	Department of Energy
Subsidiaries	Refer to note 5
Joint ventures	Refer to note 6
Associates	Refer to note 7
Unconsolidated Structure	Upstream Training Trust
Under common control	National Treasury
Under common control	SANEDI
Under common control	Mine Health and Safety Council
Under common control	Equalisation Fund
Unconsolidated Structure	PetroSA Development Trust
Unconsolidated Structure	Gannet Trust
Members of key management	Refer to note 45
Contingencies	Refer to note 41

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

43. Related parties (continued)

Related party balances

Figures in Rand thousand	2016	2015
Loan accounts – Owing (to) by related parties		
Darling Wind Power (Pty) Ltd	502	17 000
Baniettor (Pty) Ltd	23 933	23 933
Erner-G Systems (Pty) Ltd	22 903	12 482
Republic of Mozambique Pipeline Company (Pty) Ltd	–	299 703
GTL.1 AG	213 159	153 190
Amounts included in Trade receivable regarding related parties		
Pan African Development Company (Pty) Ltd	1 997	1 131
Darling Wind Power (Pty) Ltd	–	3 755
South Africa National Energy Development Institution	1 176	899
Equalisation Fund	465	194
Amounts included in Trade Payable regarding related parties		
Equalisation Fund	(2 150 896)	-
Cash on call held on behalf of others		
Upstream Training Trust	(31 432)	(25 551)
Darling Wind Power (Pty) Ltd	(429)	(405)
Other financial liabilities		
National Treasury (Demand Site Levy)	(24 340)	(21 292)

Related party transactions

Interest paid to (received from) related parties		
Darling Wind Power (Pty) Ltd	24	23
Thin Film Solar Technology (Pty) Ltd	–	1 837
Erner-G Systems (Pty) Ltd	(1 502)	(1 303)
Upstream Training Trust	1 704	1 378
Rent paid to (received from) related parties		
Rompco (Pty) Ltd	(58)	(56)
South Africa National Energy Development Institution	(714)	(651)
Pan African Development Company (Pty) Ltd	(163)	(148)
Administration fees paid to (received from) related parties		
Mine Health and Safety Council	–	(90)
Equalisation Fund	(2 411)	(1 767)
South Africa National Energy Development Institution	(1 923)	(1 964)
Pan African Development Company (Pty) Ltd	(753)	(868)
Recoveries paid to (received from) related parties		
South Africa National Energy Development Institution	(239)	(20)
Pan African Development Company (Pty) Ltd	(172)	(1)
Rompco (Pty) Ltd	(6)	(173)
Equalisation Fund	(1 037)	–
Other expenses paid to (received from) related parties		
Equalisation Fund	2 150 896	–

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

44. 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 re-insurance 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 Upstream Training Trust 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. Petroleum Agency SA nominates and serves as a Trustee on the board of Trustees of UTT.

Petroleum Agency SA 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 (Petroleum Agency SA only has one vote).

Petroleum Agency SA receives no administration fees from UTT and makes no contribution to UTT. At 31 March Petroleum Agency SA had a loan receivable from UTT of Rnil (2015: Rnil). Terms and conditions of the loan are that they are due and receivable 30 days from date of invoice receipt by UTT. Petroleum Agency SA's maximum exposure to loss from UTT is Rnil (2015: Rnil).

45. Directors' emoluments

Executive

2016

	Emoluments	Performance bonus	Total
Mr S Mthethwa	3 025	598	3 623
Mr A Haffejee	1 441	310	1 751
Dr C Cooper	1 728	490	2 218
Ms M Seroke*	1 705	–	1 705
Mr L Makhuba**	1 595	387	1 982
Dr P Masangane	2 099	572	2 671
Mr D Du Toit***	1 701	–	1 701
	13 294	2 357	15 651
2015			
Mr S Mncwango****	2 840	–	I2 840
Mr S Mthethwa	2 070	260	2 330
Mr A Haffejee	1 313	226	1 539
Dr C Cooper	1 535	440	1 975
Dr P Masangane	1 793	514	2 307
Mr D. Du Toit***	1 301	–	1 301
	10 852	1 440	12 292

* *Ms M Seroke was appointed in May 2015*

** *Mr L Makhuba was appointed in January 2016*

*** *Mr D Du Toit was appointed in December 2014 and the contract was terminated in January 2016*

**** *Mr S Mncwango resigned in December 2014*

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

45. Directors' emoluments (continued)

Non-executive

2016

	Directors' fees	Other expenses	Total
Dr S Mthembi- Mahanyele (Former Chairperson)	332	1	333
Mr R Boqo^	185	–	185
Dr X Mkhwanazi (Chairperson)	280	–	280
Adv L Mtunzi	124	–	124
Ms M Molope	124	–	124
Mr R Jawoodeen	472	3	475
Mr M Moagi^	–	–	–
Mr T Maqubela*	–	–	–
Mr G Bezuidenhoudt*	–	–	–
Mr T Sethosa (Alternate)*^	–	–	–
Mr D Hlwatshayo**	–	131	–
	1 816	**4**	**1 820**

2015

	Directors' fees	Other expenses	Total
Dr S Mthembi- Mahanyele (Former Chairperson)	888	49	937
Mr R Boqo^	303	9	312
Ms B Mabuza^	564	–	564
Mr D Hlatshwayo	108	–	108
Mr R Jawoodeen	712	190	902
Mr T Maqubela*	–	–	–
Mr G Bezuidenhoudt*	–	–	–
Mr S Gamede	55	4	59
Ms X Mtwa*	–	7	7
Mr T Sethosa (Alternate)*^	–	–	–
	2 630	**259**	**2 889**

* *Directors are not remunerated in their personal capacity.*

^ *Directors are also BARC members.*

** *Mr D Hlatshwayo is a BARC member and not a board member.*

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

46. Categories of financial instruments

	Note(s)	Financial assets at fair value through profit or loss
Categories of financial instruments - 2016		
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	–
Finance lease receivables	10	–
Prepayments	14	–
Strategic inventory	15	–
		–
Current Assets		
Inventories	17	–
Current tax receivable		–
Finance lease receivables	10	–
Trade and other receivables	18	–
Prepayments	14	–
Cash and cash equivalents	19	–
		–
Non-current assets held for sale and assets of disposal groups	20	–
Total Assets		**–**

Loans and receivables at amortised cost	Equity instruments at cost less impairment	Financial liabilities at amortised cost	Leases	Equity and non financial assets and liabilities	Total
–	–	–	–	10 616 455	10 616 455
–	–	–	–	1 911 296	1 911 296
–	–	–	–	670 988	670 988
236 062	–	–	–	–	236 062
343 427	1 475	–	–	(65)	344 837
–	–	–	556	–	556
–	–	–	–	933	933
–	–	–	–	971 895	971 895
579 489	**1 475**	**–**	**556**	**14 171 502**	**14 753 022**
–	–	–	–	1 992 402	1 992 402
–	–	–	–	5 752	5 752
–	–	–	265	–	265
1 772 814	–	–	–	382 579	2 155 393
–	–	–	–	351 464	351 464
16 153 554	–	–	–	–	16 153 554
17 926 368	**–**	**–**	**265**	**2 732 197**	**20 658 830**
–	–	–	–	60 669	60 669
18 505 857	**1 475**	**–**	**821**	**16 964 368**	**35 472 521**

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

46. Categories of financial instruments (continued)

	Note(s)	Financial assets at fair value through profit or loss
Equity and Liabilities		
Equity		
Equity Attributable to Equity Holders of Parent:		
Reserves	21	–
Retained income	21	–
		–
Non-controlling interest		–
Total Equity		**–**
Liabilities		
Non-Current Liabilities		
Other financial liabilities	25	–
Operating lease liability	11	–
Retirement benefit obligation	12	–
Deferred income	28	–
Deferred tax	13	–
Provisions	26	–
		–
Current Liabilities		
Loans from Group companies	8	–
Other financial liabilities	25	–
Current tax payable		–
Operating lease liability	11	–
Trade and other payables	27	–
Provisions	26	–
Unearned Finance income		–
Bank overdraft	19	–
		–
Total Liabilities		**–**
Total Equity and Liabilities		**–**

Loans and receivables at amortised cost	Equity instruments at cost less impairment	Financial liabilities at amortised cost	Leases	Equity and non financial assets and liabilities	Total
–	–	–	–	2 137 047	2 137 047
–	–	–	–	12 929 050	12 929 050
–	**–**	**–**	**–**	**15 066 097**	**15 066 097**
–	–	–	–	(904)	(904)
–	**–**	**–**	**–**	**15 065 193**	**15 065 193**
–	–	1 201 666	–	–	1 201 666
–	–	–	14 991	–	14 991
–	–	–	–	121 172	121 172
–	–	–	–	750	750
–	–	–	–	1 381 403	1 381 403
–	–	–	–	11 605 387	11 605 387
–	**–**	**1 201 666**	**14 991**	**13 108 712**	**14 325 369**
–	–	430	–	–	430
–	–	55 772	–	–	55 772
–	–	–	–	6 802	6 802
–	–	–	1 465	–	1 465
–	–	5 461 060	–	685	5 461 745
–	–	–	–	138 395	138 395
–	–	–	–	150	150
–	–	417 209	–	–	417 209
–	**–**	**5 934 471**	**1 465**	**146 032**	**6 081 968**
–	**–**	**7 136 137**	**16 456**	**13 254 744**	**20 407 337**
–	**–**	**7 136 137**	**16 456**	**28 319 937**	**35 472 530**

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

46. Categories of financial instruments (continued)

	Note(s)	Financial assets at fair value through profit or loss
Categories of financial instruments – 2015		
Assets		
Non-Current Assets		
Property, plant and equipment	3	–
Intangible assets	4	–
Investments in joint ventures	6	–
Investments in associates	7	–
Loans to Group companies	8	–
Other financial assets	9	–
Finance lease receivables	10	–
Prepayments	14	–
Strategic inventory	15	–
		–
Current Assets		
Inventories	17	–
Loans to Group companies	8	–
Current tax receivable		–
Finance lease receivables	10	–
Trade and other receivables	18	–
Prepayments	14	–
Cash and cash equivalents	19	–
		–
Non-current assets held for sale and assets of disposal groups	20	–
Total Assets		**–**

Loans and receivables at amortised cost	Equity instruments at cost less impairment	Financial liabilities at amortised cost	Leases	Equity and non financial assets and liabilities	Total
–	–	–	–	9 457 904	9 457 904
–	–	–	–	1 779 626	1 779 626
–	–	–	–	1 196	1 196
–	–	–	–	503 943	503 943
165 867	–	–	–	–	165 867
218 534	–	–	–	–	218 534
–	–	–	939	–	939
–	–	–	–	1 037	1 037
–	–	–	–	2 930 227	2 930 227
384 401	**–**	**–**	**939**	**14 673 933**	**15 059 273**
–	–	–	–	2 213 232	2 213 232
299 703	–	–	–	–	299 703
–	–	–	–	262	262
–	–	–	376	–	376
2 482 677	–	–	–	492 456	2 975 133
–	–	–	–	389 587	389 587
10 364 006	–	–	–	–	10 364 006
13 146 386	**–**	**–**	**376**	**3 095 537**	**16 242 299**
–	–	–	–	60 669	60 669
13 530 787	**–**	**–**	**1 315**	**17 830 139**	**31 362 241**

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

46. Categories of financial instruments (continued)

	Note(s)	Financial assets at fair value through profit or loss
Equity and Liabilities		
Equity		
Equity Attributable to Equity Holders of Parent:		
Reserves	21	–
Retained income	21	–
		–
Non-controlling interest		–
Total Equity		**–**
Liabilities		
Non-Current Liabilities		
Other financial liabilities	25	–
Operating lease liability	11	–
Retirement benefit obligation	12	–
Deferred income	28	–
Deferred tax	13	–
Provisions	26	–
		–
Current Liabilities		
Loans from Group companies	8	–
Other financial liabilities	25	–
Current tax payable		–
Operating lease liability	11	–
Trade and other payables	27	–
Provisions	26	–
Unearned finance income		–
Bank overdraft	19	–
		–
Total Liabilities		**–**
Total Equity and Liabilities		**–**

Loans and receivables at amortised cost	Equity instruments at cost less impairment	Financial liabilities at amortised cost	Leases	Equity and non financial assets and liabilities	Total
–	–	–	–	1 700 830	1 700 830
–	–	–	–	13 094 835	13 094 835
–	**–**	**–**	**–**	**14 795 665**	**14 795 665**
–	–	–	–	(483)	(483)
–	**–**	**–**	**–**	**14 795 182**	**14 795 182**
–	–	865 824	–	–	865 824
–	–	–	13 550	–	13 550
–	–	–	–	107 646	107 646
–	–	–	–	703	703
–	–	–	–	973 069	973 069
–	–	–	–	10 125 692	10 125 692
–	–	865 824	13 550	11 207 110	12 086 484
–	–	405	–	–	405
–	–	46 843	–	–	46 843
–	–	–	–	48 817	48 817
–	–	–	922	–	922
–	–	4 001 074	–	902	4 001 976
–	–	–	–	94 544	94 544
–	–	–	–	310	310
–	–	286 761	–	–	286 761
–	**–**	**4 335 083**	**922**	**144 573**	**4 480 578**
–	**–**	**5 200 907**	**14 472**	**11 351 683**	**16 567 062**
–	**–**	**5 200 907**	**14 472**	**26 146 865**	**31 362 244**

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

47. 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 in order to provide returns for 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 & 25 cash and cash equivalents disclosed in note 19, and equity as disclosed in the statement of financial position.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholder, return capital to 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 entity 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 program 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. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group ’s operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

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 2016 and 2015, the Group’s borrowings at variable rate were denominated in the Rand and the US Dollars.

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 yeild for the year in South Africa was 7,09% (2015:6%)

A 10% change in an interest rates for Group resulted into R 79,095 million, R1,201 billion and R0,600 million (2015: R 71,112 million, R1,201 billion and R0,300 million) for the Jibar, Libor and Euribor rate instruments respectively.

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

47. Risk management

At the reporting date, the interest rate profile of the Group's interest- bearing financial instruments was:

Variable rate instruments (Carrying values)	2016	2015
Bank balance	12 301 118	6 505 449
Ring fenced funds	3 008 021	501 493
GNPC Loan	126 645	52 330
GTL.F1 AG loan receivable	213 159	153 190
Lurgi loan receivable	198 400	153 732
Ener-G Systems (Pty) Ltd loan	22 903	12 677
Reserve based lending	(1 201 245)	(865 496)
Bank overdraft	(417 202)	(357 655)
	14 251 799	**6 155 720**

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The Group only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

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 cashflows of financial instruments at 31 March were as follows:

Maturity Profiles	Within one year	One to five years	More than five years	Total
2016				
Cash and cash equivalents	10 043 683	–	–	10 043 683
Loans to Group companies	236 062	–	–	236 062
Trade and other receivables	2 055 877	–	–	2 055 877
Other financial assets	6 731 892	339 804	199 875	7 271 571
Other financial liabilities	(1 257 016)	–	–	(1 257 016)
Foreign exchange contract	(10 788)	–	–	(10 788)
Trade and other payables	(2 725 377)	–	–	(2 725 377)
Bank overdraft	(417 202)	–	–	(417 202)
	14 657 131	**339 804**	**199 875**	**15 196 810**
2015				
Cash and cash equivalents	8 901 330	–	–	8 901 330
Loans to Group companies	465 570	–	–	465 570
Trade and other receivables	2 685 906	–	–	2 685 906
Other financial assets	1 913 721	205 520	155 207	2 274 448
Forward exchange contract	72 260	–	–	72 260
Other financial liabilities	(912 339)	–	–	(912 339)
Trade and other payables	(3 210 784)	–	–	(3 210 784)
Bank overdraft	(286 761)	–	–	(286 761)
	9 628 903	**205 520**	**155 207**	**9 989 630**

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

47. 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	2016	2015
Foreign currency exposure at the end of the reporting period		
Non-current assets		
GNPC Loan (USD denominated)	126 645	52 330
Lurgi Loan (USD denominated)	198 400	153 732
Loan to GTL.F1 AG (USD denominated)	213 159	153 190
Current assets		
Cash held in a USD account	4 152 568	–
Liabilities		
Trade and other payables (USD denominated)	112 094	68 159
Reserved based lending loan	1 201 245	865 496
Exchange rates used for conversion of foreign items were:		
USD	14.7853	12.2093
Euro	16.7842	13.0932
GBP	21.2686	18.0245
Average rate:		
USD	13.7835	11.0602
Euro	15.2119	13.9828
GBP	20.7225	18.8107

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 which 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 into R54 million (2015: R55 million) and R67,600 million (2015: R55 million) for financial assts and liabilities respectively.

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

47. Risk management (continued)

Forward exchange contracts

All forward exchange contracts are supported by underlying commitments or transactions, including those which 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 are then calculated using the appropriate currency specific discount curve.

2016	**Contract foreign currency amount**	**Contract amount in rand equivalent**	**Average exchange rate**	**Fair value gains and (losses)**
FEC's Transactions including commitments which have been contracted for Import goods and services				
USD	16 691	247 028	15	10 778
Export goods and services				
USD	65 923	1 060 027	16	–
	82 614	**1 307 055**	**31**	**10 778**
2015				
FEC's Transactions including commitments which have not been contracted for Import goods and services				
USD	104 390	1 281 419	12	725 260
GBP	367 782	671 435	18	–
	472 172	**1 952 854**	**30**	**725 260**

The maturity profile of contract amounts of forward exchange contracts at 31 March 2016 were as follows:

FECS Transactions including commitments which have been contracted for	**Contract amount**	**Within one year**
2016	–	–
Import goods and services	–	–
USD	247 028	247 028
GBP	1 060 027	1 060 027
2015	–	–
Import goods and services	–	–
USD	1 281 419	1 281 419
GBP	6 714 375	6 714 375
	9 302 849	**9 302 849**

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

48. 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 company 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	2016	2015
Non recurring fair value measurements		
Assets held for sale and disposal groups in accordance with IFRS 5		
Property, plant and equipment	60 669	60 669
Total	**60 669**	**60 669**

The Group currently holds assets as non-current assets held for sale 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 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 throught negotiation for the sale of the assets.

Valuation processes applied by the Group

The fair value of the plant components is assesses by the Group's finance department and operations team, on an annual basis. The finance department reports to the Group's Chief Financial Officer (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 catergory 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 the Oil Polution services by the Group. These are the highest and best use the assets uner this catergory.

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

49. Going concern

We draw attention to the fact that at March 31, 2016, the Group had retained income of R 12,929 billion and that the Group's total assets exceed its liabilities by R 15,065 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 Group to continue as a going concern is dependent on a number of factors. The most significant of these is that the CEF Board continues to explore the options available to ensure compliance with the Financial Provision Regulation for the settlement of the rehabilitation provision related to PetroSA.

50. Events after the reporting period

AEMFC SOC Ltd

The Board reviewed T Project feasibility reports and approved the project as economically viable after reporting date. Engineering, procurement and construction will commence in the 2017 financial year. From the approval date, exploration and evaluation assets of R99 million will be transferred to asset under development in property, plant and equipment.

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

SFF SOC LTD

On 14th July 2016, the Minister of Energy, Ms Tina Jooemat-Pettersson, MP, convened a meeting with the CEF Group. In the meeting, the minister raised specific concerns around the Strategic Fuel Fund (SFF) and directed that a thorough review be conducted of SFF contracts from the 2014/15 financial year to date. This review will include all contracts and transactions entered into in terms of the Ministerial Directive Issued to the SFF, inclusive of the Strategic Stock Rotation and Storage and Leasing Agreements concluded. This process will establish whether the transactions were implemented in accordance with conditions as set out in Ministerial Directive, and whether these followed due process and were above board. Any lapse in governance process or irregular actions will be investigated.

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

51. Fruitless and Wasteful expenditure

Figures in Rand thousand	2016	2015
Fruitless and Wasteful expenditure (R'000)		
Opening balance	5 659	4 902
Expenditure relating to the current year	5 373	2 018
Discovered during the current year but relating to the prior year	5 682	1 395
Less: Amounts recovered	(23)	(506)
Less: Amounts condoned	(541)	(2 150)
	16 150	5 659

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		
Coal write off	839	–
Contract cancellation fee	21	148
Damages to company and rented vehicles	39	17
Interest on late payment of suppliers	3 095	20
Items individually < R50 000	11	55
Misplaced / Stolen items	–	112
Non-perfomance penalties	–	1 302
Overpayment of retrenchment package	–	291
Penalty and interest to SARS	7 042	1 466
Traffic violations	8	2
	11 055	3 413

Inventory write off

Coal write off relates to coal that did not meet customer quality specifications that was delivered to customer. The customer used the coal and did not pay as it did not meet the specification. Preventative measures have been implemented to ensure coal delivered passes the customers quality requirements. (AEMFC)

Interest on late payment of suppliers

Interest was incurred of R3 million on a letter of credit (SFF). Reports are in the process of being finalised and appropriate action will be taken to recover any losses and address areas where weaknesses in our systems have been identified.

The remaining R95,000 relates to interest incurred as a result of late payment of suppliers(PetroSA, SFF,AEMFC). Corrective action has been taken and the monies are being recovered where necessary. Futhermore, Controls have been put in place to ensure payments are made timeously.

Late payment of taxes

Interest and penalties were paid to SARS on late VAT payment (CCE), income tax as a result of VDP and PAYE (CEF), income tax (iGas), PAYE (PASA) and VAT (PetroSA). Controls have been put in place to ensure payments are made timeously.

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

51. Fruitless and Wasteful expenditure (continued)

Contract cancellation fee (SFF)
Employees not showing up at hotels where accommodation has been arranged: R3,000. Corrective action has been taken and the monies are being recovered.

Travel expenses incurred on trips that were cancelled/postponed: R18,000. Reports are in the process of being finalised and appropriate action will be taken to recover any losses and address areas where weaknesses in our systems have been identified.

Traffic violations
Handling fees on traffic fines as charged by supplier (SFF and AEMFC). Corrective action has been taken and the monies are being recovered.

Damages to company and rented vehicles
Damages to rental vehicles(SFF). Corrective action has been taken and the monies are being recovered.

52. Irregular expenditure

Figures in Rand thousand	2016	2015
Irregular expenditure (R'000)		
Opening balance	2 526 209	2 522 437
Expenditure relating to current year	82 505	21 858
Discovered during the current year but relating to the prior year	152	–
Less: Amounts condoned	(718)	(18 086)
	2 608 148	**2 526 209**

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	1 724	19 432
Contravention of procurement regulations	80 933	2 426
	82 657	21 858

Contravention of company policy and procurement regulations
SFF
Preferential Procurement Policy Framework Act (PPPFA) not followed for diesel purchased for export sale : R80 million. Reports are in the process of being finalised and appropriate action will be taken to recover any losses and address areas where weaknesses in our systems have been identified.

Service provider appointed without a valid tax clearance certificate: R272 973. Corrective action has been taken and system weakness has been addressed.

Non-adherence to Procurement Policy where less than three quotations were obtained: R162 995. Corrective action has been taken and system weakness has been addressed.

Notes to the Consolidated Annual Financial Statements

for the year ended 31 March 2016

52. Irregular expenditure

PetroSA

Training, together with travel and accommodation costs of R511,000, were incurred outside of the company policy. An investigation was initiated to identify and prevent further irregular expenditure incurred in contravention of company policy.

CEF

Expenditure of R1,025,000 was incurred in contravention with the company policy and laws and regulations. System weaknesses are being addressed.

iGas

Expenditure of R188,000 was incurred in contravention with the company policy and laws and regulations. System weaknesses are being addressed.

AEMFC

The contravention is a result of non compliance with applicable laws and regulations in evaluating a supplier. The amount incurred is R497,000.An investigation was initiated to prevent further irregular expenditure incurred in contravention of the applicable laws and regulations.

Figures in Rand thousand	2016	2015
Non-adherence to PFMA		
Value of Irregular stock rotated	198 883	-

Strategick 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 they have discovered substantial crude oil volumes (about 5 million barrels) and were prepared to provide SFF with a lien on 600 000 barrels (till the quality is ascertained that it matches the 300 000 barrels that SFF would have provided) and also 30% value of crude oil on condition that SFF loan to them 300 000 barrels of the strategic crude oil stocks. The company carried out the above without complying with the provisions of the PFMA Act no 1 of 1999 paragraph 51 (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 they should have returned barrels to the volume of 300 000 barrels.

Fields in production and under development

1. Movement in net remaining proved and probable reserves

	Crude oil/ Condensate MMbbl 2016	Gas Bscf 2016	Crude oil/ Condensate MMbbl 2015	Gas Bscf 2015
At the beginning of year	18.10	97.60	26.40	392.30
Revisions of previous estimates	(0.06)	23.00	(4.95)	(256.10)
Production	(1.67)	(44.80)	(1.90)	(38.60)
Additions	1.12	–	(1.45)	-
	17.49	**75.80**	**18.10**	**97.60**
2. Proved and probable by type of field				
Fields in production	9.09	69.30	8.90	56.85
Fields under development	8.40	6.50	9.20	40.75
	17.49	**75.80**	**18.10**	**97.60**
3. Reserves by category				
Proved	0.90	38.40	11.20	39.60
Proved and probable	17.49	75.80	18.10	97.60
Total proved and probable reserves at end of year	**17.49**	**75.80**	**18.10**	**97.60**

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 judgement 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.

Revisions of previous estimates
The decrease in gas reserves can be ascribed to the following events:

- The shift in the end of plateau date from 2021 to 2017, resulted in a decrease in the reserves from FA and FA Satellites, EM and EM Satellites and SCG field as the tail gas from these fields can no longer be unlocked.
- The negative impact of the shift in the F-O field first gas date and decrease in recoverable volumes from the field. This is due to the drilling campaign being reduced from a 5-well campaign to a 3-well campaign as well as lower than expected production volumes.

The supplementary information presented does not form part of the consolidated annual financial statement.

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RP258/2016
ISBN: 978-0-621-44803-0