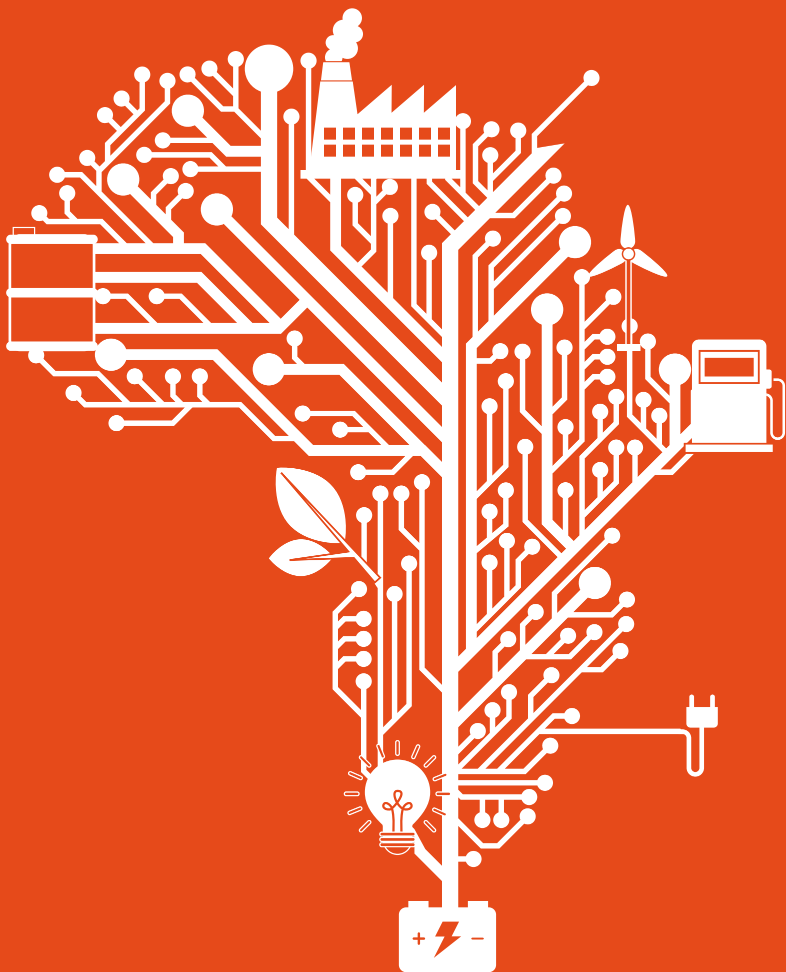
CEF
Group of Companies



GROWING
TOWARDS SUSTAINABILITY

INTEGRATED ANNUAL REPORT 2016/17

CEF

Group of Companies

ABBREVIATIONS AND ACRONYMS

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

CONTENTS

PART 1

SECTION 1
YEAR IN REVIEW 2016/17

SECTION 2
BUSINESS OVERVIEW AND STRATEGY

SECTION 3
VALUE CREATION

SECTION 4
GROUP PERFORMANCE

SECTION 5
CORPORATE GOVERNANCE

SECTION 6
OPERATIONAL PERFORMANCE

SECTION7
FINANCIAL PERFORMANCE

PART 2

SECTION 8
ANNUAL REPORT

ABOUT THIS REPORT

Scope

Over the past few years the CEF Group has been actively seeking to improve its Integrated Report through the application of developments in the Integrated Reporting Frameworks. This report validates the Group's resolve, as per our strategic intent, to stabilise and grow the business, in line with Vision 2025, thus creating sustainable value for all our stakeholders in the short, medium and long term. The report also underlines the great progress we have made in embedding risk management as a central theme in our business processes and strategic thinking.

Through this report we aim to guide readers to:

- Interpret our performance within the Group's development, economic, regulatory and political contexts;
- Provide holistic progress on the delivery of our Group Strategy objectives;
- Understand the trade-offs between the six capitals;
- Understand how our governance structures support and oversee our strategy and operational performance;
- Understand the risks and challenges affecting our decisions and performance, as well as our long-term prospects;
- Assess our ability to realise intended commercial and sustainable developmental outcomes from our activities; and
- Evaluate our ability to mitigate and remediate unintended adverse impacts on the environment and our stakeholders.

Report coverage

This report seeks to provide the activities of the CEF State Owned Company (CEF SOC) and all our operating subsidiaries for the period under review beginning 1 April 2016, and ending on 31 March 2017. Financial and non-financial data from our subsidiaries are fully consolidated. There have been no significant changes in scope or aspect boundaries during the reporting period, save for the progress made during the year.

We have provided extracts from the consolidated annual financial statements (AFS) in our printed integrated report. The consolidated annual financial statements were audited by the Auditor-General of South Africa (AGSA) who expressed an unmodified opinion thereon. These extracts are extracted from audited information, but are not audited. The full set of consolidated annual financial statements is available online or can be requested from our Company Secretary.

Reporting frameworks

This report is in line with the guidelines of the Integrated Reporting (IR) Framework issued by the International Integrated Reporting Council (IIRC) in December 2013, which provides guidelines consistently applied globally. Management has also used the guidelines of the following documents as part of this report.

CEF Group legislation framework guidelines

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

Our approach to reporting

Annually, the CEF Group agrees an outcomes-based Shareholder's Compact with the objective of enabling the Shareholder to monitor the performance in delivering the strategic objectives as mandated by government. The outcomes-based Shareholder's Compact specifies key performance areas from which growth and developmental outcome indicators are identified in line with the core elements of our strategic intent. This approach informs the CEF Group's integrated reporting by focusing on achieving real, measurable benefits for the lives of South Africans, the economy and the environment. It provides a tangible route to success by outlining what outcome we expect to achieve, and the inputs, processes and output involved in achieving it.

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

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

Determining Materiality

This report provides information on all those matters that we believe could substantively affect value creation of the CEF Group. The report is written primarily for affected stakeholders in the energy sector and those that provide the group with capitals. The report is of interest to any stakeholder who wishes to make an informed assessment of the Group's ability to create value over time.

In the belief that all the information in this report is material, we do not seek to provide a simple listing of material issues. To identify and prioritise the matters for inclusion in this report we undertook a structured process involving senior decision-makers from across the Group.

Assurance

The 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 AGSA, 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 that we continue to meet the reporting and disclosure needs of local and offshore strategic partners.

Approval of the Report

The Board acknowledges its responsibility to ensure the integrity of the Integrated Report. The directors have collectively assessed the content, and confirm that the report addresses all material issues and fairly represents the integrated performance of the CEF Group. The Audit and Risk Committee, which has oversight responsibility for integrated reporting, recommended the report for approval by the Board. The Board, considering the completeness of the material items dealt with and the reliability of information presented, and based on the combined assurance process followed, approved the 2016/17 Integrated Report, annual financial statements and supplementary information on 29 August 2017.

Mr L Makasi

Mr MG Moagi

SECTION

YEAR IN REVIEW 2016/17

"Growth is never by mere chance, it is the result of forces working together in a sustainable and integrated manner that meets the needs of the present without compromising the ability of future generations."

PERFORMANCE HIGHLIGHTS

This report should be read in conjunction with the detailed annual financial statements presented on pages 110 to 228. This report reflects a summary of our performance as agreed in the Shareholder's Compact with the Shareholder in delivering on the CEF Group's primary mandate. We are committed to playing a major role in growing the energy sector to be a catalyst for economic growth and poverty alleviation through security of supply and access to affordable energy.

Revenue
R11.6 Billion

OPEX
R1.84 Billion

CAPEX
R855.6 Million

Cash
R15.7 Billion

Employment and skills development

- As of 31 March 2017, the CEF Group had 1976 employees with 29% being women;
- R44 million invested in youth development including sponsorships.

SHEQ

- Both AEMFC and SFF reported zero disabling injuries and environmental incidents;
- At PetroSA, a regrettable incident on the refinery plant resulted in two fatalities; plus a total of 17 disabling injuries and five environmental incidents.

Capital projects

- PGL saw the TEN project developed to its first oil delivered in August 2016;
- For PetroSA the ECP feasibility study is at 71% completion;
- AEMFC has reached Final Investment Decision (FID) stage for the T Project;
- Our 29% equity interest in EnerG Joburg delivered an operational 5 MW Landfill gas power plant;
- Our 25% equity interest in Rompco delivered Loop-line 2 which is currently in operation.

BEE Spend

- Improved BEE spend through better focus and coordination for the last quarter in our financial year.
- SFF – 93.0% of discretionary spend against target
- PetroSA – 96.6% of discretionary spend against target

Volumes or capacity utilised/produced

- Indigenous GTL production refinery – 2.766 Mbbls;
- Coal Mining – 1.43 Mt;
- Gas infrastructure enabled 157 MGJ/pa is now flowing to South Africa; and
- Liquid Fuels 42 Mbbls capacity utilised for the year.

Corporate and social responsibility

- CEF Group CSI amounted to R18.5 million.

CHAIRPERSON'S STATEMENT

Mr L Makasi

Business continuity, growth and long-term sustainability are not projects with a beginning and end date; they are programmes that must be actively managed indefinitely, throughout the life of the organisation, in line with the Group's mandate. Albeit a challenging global economic climate and slow domestic growth, it gives me great pleasure to submit the CEF Group Integrated Annual Report for the year ended 31 March 2017 to our Shareholder the Honourable Minister of Energy and all our key stakeholders who have interest in the success of the Group.

"To all our great and dedicated employees across the Group who have persevered during serious uncertainty, I want to assure you that we have a long-term solid plan and together we will turn this business around."

The mandate of the CEF Group as a State Owned Entity (SOE) is to provide security of energy supply that supports a number of critical economic and developmental initiatives in the country, in alignment with the Department of Energy's (DoE) Strategic intent for the next couple of years and the broader objectives of the National Developmental Plan (NDP). This is in recognition of the role of energy in enabling economic growth and improving the quality of life of ordinary South Africans. As the CEF Group, we remain committed in fulfilling our mandate whilst ensuring commercial viability that allows us to deliver on our developmental mandate.

The current challenging global and domestic trading environment is extensively recognised across all sectors and many organisations are increasingly under pressure to improve business performance and shareholder value in a climate that is engulfed by volatility, complexity and perceived increasing political uncertainty and social discourse. In such a climate, investment sentiments are low and as a result, investment activity is scaled back; consumer spending is sluggish, impacting on manufacturing; cost containment takes centre stage as businesses seek to reduce operational costs; and a chasm between labour and business is created.

The recent downgrades of South Africa by international rating agencies further compound this situation, as the cost of borrowing becomes high for many SOEs that have critical infrastructure development programmes. This forces government to reprioritise spending patterns as well as the execution of development initiatives. All of this is against the backdrop of a country that is now in recession, as based on Statistics SA data from the first quarter of 2017, where the secondary and tertiary sectors recorded negative growth rates, with trade and manufacturing industries falling by 5,9% and 3,7% respectively. Although the agriculture and mining industries both contributed positively to growth in the first quarter, their combined contribution has not been enough to avoid a recession and the country progressively continues to shed jobs.

As the CEF Group, we have also experienced a number of strategic challenges as a result of global economy dynamics. Oil prices have continued to remain relatively low, notwithstanding interventions by OPEC to reduce production and reduce the global glut of oil. This has had a major impact on our businesses; especially on PetroSA, which accounts for 75% of Group revenue. Market sentiments indicate we will continue to have lower oil prices for the foreseeable future.

We view the loss of life as extremely serious as it reflects on our operating standards and the value we place on safety. In this regard we view the two fatalities at PetroSA with heartfelt regret. Following these fatalities, we have revamped our safety programmes and initiated a drive to promote a culture of safety and accountability. We now have a detailed Five Point Safety Plan that, amongst other things, has increased safety awareness and accountability. We continue to actively manage SHEQ right across our business operations and share best practices.

In the 2015/16 Integrated Report we shared the CEF Group's Strategic Intent know as Vision 2025 as our strategic response to the current and emerging challenges. It is also the catalyst for exploring opportunities that avail themselves in our operating environment. Vision 2025 also spells out the need to adapt and be more agile for long term growth an sustainability. The first phase of our strategic roadmap is about **stabilising** the Group and putting us on a path for the second phase of **growth** that, once achieved, allows us to move to the third phase of **leading** the energy sector through thought leadership and business excellence.

The 2014/15 to early 2016 period was probably one of our most challenging periods, with the Group besieged by leadership instability both at Board and at Executive level; insignificant business performance; modest project execution; lapses in governance at SFF that notably damaged the Group's reputation; and inability by the Group to work in a coordinated manner. I am therefore pleased to report that steady progress has been made to stabilise the Group and deal decisively with issues that have a fundamental impact on our long-term growth and sustainability. Some of these relate to:

- **Group Turnaround Initiatives** – Measured progress is being made with numerous feasibility studies in exploring opportunities for returning PetroSA to commercial viability. Central to this initiative is leadership stability, strategic partnership, market development, operational efficiency, cost containment and a change in the current operating business model.
- **Operational Efficiency** – Improved revenue collection through better contract management while keeping operational costs low.
- **Dividend Payments** – Amid the currency challenges in Mozambique, iGas, through its investment in ROMPCO, was able to deliver a dividend payment of R115 million to the Group and also pay off its shareholder loans.
- **Growth Initiatives** – Through acquisition of 31% shareholding of an existing mine, Acquisition of 26% in a consortium and ongoing developments of our Klippoortjie, T-Project and Valkfonteing extension projects. These projects are set to significantly increase job opportunities in the respective communities where we operate.
- **Board Capacitation** – We have taken key steps in capacitating the various Board structures within the Group as part of strengthening Group governance.
- **Group Cost Containment** – The Group has embarked on an exercise to reduce costs, eliminate duplication and find smarter and better ways of doing business that do not erode shareholder value. Greater opportunities to streamline costs will emerge with the review of the Group Operating Model.

Governance

For the period under review, the Group has made positive strides in dealing with issues of Governance and aligning key structures to improve oversight, monitoring and evaluation of Group business activities. Chief among these were the capacitation of the CEF Board and the reconstitution of governance structures, such as the Board Audit Committee, with appropriate skills to improve, among others, its involvement with business activities. There has been pivotal action to deal with the subsidiary boards in an effort to build better alignment and a central theme of 'One CEF'. Part of the governance initiatives has been to deal decisively with the myriad challenges at the Strategic Fuel Fund (SFF) by improving controls and accountability and instituting consequence management for various transgressions.

Enterprise Risk Management

The CEF Group understands that a sound and robust approach to Group Enterprise Risk Management (ERM) throughout our organisation requires a focus on performance as well as conformance. Through our strategic objectives we aim to strengthen and embed ERM. To this end we have begun a Board-sponsored programme to ascertain Group Risk Maturity, with targeted action plans to get us to the desired maturity level. We are committed to responsibility and accountability in all that we do, and will continue to mitigate the risks affecting our strategic objectives. Our enterprise risk management framework and processes are designed to ensure thorough and transparent risk governance.

The Governance and Risk Management focus is not a single event but a long-term Group commitment and journey to align the CEF Group. The Leadership team has acknowledged that to further strengthen oversight, we will require a change in the current Group Operating Model.

Financial performance

Profit /Loss after tax

During the 2016/17 financial year, the group generated a net loss of R599 million, compared to prior year loss of R194 million. The performance has been adversely affected by the collapse in the gross profit margin, which decreased from 22% to 5%. For the first time in the history of the Group, PetroSA has reported a gross loss of R475 million. The poor results are due to the new business model where PetroSA is processing condensate rather gas due to the declining gas reserves.

Solvency and liquidity

The Group remains solvent and liquid. The interest bearing debts are 6% as percentage equity. The liquidity at March 2017 was 3.4:1. The liquidity of 3.4:1 indicates that the group has adequate cash to fund it short term liabilities and its operating expenses.

Outlook and Key Focus Areas

The Board remains resolute and committed to putting systems and operational plans in place that will ensure that the CEF Group is stabilised, grows its market share, and becomes a thought leader in promoting the security of energy supply, whilst pursuing government's triple challenge of poverty, unemployment and inequality.

As a Group we will continue to navigate our way through the global and domestic economic challenges in pursuit of our Group strategy and periodically make adjustments to meet the ever present market changes. With the anticipated 'lower for longer' oil prices, we must be more efficient in our business operations and leverage our storage position to counter these conditions. We continue to keep a watching brief on shale gas and other gas-to-power developments and we are confident that the CEF Group, in line with our business plans and strategic partnership focus, will play a crucial role in this space. The renewables space continues to be one where we believe there is much potential for growth and opportunity to advance the country's energy mix, as part of the country's broader Integrated Energy Plan, as well as job creation. We will continue to engage with other state-owned entities to progress some of our flagship renewable projects.

The CEF Group Corporate Plan for the planning horizon of the next five years to 2021/22 is designed to focus the Group on a growth trajectory and consolidate the Group's strategic relevance, whilst delivering on the mandate of security of energy supply. The Corporate Plan will drive key strategic and operational business initiatives while contributing to the growth of the economy by sustaining and creating jobs and other developmental objectives.

Board and Governance

With the advent of new complexities, increased business volatility, and global political and social uncertainty, the role of directors and the Board has become more important in helping guide organisations through challenging times. Directors as a collective bring an array of critical skills and knowledge that are key to strategic leadership purposes.

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

The following changes were made to the Board during the reporting period:

- Dr X Mkhwanazi who was appointed as an independent non-executive Chairperson of the CEF Group in October 2015 resigned in October 2016.
- Mr G Bezuidenhout who was appointed to the Group in 2014 resigned in 2017.

- Mr Jawoodeen resigned in July 2016.
- Mr MG Moagi who was appointed as a non-executive member and the BARC Chairperson in 2016, was seconded to the position of acting CEF Group CEO.
- During the forth quarter the DOE made changes to its representatives on the CEF Board by redeploying Mr Maqubela and Mr Sethosa and later reappointing Mr Maqubela and Ms Leketi in January and December repectively.

We welcome new Board Members:

- Mr L Makasi was appointed as an independent non-executive Chairperson of the CEF Group in December 2016 replacing Dr X Mkhwanazi.
- Mr J Besnaar was appointed in December 2016 as an independent non-executive member and is also the Chairperson of the Board Audit Committee.
- Mr I Mompati was appointed in December 2016 as an independent non-executive member and is also the Chairperson of the Strategic Fuel Fund (SFF).
- Ms G Leketi was appointed in December 2016 as an independent non-executive member and is also a DoE Representative.
- Mr T Maqubela appointed in January 2017 as an independent non-executive member and is also a DoE Representative.

Other existing Board Members:

- Adv L Mtunzi was appointed as non-executive member.
- Ms M Molope was appointed as a non-executive member.
- Mr G Moagi was appointed as a non-executive member and is currently Acting Group CEO.

Acknowledgements

I sincerely wish to thank our Shareholder, the Honourable Minister Kubayi, for her faith and trust in me as the Group Chairperson, and for always availing herself to provide the necessary guidance and direction.

I would also like to acknowledge my fellow directors on the CEF Board, and the Group Senior Leadership team under the leadership of the Acting Group CEO, Mr Godfrey Moagi, for having provided leadership during a difficult period and helping us to deliver on a number of key initiatives. On behalf on the CEF Board I would like to acknowledge the chairpersons and board members of the respective boards of PetroSA, SFF, Igas, and AEMFC and PASA as well as their senior leadership teams for having walked the journey with us during the past financial year. The discussions were never easy and often robust, but this was necessary for alignment, allowing us to move in the same direction. To all our great and dedicated employees across the Group who have persevered during serious uncertainty, I want to assure you that we have a long-term solid plan and together we will turn this business around.

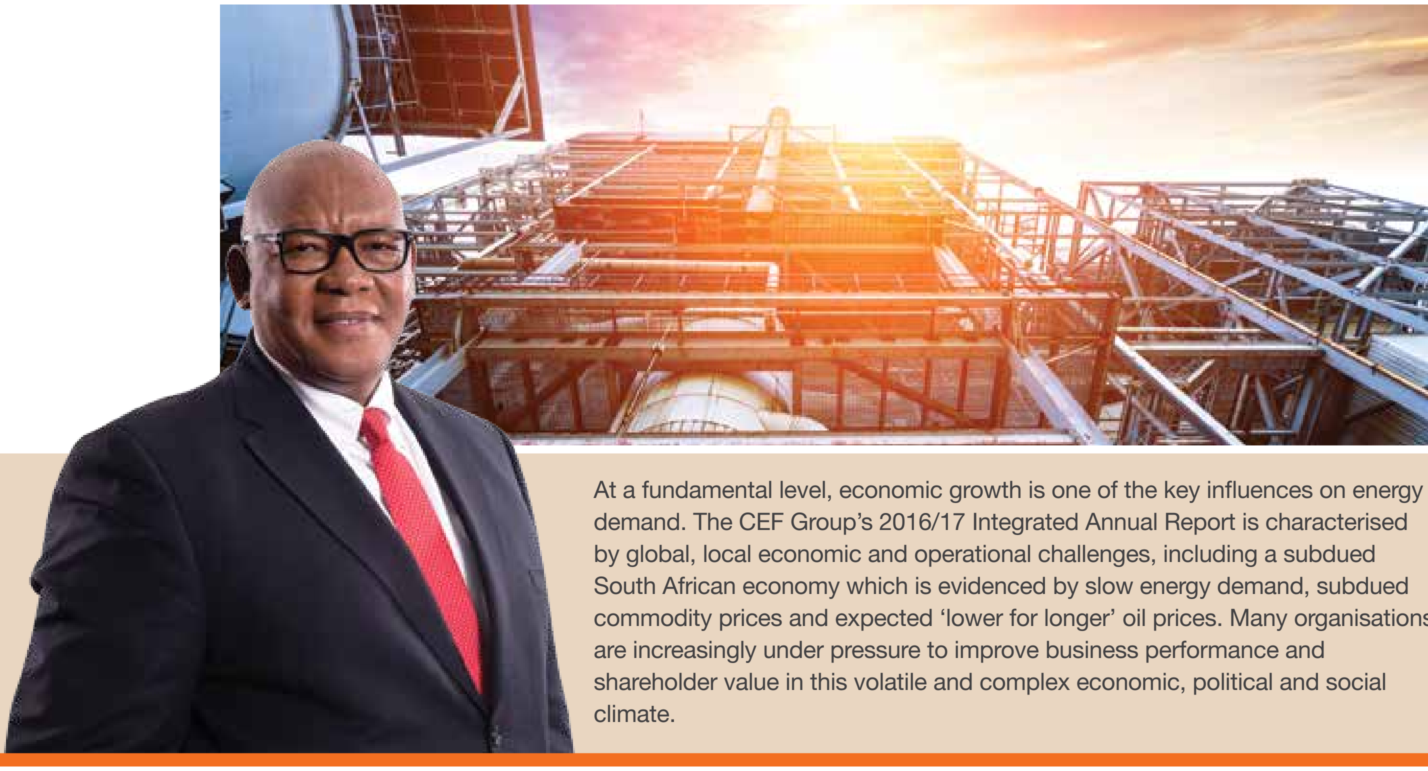
To our external stakeholders, customers, suppliers, industry regulators and advisers, I thank you for your patience and ongoing support.

As we look ahead, our commitment to the strategic direction we have chosen is unwavering. We are cognisant that our quest for Group sustainability, growth and long-term business continuity is not an event, but must be one we continuously and actively manage throughout the lifetime of the Group in this journey of ours – for progress is impossible without change; and those who cannot change their minds cannot change anything.

Mr L Makasi
Chairperson of the Board
CEF Group

GROUP CHIEF EXECUTIVE'S REPORT

Mr MG Moagi



At a fundamental level, economic growth is one of the key influences on energy demand. The CEF Group's 2016/17 Integrated Annual Report is characterised by global, local economic and operational challenges, including a subdued South African economy which is evidenced by slow energy demand, subdued commodity prices and expected 'lower for longer' oil prices. Many organisations are increasingly under pressure to improve business performance and shareholder value in this volatile and complex economic, political and social climate.

"To all our great and dedicated employees across the Group who have persevered during serious uncertainty, I want to assure you that we have a long-term solid plan and together we will turn this business around."

Yet, in such a climate investment sentiments are low. As a result, investment activity is scaled back and cost containment takes centre stage as businesses seek to reduce operational costs. Consequently a gulf between labour and business is created.

Statistics SA's first quarter data of 2017 affirms that the economy is not performing at the rate it should, with the secondary and tertiary sectors recording negative growth rates. Additionally, South Africa's downgrade to sub-investment grade status is a setback the economy can ill-afford, especially in this already low growth environment. This grading will have a ripple effect across all sectors and will require government to reprioritise its spending patterns as well the execution of developmental initiatives.

CEF operating environment

In the year under review, the CEF Group was not exempt from the global and national economic turbulence. The Group faced a number of strategic and key operational challenges, both internal and external, which had an impact on business operations and influenced the overall deliverability of its mandate. Key among the challenges has been governance lapses that resulted in the sale of strategic fuel without obtaining the necessary approvals and the Long term sustainability of our biggest subsidiary, PetroSA.

In addition, the CEF Group continues to experience operational challenges in executing its stated purpose. Despite these and other operational complications, the Group remains steadfast in ensuring the security of energy supply in South Africa. To that effect, we have also embarked on an aggressive turnaround strategy that seeks to improve operational efficiencies and accountability across the value chain of the Group.

Risk and Governance management

In our quest to strengthen and embed risk management, we have begun a Board-sponsored programme to ascertain the Group Risk Maturity Index, with targeted action plans to take us to the desired maturity level where risk management forms the core of all business activities. This is reflected in the Group Corporate Score Card for the upcoming financial period. All Group meetings now start with a Values and a Risk Management dialogue so that best practices can be shared across the Group. We have embarked on a Risk Compliance exercise, with key outputs citing key owners for the execution thereof. Group Risk reporting is shared with the Shareholder as part of our Quarterly Business Reporting mechanism.

To further strengthen risk and governance the Group CEOs Forum, IT Steering Committee and a Risk Forum have been activated to drive a number of oversight functions. Parallel with these has been the setting up of similar working groups with the DoE to ensure a seamless thread through all activities.

Hive off and migration activities

In line with a Cabinet resolution to migrate the Petroleum Agency of South Africa (PASA) and the African Exploration and Finance Corporation (AEMFC) into the Department of Mineral Resources (DMR), we are pleased to announce that PASA has been conditional transferred to the DMR and work is underway to seamlessly migrate the AEMFC into the Department.

Our precious asset: Employees

Our employees are the cornerstone of our business performance and sustainability. Investing in our employees remains a top priority to ensure we create value and long-term sustainability.

During 2016/17 the Group experienced prolonged acting in key roles, particularly at executive level. This has compromised our ability to deliver on our strategy; however plans are afoot to fill all vacant positions. To date, the position of Group Chief Financial Officer has been filled. We have also undertaken a number of initiatives to attract the best talent and make the CEF an attractive place for our staff to work and develop their careers.

At year-end, the CEF Group employed 1,976 (2015/16: 1,967) permanent and fixed-term contract staff and 47 graduates-in-training for selected programmes and agencies. As part of the strategy to return PetroSA to profitability, the Group employed a turnaround plan, which resulted in 36 employees opting for voluntary severance packages.

Youth development

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

To date, a total of R44 million has been invested in various youth developmental programmes, including artisan training, apprenticeships and the Graduates-in-Training initiative.

The formal company employment equity policy codifies this commitment and stipulates the promotion of equal opportunity, the elimination of unfair discrimination and the implementation of positive measures to redress disadvantages previously experienced by designated groups.

The Group is committed to creating and maintaining an environment which provides equal opportunities for all employees, with special consideration given to previously disadvantaged groups.

Financial performance

Profit /Loss after tax

During the 2016/17 financial year, the group generated a net loss of R599 million, compared to prior year loss of R194 million. The performance has been adversely affected by the collapse in the gross profit margin, which decreased from 22% to 5%. For the first time in the history of the Group, PetroSA has reported a gross loss of R475 million. The poor results are due to the new business model where PetroSA is processing condensate rather gas due to the declining gas reserves.

Solvency and liquidity

The Group remains solvent and liquid. The interest bearing debts are 6% as percentage equity. The liquidity at March 2017 was 3.4:1. The liquidity of 3.4:1 indicates that the group has adequate cash to fund it short term liabilities and its operating expenses.

Future Outlook

The energy sector is characterised by volatility, uncertainty, complexity and ambiguity, all of which put a lot of strain on our ability to deliver on key objectives in line with our Group Strategy. As part of the Group key focus areas for the next five years, and to give effect to a coordinated and strategic approach towards delivering on our Corporate Plan for the period 2017/18–2021/22, the CEF Group prioritised the following in its Corporate Plan:

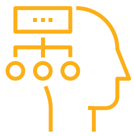
1 Sustainability and Growth

Focusing on key growth and sustainability initiatives identified in the planning horizon and creating value for the shareholder. Aggressive growth through acquisitions and reclaiming lost market share.

2 Governance and Risk Management

The ongoing strengthening of governance structures and embedding risk management in our business processes. The activation of key governance structures and improving the Group risk maturity index as outlined in the Group score card.

3 Strategic Partnership and Stakeholder Management

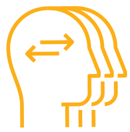


As a Group we realise that in order to grow and prosper we cannot achieve this alone. This section entails forming key strategic partnerships to advance a number of commercial and developmental objectives, whilst actively managing our key stakeholders and improving the Group's reputation. This will also require targeted interventions as the Group seeks to reposition itself.

4 Innovation and Business Excellence

The focus is on continuous business improvement, creative idea generation and the streamlining of business activities through automation to improve decision-making and form the foundation of a Knowledge management portal. Our ability to compete and create operational efficiencies across the Group will largely depend on how best we can use Information Technology to advance our objectives.

5 Leadership and People Agenda



Creating a capable and resilient leadership team that is able to deliver on the 3 phases of the Group Strategy and ensuring that we have a committed and engaged workforce that is energised and willing to assist us in achieving our audacious goals.

As the CEF Group we have also refocused our Developmental Mandate goals to keep up with the current socio economic challenges, with the four developmental areas being the following:

1. Youth employment;
2. Economic transformation and entrepreneurship programmes;
3. Energy access and security; and
4. Skills training and education.

For the above to succeed a coherent operating business model is required to aid delivery of key objectives. We will thus be embarking on a comprehensive review of the current Group Operating Model to deal decisively with its inefficiencies, business optimisation, mandates, governance structures and organisational set up across the entire value chain, with a view to redefining the business model. This will examine how best to organise and restructure the CEF Group to an entity of the new millennium that is resilient to external shocks, relevant, value adding, adaptable and agile enough to seize opportunities and to change with market conditions. We aim to complete this exercise by the end of the 2017/18 financial year.

Conclusion

I wish to acknowledge and thank our Chairperson, Mr Luvo Makasi, for providing unwavering guidance and support in our quest to improve the corporate performance of the Group. This includes Board members at subsidiaries, the executive management team and all employees within the CEF Group family. You are the heartbeat of the organisation, and support and drive our performance. Our collective achievements are largely attributable to your ongoing hard work and commitment. To our stakeholders, I thank you for your continued confidence in our leadership and your ongoing support as we strive to guarantee the security of energy supply of South Africa.

Lastly i would like to thank Mr Siphamandla Mthethwa who held the role of Group CFO and interim CEO at CEF and at PetroSA for keeping the Group going during a difficult period.

Mr MG Moagi
Acting CEF Group Chief Executive Officer

CEF GROUP AT A GLANCE

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

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

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

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

Vision

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

Mission

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

Values

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

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

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

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

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

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

The CEF Group's purpose

The CEF's purpose is to:

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

Legislative environment

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

CEF Group key legislative Acts

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

Our Integrated Group Structure

CEF (SOC) Ltd ("CEF") is the holding company for a number of subsidiaries, which, when taken together, constitute the CEF Group. These subsidiaries operate in the energy sector with commercial, strategic, regulatory and developmental roles in support of the CEF Mandate and the need to diversify the country's energy mix as detailed in the Integrated Energy Plan of the DOE. The CEF Group also exists to support government's broader strategic objectives in line with the National Development Programme whilst playing a critical role on enabling economic development. Each entity of the CEF Group focuses on key objectives across the energy sector value chain through the deployment of capital and human resources towards developing and operating mandated strategic projects. Over time the legal structure of the CEF Group has evolved to meet the changing requirements of the internal and external operating environment and other legislative changes.

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

PetroSA

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

AEMFC

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

CEF SOC through Energy Projects Division (EPD)

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

iGas

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

SFF

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

PASA

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

Global footprint

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

Group Value Chain

Upstream Oil & Gas

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

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

- Exploration
- Field Development
- Production Operations

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

Developments of oil fields and extraction of hydrocarbons from reserves

Raw Crude/ Gas

Mid Stream

SFF
- Trading
- Shipping
- Logistics

PETROSA
- Gas
- Petroleum Project Development

EPD
Investments in Renewable Energy Projects

iGas
- Gas Pipelines
- LNG Terminals

- Transportation
- Processing
- Storage & Distribution

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

Feedstock

Downstream

PETROSA
GTL Refinery Operations

- Manufacturing
- Refining & Petro-Chemicals
- Wholesale & Marketing

The refining, processing and blending of hydrocarbons to make fuels & chemical products

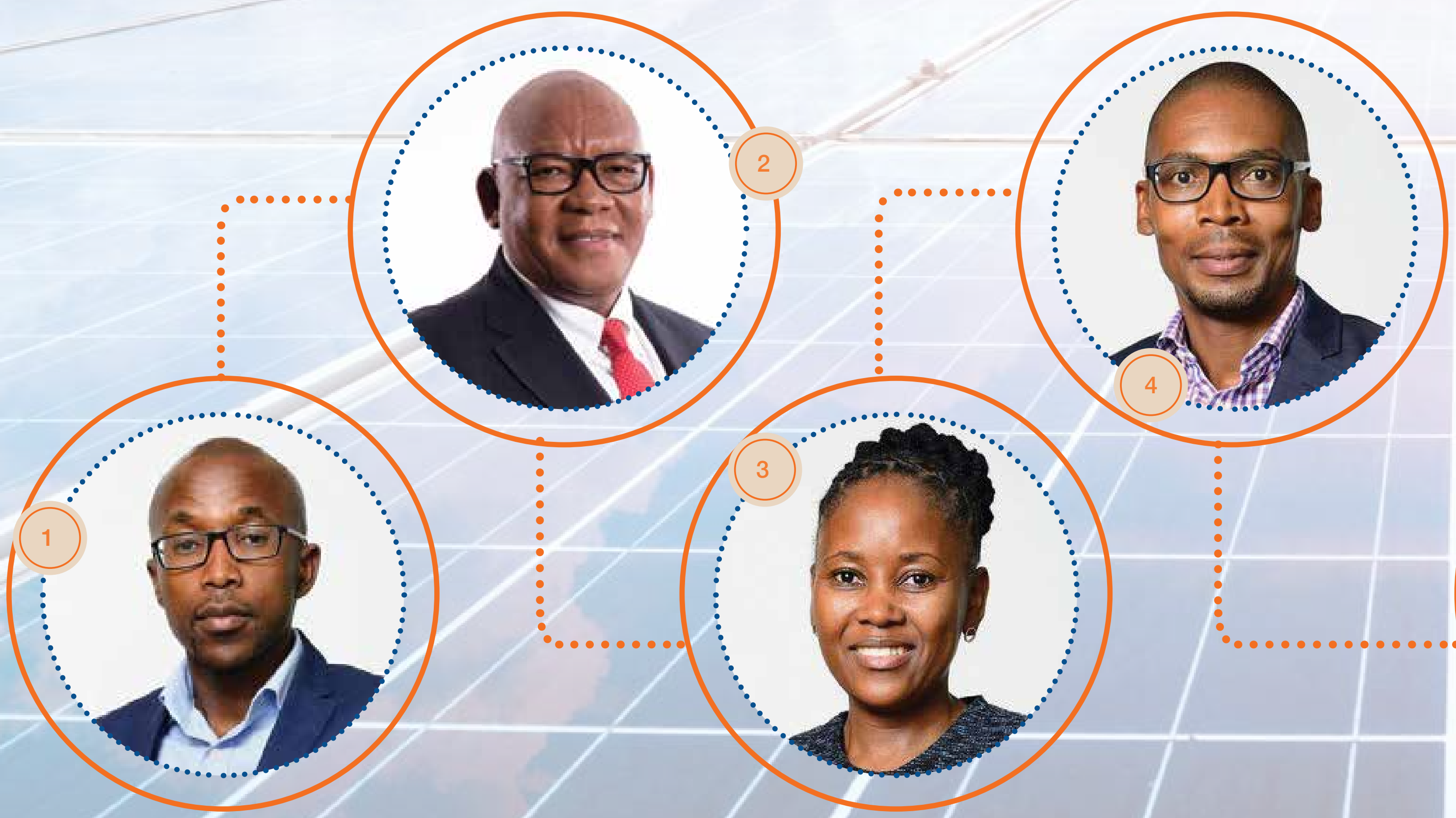
PETROSA
Marketing and supply of finished products to end users to fuel economic activity

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

AEMFC – Mining/coal-In support of Power Generation

CEF GROUP GOVERNANCE AND LEADERSHIP STRUCTURE

The diverse CEF Group of Companies reports to the Minister of Energy and is governed through the CEF Board of Directors , the CEF Executive Teams, the Board of Directors of the different subsidiaries and each subsidiary CEO.

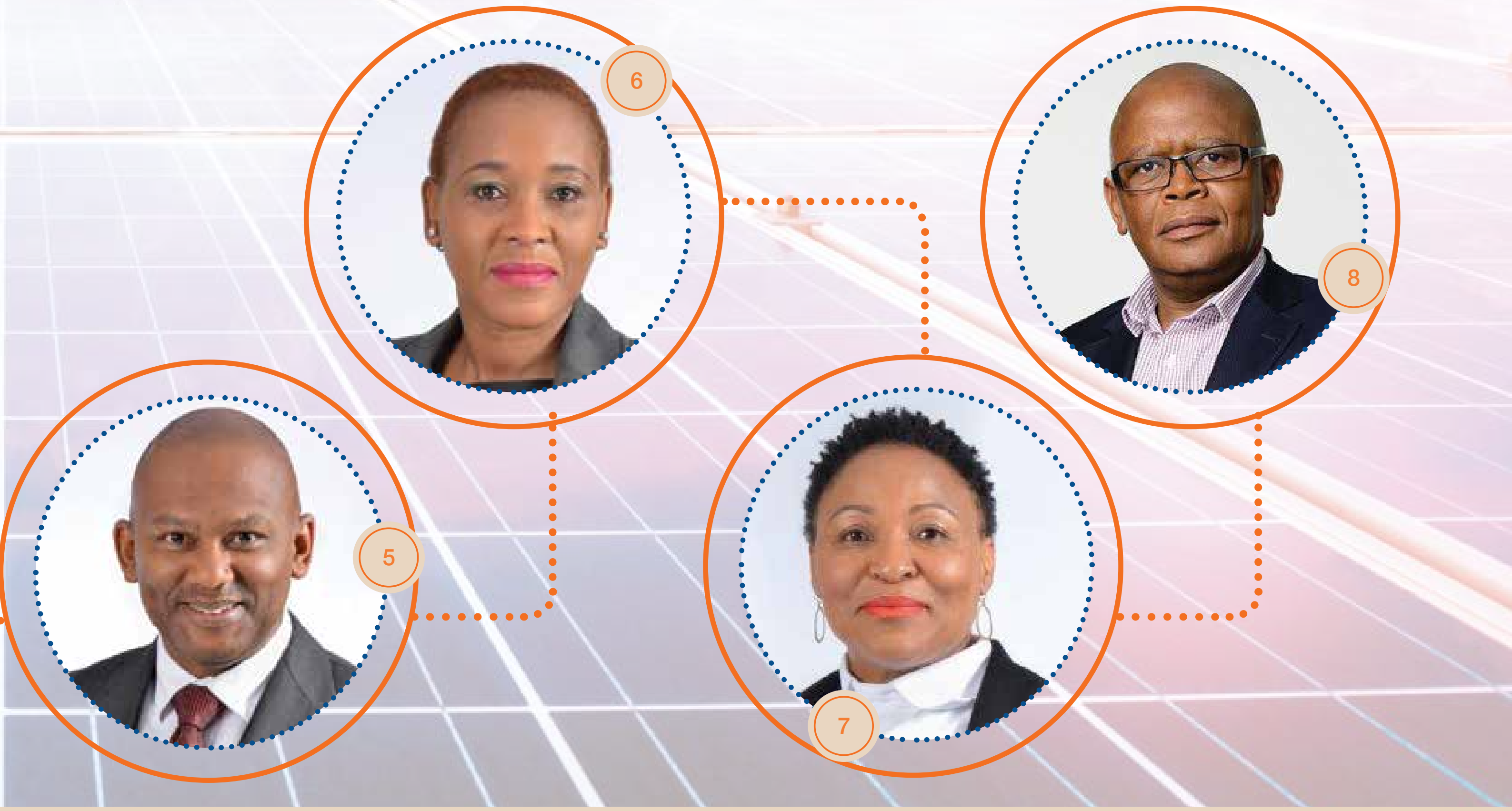


1 **Mr Luvo Makasi (33)** was appointed the Chairperson of the CEF Group of Companies in 2016. Over the last nine years, Mr. Makasi has been instrumental in leading a number of high profile projects in energy, transport and the oil and gas sector, respectively. Mr. Makasi has extensive professional experience in the legal sector, which includes amongst others, expertise in Commercial & Corporate law, Litigation, Advisory Services, Regulation & Investigation. He holds an LLB from the University of Western Cape.

2 **Mr Mojalefa Godfrey Moagi (54)** was appointed the Acting CEF Group CEO in 2016. He holds an Exec Progs (Wits & Harvard), BCom (Hons), BCom. Mr Moagi is an Oil and Gas executive with a number of years of industry experience and has held many senior roles at BP Southern Africa. He has wealth of experience in the understanding of global economies and markets in crude, fuels, lubricants, supply and trading and value chain management. He is also the Chairperson on African Exploration and Mining Finance Corporation.

3 **Ms Gosetseone Florence Leketi (44)** was appointed a non-executive director (DoE representative) at CEF Board in 2016. Ms. Leketi Alternate is not a new-comer to the oil, petroleum and gas sector. She is currently a Chief Director: Petroleum and Petroleum Products at the DoE. She also serves as a director at the Chieta-Base Chemicals and Petroleum Chamber. She holds a BCom (Hons) Statistics from the University of North West.

4 **Mr Jim Besnaar (42)** was appointed a non-executive director at CEF Board in 2016. He is currently the CEO for Makomota Investment Holdings (Pty) Ltd. A Chartered Accountant by profession, Mr. Besnaar has successfully held senior positions both at provincial and local government level. He also serves as a director/ shareholder at Circle Way Trading, Bricksnet, Yard Plant Rentals (Pty) Ltd and Dragon Loo (Pty) Ltd.



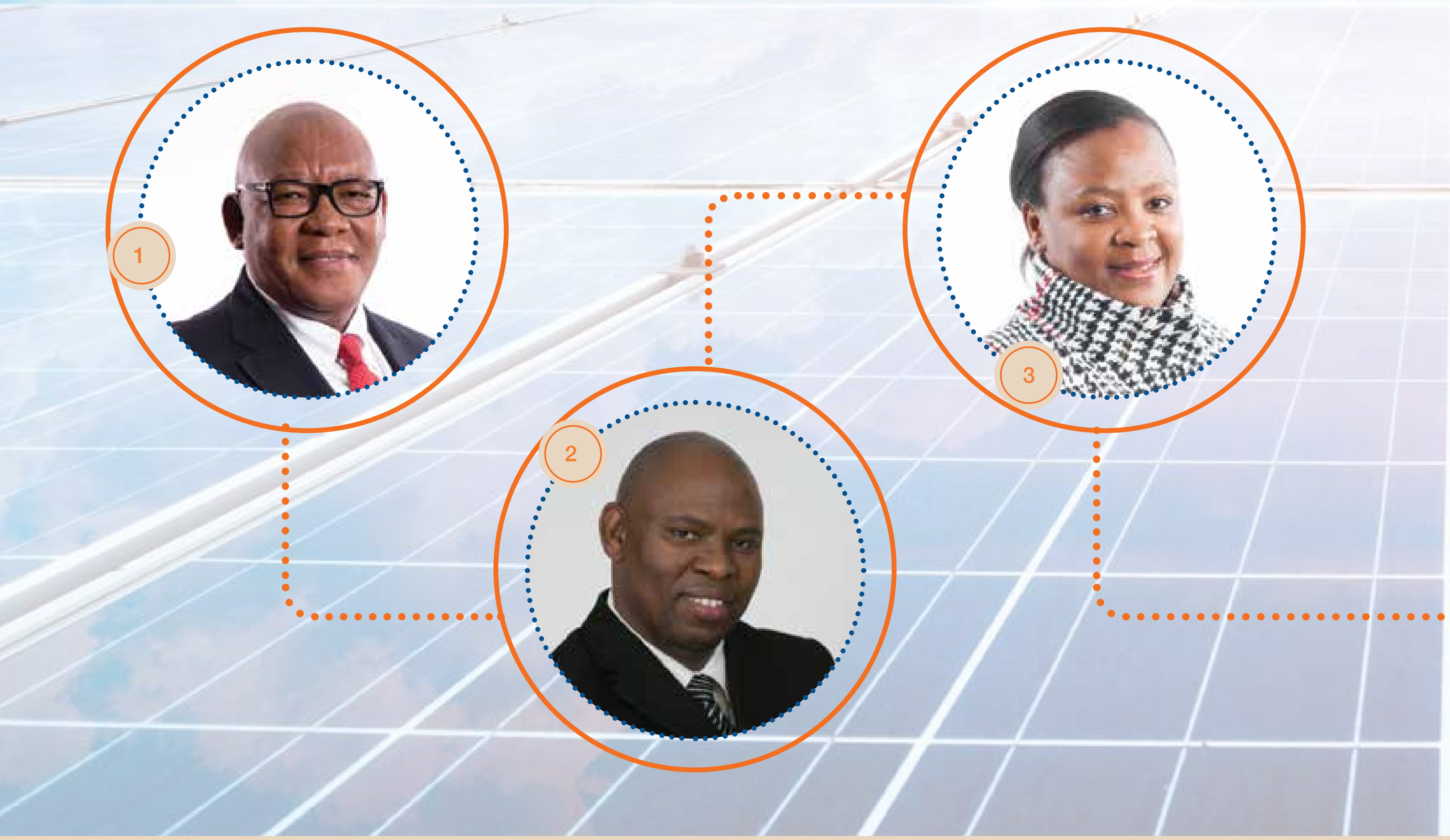
5 **Mr Tseliso Maqubela (52)** was reappointed a non-executive director (DoE representative) at CEF Board in 2017. He is currently the Acting Director General at the Department of Energy (DoE). He has 21 years of experience in the energy sector having commenced his career at the Koeberg Nuclear Power Station. He led the drafting team for the Nuclear Energy Policy of SA & is currently the chairperson of the Council for Non- Proliferation of Weapons of Mass Production. He holds a MAP & a BSc (Hons).

6 **Ms Mekateko Molope (45)** was appointed a non-executive director at CEF Board in 2015. She is an attorney in private practice. She founded Molope attorneys in 2007. She was an acting Magistrate within Gauteng District Courts from 2012 to 2014. She is currently a member of the HR Committee. She holds a BProc and an LLB.

7 **Advocate Lindiwe Mtunzi (47)** was appointed a non-executive director at CEF Board in 2015. An advocate by profession. Has held senior positions in the regulatory sector and is a compliance consultant to various entities. She serves as a member of the Governance and Nominations, HR and Board Audit Risk committee. She holds a BLuris and LLB.

8 **Mr Neville Mompati (55)** was appointed a non-executive director at CEF Board in 2016. He also serves as the Chairperson of SFF. He is a teacher by profession. However, he has ventured into various business opportunities spanning from retail, petroleum and mining sector in the last two decades. He is currently, a non-executive director at the African Share Housing and Northern Cape Mining, specializing in manganese and iron ore.

CEF GROUP CEO'S



1 **Mr Mojalefa Godfrey Moagi**
Position: CEF Group Acting CEO
Age: 54
Qualifications: Exec Progs (Wits & Harvard), BCom (Hons), BCom
Appointed: June 2016

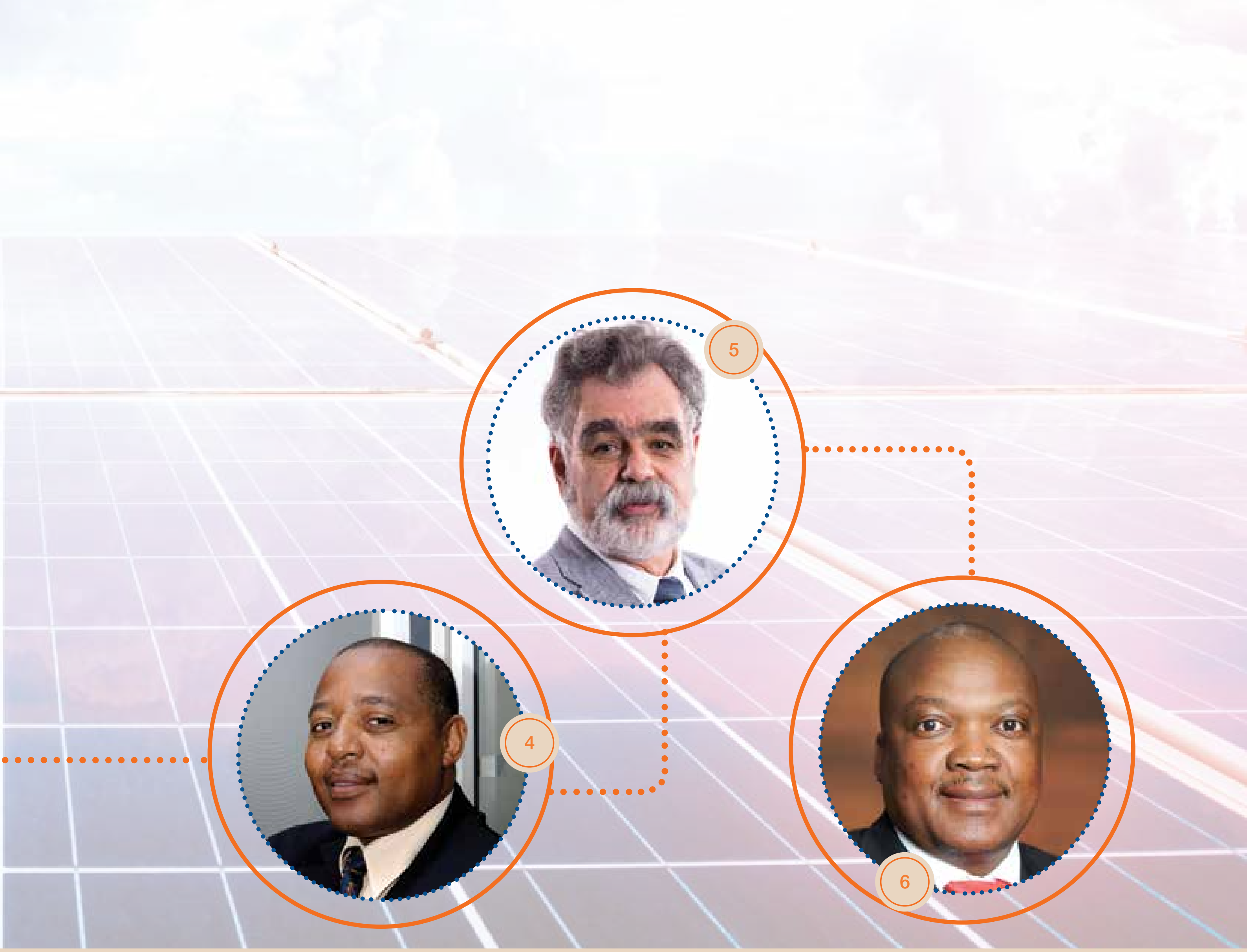
The CEF Group operates across the Energy sector value chain and comprises of five key subsidiaries and two associate companies who operates within a specific arena and mandate. The subsidiaries are wholly owned by CEF SOC Ltd which also holds minority interests held in the two renewable energy ventures (associates). In addition, the CEF also manages the Equalisation fund on behalf of the Government.

2 **Mr Kholly Zono**
Position: PetroSA Acting CEO
Age: 47
Qualifications: MBA, MDP, MTech (Chemistry), BSc (Hons) Chemistry, BTheo
Appointed: October 2016

PetroSA explore, produce, refine and market oil, gas and petrochemicals. It is also involved in exploration & 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, they have producing and development assets in Ghana. PetroSA has refining operations converting offshore gas and condensate to redefined fuels and speciality chemicals.

3 **Ms Lindiwe Portia Mekwe**
Position: PASA Acting CEO
Age: 45
Qualifications: LLM, LLB, BProc
Appointed: October 2013

PASA promotes exploration for onshore and offshore oil and gas resources and their optimal development on behalf of government. The Agency regulates exploration and production activities, and acts as the custodian of the national petroleum exploration and production database.



4 **Mr Sizwe Madondo**
Position: AEMFC CEO
Age: 54
Qualifications: MBA, BSc (Hons), BSc & Post Graduate Diploma in Marketing
Appointed: 1998

AEMFC was established to secure South Africa's energy supply primarily through the mining and supply of coal for the generation of electricity, as well as securing other resources that will provide energy for the future, including key minerals for beneficiation in the energy and steel value chain. Currently the company mines coal in Mpumalanga for supply to Eskom.

5 **Dr Mike de Pontes**
Position: iGas COO
Age: 65
Qualifications: PhD (Engineering), MSc (Chem), BSc (Hons), BSc
Appointed: August 1987

iGas is the state agency for the development of the hydrocarbon gas industry in Southern Africa. It is a shareholder in the Mozambique-to-South Africa gas pipeline involved in the development of gas and other gas infrastructure.

Dr De Pontes retired in February 2017.

6 **Mr Thabane Wiseman Zulu**
Position: SFF Acting CEO
Age: 50
Qualifications: MBA, BAdmin (Hons) & BAdmin
Appointed: May 2017

SFF is a section 21 company that manages strategic crude oil infrastructure, strategic crude oil stocks on behalf of the state. The organisation's storage facilities are Milnerton and Saldanha Bay in the Western Cape. It also provides oil pollution control services in Saldanha Bay.

CEF GROUP EXECUTIVES






1 **G Moagi**

Position:
Acting Group Chief Executive Officer

Qualifications:
BCom; BCom Hons Business Management;BCom Accounting; Senior Executive programme

Mr Moagi is an Oil and Gas executive with more than years of industry experience and has held many senior roles at BP Southern Africa. He has wealth of experience in the understanding of global economies and markets in crude, fuels, lubricants, supply and trading and value chain management, Setting up a new trading book, including governance and compliance processes for the business to manage risks He is also the Chairperson on African Exploration and Mining Finance Corporation.

2 **L Makhuba**

Position:
Group Chief Financial Officer

Qualifications:
BCom Hons Accounting Sciences; BCom Accounting Sciences; Senior management development programme; CA(SA)

Mr Makhuba is responsible for the Group financial strategic direction and long term commercial viability and oversees the corporate finance functions and key Group investments. He has in-depth experience in financial modelling, preparation of AFS (consolidated and unconsolidated), Budgeting/ forecast, Auditing, Due diligence and Corporate Finance as well as Risk Management. He has worked for Nkonki Inc and CEF in various roles within the finance departments.

3 **P Masangane**

Position:
General Manager: Clean Energy Division

Qualifications:
PhD (Chemistry); MBA;BSc

Dr Masangane oversees the development and commercialisation of all CEF Group Renewables, Alternative and New Technology advancements through strategic partnerships with private and public sector entities. She has vast experience developing, deal structuring and financing of renewable energy projects. She has participated in national energy policy development including biofuels, renewables and the gas programme. Dr. Masangane previously worked for KPMG, SANERI and EDI Holdings.

4 **M De Pontes**

Position:
COO iGas

Qualifications:
BSc (Chemistry, Mathematics); B.Sc (Hons) (Chemistry); MEng (Chem); PhD (Engineering)

Dr De Pontes is responsible for the execution of our gas and gas infrastructure mandate, management of our investment in ROMPCO and other strategic engagements for ensuring that through iGas the Group becomes a catalyst for developing the gas and gas infrastructure. He has proven experience in engineering, project management, engineering design, research and development as well as project financing.

5 **A Haffejee**

Position:
Company Secretary

Qualifications:
B Proc; ACIS; Admitted Attorney

As the Group Company Secretary Mr Haffejee is responsible for Group corporate governance framework and legal compliance as well as advising the CEF Board on key governance matters. Having worked for African Defence Systems, Albaraka Bank, AS Kader & Partners Mr Haffejee has a wealth of experience in contract management, company secretariat, corporate governance, legal advisory, compliance and risk management.

6 **V Khulu**

Position:
Stakeholder Advisory Manager

Qualifications:
BSc (Chemistry & Applied Chemistry) – UKZN Postgraduate diploma (Marketing & Supply Chain – UKZN management) MBL – UNISA

Mr Khulu is responsible for advising the CEO and Board on Key Stakeholder engagements that seek to drive policy direction, strategic partnership (locally and internationally) and long term growth. His other major responsibilities include driving the Group Stakeholder and Communication Plan. He has worked for PetroSA, Egoli Gas, Eskom, Dulux and Unilever and has a wealth of experience in energy advisory, sales and marketing, business development, financial modelling, negotiation, policy engagement, leadership and other technical skills.

7 **T Khanyile**

Position:
Group Chief Audit Executive

Qualifications:
B.Com; CIA, Fellow of the Institute of Internal Auditors

Mr Khanyile is responsible for driving all Group Internal Audit activities, compliance, maintaining good relationships with key stakeholders such the Auditor General and advising the Board and Audit Risk Committee on key compliance matters. He has worked for Size Ntsaluba, Ebony Financial Services and KPMG. His expertise is in managing internal audit processes, risk management and corporate governance.

8 **S Maluleke**

Position:
Group IT Manager

Qualifications:
BSc; IT Diploma; Postgraduate diploma (business management); Advanced diploma (project management)

Mr Maluleke is responsible for Group IT and provides ongoing strategic alignment between Group strategy on the one hand and Group Information Systems and Technology on the other. Operationally, he is responsible for ensuring that the IT Infrastructure is available and performing at a level that allows business to operate efficiently, productively and securely. He brings a wealth of experience in, inter alia, IT strategy planning, contract management, project management, IT risk and governance which he gained at various companies that include, among others, SABS, Liberty, Accenture, BCX and ABSA.

9 **S Makhanya**

Position:
General Manager: Group Strategy and Subsidiary Manager

Qualifications:
MBA in Business Strategy and Entrepreneurship; Post-graduate diploma in advanced management Project Management Sales & Marketing Mastering Finance

Mr Makhanya is responsible for Group Strategy and subsidiary management which entails strategy formulation, corporate planning, business performance and ensuring Group coordination in relation to strategy execution. His experience spans strategy and leadership development, sales & marketing, banking, business analysis, project management, business restructuring, M&A and change management. He has worked for Standard Bank, BP Southern Africa and Massa.

10 **K Ramela**

Position:
Acting GM Corporate Services

Qualifications:
BSc (Chemistry) Diploma in Business Management

Ms Ramela is responsible for driving the Group Human Capital strategy and the creation of a High performance Group of companies in support of Group Strategy in a coordinated manner across the value chain. Her HR experience spread across various industries: Mining, Academia, Healthcare and Energy and has proven experience in human resources management, leadership development, Talent Management, labour relations, negotiations and business advisory.

11 **M Seedat**

Position:
Gas Commercial Manager

Qualifications:
BSc Engineering Hons (Industrial); GDE in engineering management

As the Gas Commercial Manager, Mr Seedat is responsible for converting gas market opportunities into tangible commercially viable projects in a coordinated manner. Having previously worked at PricewaterhouseCoopers, KPMG and Eskom, Mr Seedat's experience is in leading and advising on the development of mega projects including inter alia nuclear, gas and renewable energy projects. He has deep expertise in project development, contract management and project finance.

SECTION

BUSINESS OVERVIEW AND STRATEGY

OPERATING ENVIRONMENT

This report contains an overview of the strategic, financial and operational performance of the CEF Group of companies for the 2016/17 financial year. An overview of the financial performance of each subsidiary is presented in more detail in the Operational Performance section in this report.

Government mandate

The purpose of the National Integrated Energy Plan (IEP) is to provide a roadmap of the future energy landscape for South Africa that guides future energy infrastructure investments and policy development. The IEP analyses current energy consumption trends within different sectors of the economy (e.g. agriculture, commerce, industry, residential and transport) and uses this to project future energy requirements, based on different scenarios. Our key performance indicators are underpinned by the IEP to deliver on the focus areas over the medium to long term as outlined by the Ministry of Energy.

Macro environment

Recent economic statistical data indicate that South Africa's unemployment rate increased to 27.7% in the first quarter of 2017 from 26.5% in the previous three months. Decreases in employment figures were led by trade, business services, community services, manufacturing and transport. With expected low economic growth prospects, reduced disposable income and a shrinking economy, the country is in a precarious situation.

Moreover, the number of downgrades by international ratings agencies has increased the cost of borrowing and the subsequent reality is a country now in recession. The consequent slow energy demand has seen Eskom move from an electricity shortage of 3 000 MW in previous years (to the point of resulting in power outages) to a surplus of 3 000 MW.

Business confidence is low, the high unemployment, growing social discourse and rise in activism, added to slow growth of the global economy, further obstructs the road to economic recovery. Subdued commodity prices and the expected 'lower for longer' oil prices will have a major impact on key energy investments, especially in the oil and gas sector, as investors hold back until commodity prices rise significantly.

The country's growth prospects will be driven by stronger global growth, more favourable weather conditions following last year's debilitating drought, reliable power supply driven by increasing economic activity, favourable labour relations, recovering business and consumer confidence, and stabilisation of commodity prices. The analytical consensus is that the impact of the above is likely to be felt through the medium-term forecast period (2017 to 2022) and that these developments will undoubtedly further constrain the medium-term prospects for the South African economy. All of this puts more pressure on already stretched state resources, as government will be required to come up with initiatives to stimulate the economy and get back on a path to recovery.

Government is banking on a rapid industrialisation strategy, geared towards promoting entrepreneurship and helping to generate employment, through a process known as Radical Socio-Economic Transformation. This strategy will take time to develop, roll out and will require a unique set of skills, customer channels, systems, sustainable prices and an integrated market.

Impacts of the South African economy outlook on the CEF Group can be summarised as follows:

- Possible delays in the Group's renewable energy project investment as a result of electricity surplus;
- Stagnant coal volumes to Eskom; and
- Reduced investment in upstream exploration.

Meso environment

The energy sector is characterised by a high degree of complexity and cycles of volatility and uncertainty, which are often driven by global dynamics, with limited scope to influence the outcomes due to the size and location of our market. After the sensational decline in oil prices below US$35 per barrel at the end of 2015 (down more than 60% from a high in 2014), the last financial year saw a slight recovery that never quite broke the $55 mark. This trend was reflective of rampant supply and weak global demand amid anxieties over slowing economic growth around the world, especially in China and Europe.

This saw upstream profits being wiped out and in response companies in the energy sector started reducing costs. Capital expenditures in 2016 were down by about 30%, with some $200 billion worth of projects cancelled or deferred. There was limited upstream activity in South Africa, which put pressure on the need for headcount reduction. Aggressive cost cutting may work in the short term, but it could leave businesses ill prepared for the next turn of the business cycle.

To address the market oversupply, the Organization of Petroleum Exporting Countries (OPEC) in November 2016 reached a deal among all 14 member countries to curtail oil production from 33.8 million b/d (barrels per day) to 32.5 million b/d for the first time since 2008. This was done in an effort to prop up prices, secure market share and drive out marginal producers, particularly in the United States. Prices have since stabilised to a range between $45 and $50 and this scenario is expected to prevail for the foreseeable future.

In the commodities space, especially coal, we saw a slight recovery in prices towards the 3rd and 4th quarters of 2016 driven by market sentiments resulting from expected growth in China and India.

The need to diversify the country's energy mix through renewables, and the drop in energy consumption because of a weak domestic economy besieged by consecutive downgrades, has stalled the progress on renewable energy generation and investments.

Competition, slumping oil prices, and glutted energy demand are not the only major factors affecting the industry and business at large. The energy landscape is being significantly reshaped by potent emerging trends such as climate change and the need to reduce CO2 emissions and minimise fossil fuels. As a result, the sector has been focusing on long-term initiatives in relation to LNG.

Micro environment

Profit/Loss after tax

During the 2016/17 financial year, the group generated a net loss of R599 million, compared to prior year loss of R194 million. The performance has been adversely affected by the collapse in the gross profit margin, which decreased from 22% to 5%. For the first time in the history of the Group, PetroSA has reported a gross loss of R475 million. The poor results are due to the new business model where PetroSA is processing condensate rather gas due to the declining gas reserves.

Solvency and liquidity

The Group remains solvent and liquid. The interest bearing debts are 6% as percentage equity. The liquidity at March 2017 was 3.4:1. The liquidity of 3.4:1 indicates that the group has adequate cash to fund it short term liabilities and its operating expenses.

The CEF Group's financial performance for 2016/17 outlines a constrained and difficult trading environment as reflected by the following:

- The price of crude oil improved somewhat during 2016/17. The final price however, which is around $55/bbl, is still way below the high prices the industry enjoyed four years ago. As a result, PetroSA is in a loss-making situation that will endure barring drastic intervention. An urgent short- to medium-term solution for the GTL facility will preserve the economic life of the Mossel Bay community until a permanent solution is implemented. There is currently an ongoing effort to achieve business efficiency gains, and turnaround initiatives for PetroSA are gaining momentum.
- The upstream activities are capital intensive, and for the West and South coasts the capital requirement has been significantly reduced, given the change in approach in transferring the developmental risk to private partners. However, capital remains a requirement for a participatory interest. The annual production target for the Ghanaian production facility was not met due to turret problems that were encountered on the operator's floating production storage and offloading (FPSO) system.
- The National Environmental Management Act (NEMA) financial regulation has been deferred and companies are required to comply before or on 28 February 2019, however engagements on the matter continue.
- The Eskom coal price increased from R248 per tonne in 2016 to R266 per tonne in 2017. While the price of coal has increased, the sales by AEMFC to Eskom are contract-based and we project increased volumes in the next financial year as the first coal delivery from the extension of the current open pit is expected. Increased political pressure to reduce coal as a feedstock for power generation threatens the coal mining business; however, the DoE IRP still considers coal as the key source of energy over the medium to long-term.

- The Energy Projects Division (EPD) was impacted by the revision of the Solar Park Determination and the Gas Determination, which caused a delay in the implementation of projects. In addition, the Concentrated Solar Power (CSP) projects are also in limbo largely due to Eskom's delay in signing the Power Purchase Agreement (PPA). Favourable impacts include increased pressure for signing of the PPA, as well as global trends that are pointing to a strong growth in the renewable energy sector.
- The difficult economic conditions in Mozambique has reduced the dividend to iGas. The proposed Rompco pipeline tarrif changes are likely to have an impact on the ROMPCO revenue. The recent signing of the gas tariff for ROMPCO by the National Energy Regulator of South Africa (NERSA) is expected to impact the dividend flow for iGas/CEF. Management is considering the application for a tariff on the full ROMPCO asset base to achieve better operating leverage.
- The lower for longer crude oil price scenario is favourable to SFF and has resulted in continued profitable operations. This profit for SFF is driven by demand for storage facilities in the continued contango market. Given the outcome of the contract review, the strategic stock transaction could affect the entity significantly.
- The reduction in the PASA budget has affected the implementation of a number of key strategic projects such as the extended continental shelf claim project.
- The CEF Group companies were further affected negatively during 2016/17 by slow global growth and a volatile South African economy.
- In general, the delays in the finalisation of the country's Strategic Stock Policy, the Clean Fuels Policy, the revision of the Mineral and Petroleum Resources Development Act, 2002 (MPRDA) are likely to have an impact on our business operations and planning.

BUSINESS MODEL

In today's complex, ever changing and highly competitive business landscape the business models of State Owned Entities like CEF must be rooted in agility in order to seize timely opportunities and drive government objectives. Our operating model supports the successful delivery on our mandate, the execution of our Group strategy and optimisation of our business process to give us a competitive advantage whilst creating value for the Shareholder. The business model is the bridge between our strategy and business operations. In line with our business strategy Vision 2025, we also acknowledge that our Group business model will continue to evolve with changes in our operating environment and shareholder objectives.

Why	What	How
Group Strategy Guiding principles that define the short to long term strategic objectives	**Group Business Model** Tranlates the strategic intent into operaional capabilities	**Business Operations** Guiding principles that define the short to long term strategic objectives

Our business model is underpinned by our mandate as directed by the CEF Act and the 2003 CEF High Level Business Strategy (a Ministerial Directive to CEF and is informed by the IEP, which provides a roadmap of the future energy landscape for South Africa – guiding future energy infrastructure investments and policy development. Our Group business model defines the stakeholders, our core value proposition, strategic partners, services, products, customers and market channels in which we operate and our revenue and cost drivers. It also highlights our key differentiators and our value chain footprint. Our continuous improvement initiatives are geared at ensuring that the our business remain resilient to external shocks and is agile. It defines the various transformational processes that are integrated in the achievement of Group strategy. The Group business model is designed to give us several competitive advantages through the following:

- Improved Group business performance as a result of increased operational efficiency, continuous improvement and the reduction in business duplication allowing for more space to better service our customers and improve shareholder value.

- **Enhanced engagement with stakeholders by progressively adapting** to the changing needs of our stakeholders as our operating environment changes. Our business model provides a framework by which to continually map and manage key stakeholder interfaces.

- **Increased process integration across operational units and functional areas reducing duplication** of effort and exploiting synergies. Through ongoing standardization initiatives, organisational synergies are being leveraged across the Group with plans to integrate systems and data to transparency and decision making.

- **Improved coordination and decision-making.** Our business models provide for a platform to plan, sequence and execute initiatives across the Group while systematically strengthening oversight, monitoring and evaluation. Group leadership is now better able to clearly see where weaknesses in capabilities (people, process or technology) exist, and work together to find solutions that better aligns with the Group strategy.

- **High performance organisation.** Through ongoing targeted strategic Human Capital management initiatives our business model is constantly evolving to create an integrated ecosystem that will allow the CEF Group to be a high performance organisation that provides fertile ground for growth and innovation whilst delivering value for the Shareholder

- **Better ability to grow and scale quickly.** Our Group business model is designed to assist the organisation to scale up effectively to meet the external and internal changes through systematic continuous improvement.

- **Improved risk management.** With shared common understanding of roles, responsibilities, goals and processes, value proposition, channels, revenue streams and cost structures Group risks are effectively identified and mitigated earlier and more easily. In addition, with the right governance being put in place, risks are being escalated to appropriate levels.

CEF Group Business Model

<table>
<tr><th>Key Partners</th><th>Key Activities</th><th>Value Proposition</th><th>Customer Relationships</th></tr>
<tr>
<td rowspan="3">Our key strategic partners are the:
The Department of Energy as the Shareholder
Portfolio Committee on Energy
Department of Mineral Resources (DMR), Department of Environmental Affairs (DEA),
ESKOM,
ROMPCO
Other government agencies and SOE’s</td>
<td>The Group key activities are in support of our Mandate are:
Mineral production
Refining of petrochemicals
Trading of third party products
Management of strategic Liquid fuels infrastructure
Oil pollution control
Equity& Money Market Investments
Assets under feasibility and development
Mineral exploration and production
Development of Alternative and renewable energy (EPD)
Development of the Gas to Power and Gas Infrastructure</td>
<td rowspan="3">Our value proposition is anchored around our mandate, strategy, vision and mission which defines our role that the Group should:
Search for appropriate energy solutions to meet the future energy needs of South Africa, the Southern African Development Community and the sub-Saharan African region, including oil, gas, electrical power, solar energy, low-smoke fuels, biomass, wind and renewable energy sources in support of security of energy supply
The strategic role by each entity of the Group in executing on our mandate is key</td>
<td>Our customer relationships are driven by our duel mandate from a Commercial and Developmental perspective with customer/stakeholder expectations and needs varying.
The Group operating model aims to create an integrated approach to servicing our customers and stakeholders by leverages on Group synergies.</td>
</tr>
<tr><th>Key Resources</th><th>Channels</th></tr>
<tr>
<td>The Group key resources are as follows:
People
Strategic Assets (Plant and machinery)
Strategic Partnerships
Intellectual Property
Our unique systems and operations
Information
Distributions channels</td>
<td>The Group uses a wide range of channels to meet customer and stakeholder needs such as:
Direct
Indirect
Intermediaries
Strategic Partnership
Government to Government
The above are supported by our robust Stakeholder Management and Communication Strategy</td>
</tr>
<tr><th colspan="2">Cost Structure</th><th colspan="2">Revenue Streams</th></tr>
<tr>
<td colspan="2">Our cost structures are driven mainly by the following which are critical in the value creation process of the Group.
Labour
Capital Expenditure programmes
Maintenance
Rehabilitation
Contracting and Feasibility Assessments
Marketing
Own energy use
Storage</td>
<td colspan="2">Group revenue streams are derived from the following operations
Storage tank services operating by increasing capacity to industry
Group investments
Interest income
Dividends
Sale of Petrochemical products
Coal production
Royalties
Strategic partnerships</td>
</tr>
</table>

The role of the Group business units in delivering on the Group Business Model

Given the Group's complex business segments and different business operating models the CEF makes use of various identifiable business units to achieve its mandate. Below is a blueprint of our unique value proposition.

CEF SOC and PetroSA Group function

- Providing oversight and management services functions to the Group companies and acting as an agent in respect of projects on behalf of the DoE when directed by the Ministry.
- Licensing and marketing of the long fibre thermoplastics technology in South Africa.

Input	Output	Customer
Labour	Services Oversight & Strategic guidance Investment approval	Subsidiaries/Joint operations
Research	Licensing the use of the technology	Midstream market

PetroSA – Upstream

- Conducting feasibility studies and developing oil and gas production fields for the market and for own use.

Input	Output	Customer
Feasibility	Development and production of oil and gas	Midstream market

PetroSA – Midstream

- Refining and marketing the petrochemical products from own feedstock or purchased third parties.

Input	Output	Customer
Own feedstock	Petrol, Diesel, Kerosene, Gas, Oil ASH, Mosspar	Downstream market
Purchased feedstock	Petrol, Diesel	Downstream market
Third party product	Petrol, Diesel	Downstream market

AEMFC – Coal Mining

- Conducting feasibility studies and developing minerals for uplift processing for market use.

Input	Output	Customer
Own feedstock	Production of coal	Midstream market
Feasibility studies	Development and production	Midstream market

CEF SOC – Renewable Energy

- Has interest in the conducting of feasibility studies and the development of alternative energy solutions for the country – adding to the energy mix.

Input	Output	Customer
Feasibility studies	Investments	Midstream market

iGas – gas and Gas Infrastructure

- Has an interest in the conducting of Development of gas and gas infrastructure in Southern Africa studies and the development of gas infrastructure solutions for the country – adding to the energy mix.

Input	Output	Customer
Feasibility studies	Investments in Gas Pipelines and Terminals	Midstream market

SFF – Liquid Fuels Infrastructure

- Operating and increasing capacity through feasibility infrastructure solutions for the country – adding to the energy mix.

Input	Output	Customer
Storage infrastructure	Services	Midstream market
Oil pollution	Services	Midstream market
Feasibility studies	Increased storage capacity	Capacity for midstream market

PASA – Mineral Regulation

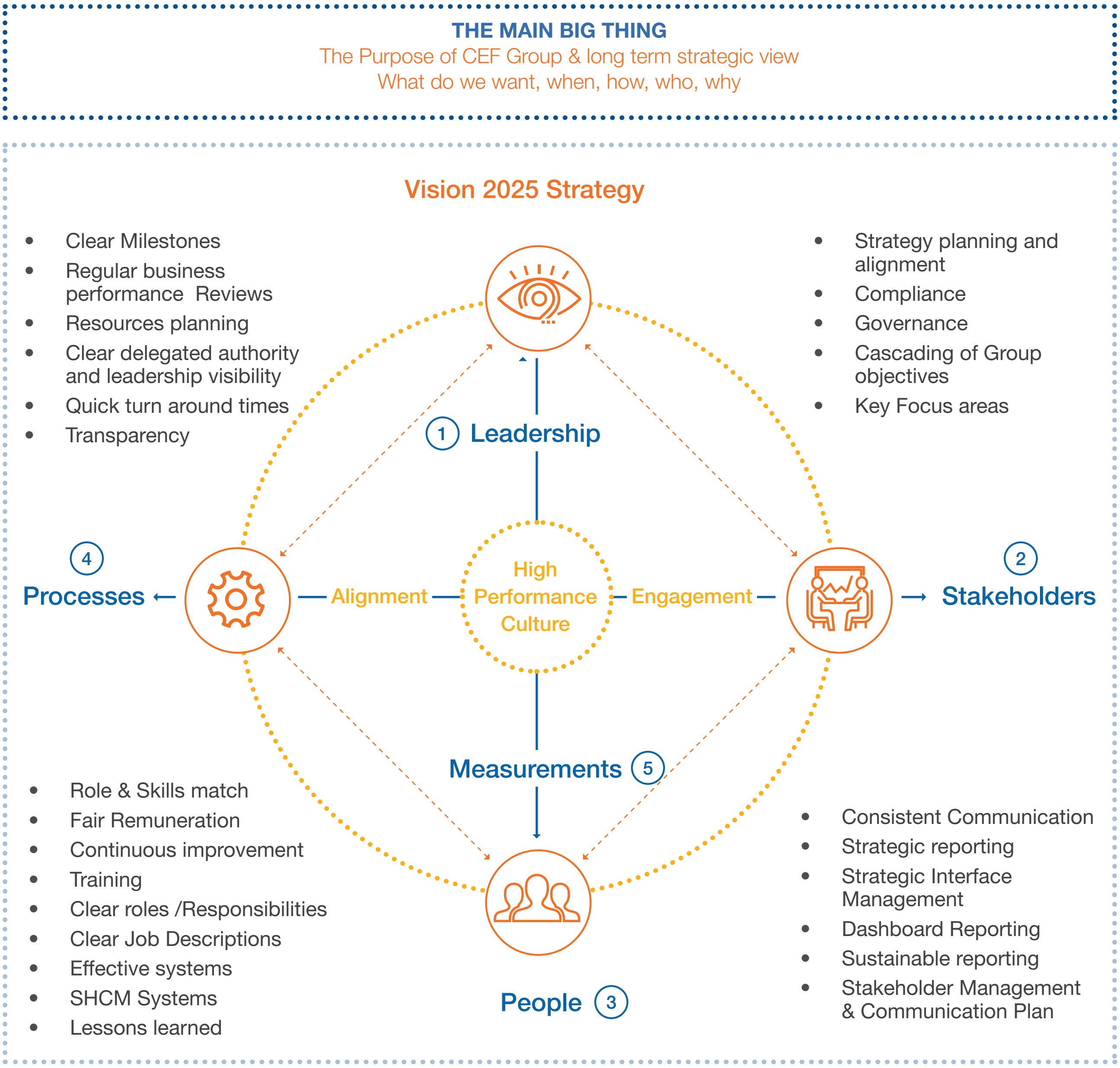
- Mineral regulation in South Africa's natural resources data storage and dissemination for a fee to prospecting agencies.
- Extension of the continental shelf for the security of South Africa on rare earth mineral finds.

Input	Output	Customer
Regulation	Licences	Upstream market
ECSC	SA Continental Shelf claim	Upstream market

Framework underpinning the Business Model

To be more agile and adaptive to changes in the external and internal environment, the Group business model is underpinned by the following framework that ensures the translation of strategy into the Group right down to an individual level, the presence of capable leadership and the role played by stakeholders and systems in persuit of improved business performance.

CEF Group Alignment Framework to support the Group Business Model



STRATEGIC OUTLOOK

The Group's overarching strategy is known as **Vision 2025**, articulating the strategic framework that was established three years ago. Vision 2025 is designed to provide strategic direction and guidance to the diverse Group of companies that operate in a complex and challenging environment that is both capital intensive and has long lead times.

This strategy aims to provide a road map for getting the Group to the desired end state, taking into consideration the impacts of our micro and macro operating environments and challenges, as well opportunities as they present themselves to the CEF Group.

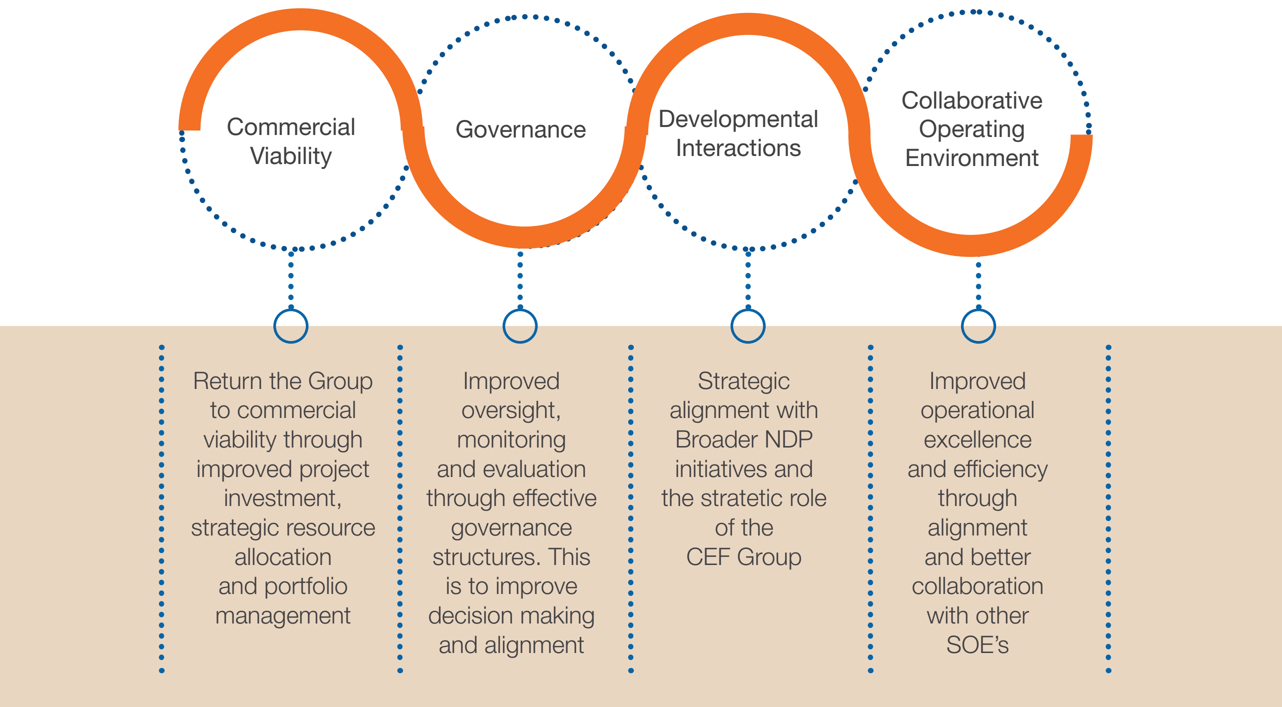
Vision 2025 is thus the Group's strategic response to a number of strategic challenges and opportunities in its operating environment. It is a long-term journey to long-term growth and sustainability, with the ultimate objective of solidifying the Group strategic relevance in a rapidly changing South African landscape.

The Group Strategy is about rebasing the Group; focusing on future growth; and aligning strategy, leadership, people, processes and stakeholders with the following desired end state by the year 2025:

1. Significantly contributing to security of energy supply through continued investment in strategic energy infrastructure;
2. Supporting the implementation of government policy to diversify the country's energy mix;
3. Contributing to security of energy supply, and promoting energy access and job creation through interests in and development of the gas infrastructure and renewable energy industry;
4. Contributing to security of energy supply by having the required strategic stock, in line with government policy and at the lowest cost to the economy;
5. Having capable leadership in key positions across the Group and an engaged workforce for whom the CEF Group is the employer of choice by enabling a high-performance culture;
6. Having sustainable strategic partnerships and taking advantage of market opportunities, reducing risk and improving project execution;
7. Having effective governance structures that work as one to deliver on shareholder value and leverage synergies;
8. Being a financially strong state-owned enterprise with the ability to support the DoE to implement its programmes; and
9. Having a significant upstream and downstream presence.

Group strategic pillars

The Group Strategy is anchored on four strategic pillars that define the Group's underlying operational objectives as outlined below.



Group strategic road map

An overarching Strategic Roadmap was developed to guide the Group's trajectory through the various strategic phases as we move towards the desired end state. In essence the Strategic Roadmap provides a framework for the business of today and the business of tomorrow, while sharpening the focus on the most efficient use of the Group's limited financial and non-financial resources, and elevating risk management and corporate governance.

This Strategic Roadmap guides strategy delivery under three distinct phases namely Stabilise, Grow and Lead.

Three phases of the Strategic Roadmap

	Stabilise Phase (2013/14 –2018/19)	Grow Phase (2017/18 – 2023/24)	Lead Phase (2022/23 – 2024/25)
Key strategic objectives	The immediate and short to medium term strategic objectives are designed to stabilise the Group by focusing on key impact areas and those that have a major impact on the long-term sustainability of the Group. Chief amongst these has been the need to turn around PetroSA, Risk management, Project execution, and Governance. This phase is designed to lay the foundation for the next phase.	The medium to long-term strategic objectives are aimed at aggressive growth through acquisition and market penetration, diversifying the investment portfolio to ensure long-term commercial sustainability and de-risking the Group through strategic partnerships right across the value chain, ensuring that we have scale and presence.	The long-term objective is for the CEF Group to be a market leader and at the forefront of thought leadership and policy development on security of energy supply on behalf of and to the DoE and the country as a whole. Supporting the delivery of this objective is the need for strong policy and research capabilities to add value.
Strategic thrusts	Sustainability Cash Preservation Optimisation Exploitation of Group synergies Alignment Streamlining Consolidation	Group Investment Strategy Acquisitions Strategic Partnership Diversification Business and market development Infrastructure development	Knowledge Management Market Research and Development Policy Framework support
Key dependencies	Key resources Project execution Human capital Shareholder support	Strategic partners Shareholder support Enabling policy framework	Strategic partnership with other SOEs Shareholder support Enabling policy framework

Portfolio approach to delivering on the Group Strategy

Flowing from the Group Strategy and the Group Corporate Plan, the CEF Group has identified a number of significant initiatives and opportunities as part of our Stabilise, Grow and Lead delivery phases.

It is the Group's view that by approaching these initiatives from a Group Portfolio perspective as outlined below, the initiatives will significantly improve Group sustainability; business performance and coordination; growth; and the Group's strategic relevance as the implementing arm of the DoE. Additionally, the Group will further execute a number of developmental initiatives as part of its core mandate, which have already been identified.

Group Portfolio approach to strategy delivery

Portfolio	Initiative/Opportunity
Sustainability and turnaround	• PetroSA turnaround cost optimisation • Group Operating Model Review • Definition of the Group's new value proposition • Leadership capacitation • Execution of the partnership strategy • Group cost containment drive • Stakeholder management
Growth initiatives	• Downstream market entry through acquisitions and aggressive organic growth • Increase in coal production and development of new mines • Development of strategic storage tanks and partnerships • Investments into renewable energy • Gas and gas infrastructure development and Gas-to-Power programme participation
Developmental	• Involvement of the CEF Group in the implementation of the 1.9 million solar water heaters • Operation Phakisa projects and the development of the Mossel Bay logistics base • CSI initiatives as outlined in the developmental initiatives that address (i) Education; (ii) Youth employment; (iii) Rural development; and (iv) Small Medium Enterprise business support, including the adoption of 10 schools

Significant progress made in delivering on our Group Strategy

- PetroSA sustainability focus and efficiency measures;
- Group cost optimisation;
- Cash preservation initiatives;
- Feedstock commercial and technical solutions feasibility activities;
- Fast tracked sustainability projects;
- Leadership stabilisation and Board capacitation;
- Reconstituting a number of Board and Board Sub-committees and forums as part of strengthening controls;
- Embedding of a risk management culture in all operations;
- Implementing the stage gate process for all major capital expenditure programmes;
- Improving reporting and frequency of engagements with the Shareholder; and
- Improving Group co-ordination.

The road ahead

Between July and September annually, the CEF Group leadership, together with the respective Boards, take part in strategy review sessions to ensure the current strategy is in line with internal and external influences and other market dynamics. Core to these sessions is the Group Risk Management workshop where key risks to the strategy are identified and assigned to key leaders in the Group to effect execution and delivery of mitigation plans. This is in line with our normal planning cycle process. Where required, adjustment and realignment is made to enhance the strategy and its delivery.

As we look ahead, the CEF Group leadership has identified the current Group Operating Model as one of the key impediments to the effective delivery of our strategy. As a result, we will be undertaking an extensive review of the Group Operating Model, in close co-operation with the Shareholder, to align governance structures, people, processes, systems, mandates, organisational structures and other frameworks across the value chain.

Shareholder value creation

Shareholder value creation is driven by long-term commercial and developmental strategic investments by ensuring that long-term benefits and returns are greater than the cost of capital employed. This can necessitate a delicate balance, as developmental returns do not always follow commercial rationale. To ensure we deliver value for our Shareholder we follow a value-based, managed approach where we aim to align the components of goal setting, strategy formulation, decision-making, operations, performance measurement and compensation, and ensure that implementation is driven by committed Group leadership and change management.

Asset portfolio diversification

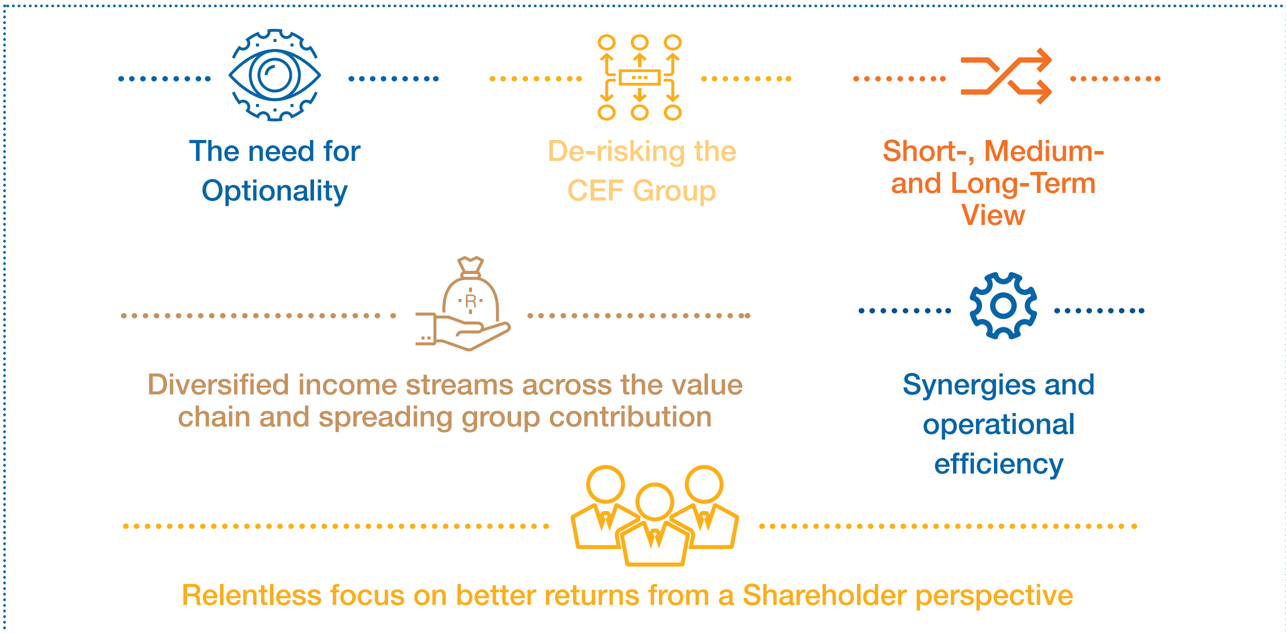
Successful and progressive organisations who are actively involved in the energy sector constantly review, value and assess the risk of their assets with a view to optimising the overall performance of their asset portfolio. This requires a strategic approach to managing uncertainty, complexity, ambiguity and exploiting synergies to ensure that the portfolio maintains a balanced and diversified mix of assets.

Financially sound companies that are able to readjust their business portfolio are more likely to weather the storm and thrive in times of uncertainty. Faced with relentless pressure to maximise returns, improve the bottom line and create shareholder value, whilst facing a number of strategic challenges inherent to the energy sector, the CEF Group was compelled to review its approach.

Modern portfolio diversification techniques involve the construction of sophisticated models to value risk and characterise alternative combinations of assets. Such models can provide a range of graphical displays to aid decision-making, such as feasible envelopes and efficient frontiers defined in terms of financial and non-financial metrics over defined planning horizons.

In line with delivering our overarching Group Strategy Vision 2025, the process of Group portfolio diversification management is beginning to take shape, driven by risk management and the need for Group sustainability. We further plan to strengthen and complement this drive by reviewing and optimising our current Group Business Model. The aim is to constantly review our portfolio right across the value chain at each phase of our Strategic Road Map with a view to strategic portfolio diversification. This is underpinned by the reality that change is the new constant in our operating environment. The following figure describes the key drivers providing guiding principles through the extent of the Portfolio Diversification Strategy execution process:

Diversification Strategy



The need for optionality

The pace at which the CEF Group needs to make changes in the course of its commercial life has accelerated due to the shifting operating environment. Added to this is an industry with long return cycles and lead times, which emphasises the need to build flexibility and adaptability into our operating and financial models, in addition to commercial and operational excellence. In dealing with turbulence and taking advantage of opportunities timeously, the Group needs to be able to quickly, effectively and efficiently shift the focus from underperforming businesses, assets and projects to better performing ones that fit with our strategy and enhance the overall value and diversity of our portfolio.

De-risking the Group

There is a need to de-risk the Group and minimise its exposure across the value chain. The Group has a long held view that this can only be achieved through strategic partnerships and other forms of joint ventures where we can leverage the technical, financial, human capital, reserves and operational excellence of our partners. It is believed that this process will enhance and significantly help to hasten the diversification trajectory of the Group's portfolio.

Diversified Income Streams across the Value Chain and Spreading Group Contribution: There is a need to diversify the Group's income streams and this can only be achieved through the diversification of our portfolio and ensuring that we have a balanced approach towards investments so that we are able to ride the various business cycles. The Group cannot rely on one entity contributing 75% of all Group revenue as this poses long-term sustainability risks. This is about taking strategic investment positions and the Group's ability to cross-subsidise its businesses and further enhance its competitive edge.

Short-, Medium- and Long-Term View

The other approach to the Group's portfolio diversification is having a short-, medium- and long-term view. Essentially this is about having a portfolio that is able to generate cash and deliver returns in the short term, thus ensuring

business continuity. Because of the complexity of our industry and long lead times, there is a portfolio of investments that will deliver returns in the medium term, whilst work continues to deliver the long-term projects that will only deliver return in a few years' time. Having this balanced approached ensures long-term sustainability. Linked to this approach is the ability to move with ease between short-, medium- and long-term prospects.

Synergies and operational efficiency

The Group's ability to capture synergies and to improve project execution and operational efficiency across the value chain are key pillars for our ability to quickly diversify our portfolio and take advantage of market changes faster than the competition can. It is thus that the review of the Group Operating Model is under way to improve Group synergies as part of broader strategy to enable the Group to effectively diversify its portfolio for long-term sustainability.

Relentless focus on better returns

The Shareholder requires that as the CEF Group we must continuously deliver value as the implementing arm of the DoE. This enables us to execute our duel mandate from a commercial and developmental perspective. Our ability to run and manage a commercially viable and sustainable business is our licence to do more from a socioeconomic perspective. It is thus that as part of the portfolio diversification process a relentless focus on better returns will be intrinsic to all our commercial projects and investments.

Strategic fit

As external opportunities prevail themselves and market conditions change, the adoption of the various portfolio diversification approaches must meet the strategic requirements of our Vision 2025 and be matched by the inner possessions and aptitudes to the outer opportunities or threats so that progress on the delivery of the overarching strategy can be achieved.

2018 Group opportunities

The Integrated Resource Plan issued by the DoE and approvals of energy programmes by Parliament present opportunities for the CEF Group on its path of diversifying its energy mix and assets.

CEF SOC

The gazetting of the MPRDA and the designation of a SOC to take up the 20% state carry by the Minister of Minerals for any onshore and offshore oil and gas finds provides the CEF Group with an opportunity in the shale gas value chain.

Alternative and Renewable Energy

The International Energy Agency (IEA) has suggested that the renewable energy sector will employ more people than the coal-generation industry worldwide within 10 years. To this end, the DoE's Distributed Generation Strategy will serve as the foundation for future projects within the alternative and renewable energy sector, providing new opportunities for the CEF Group of companies.

Gas and Gas Infrastructure

Planning a future network of gas transmission pipelines connecting major cities in South Africa referred to as the Phased Gas Pipeline Network.

Liquid Fuels Infrastructure

The CEF Group's initiatives in terms of liquid fuels infrastructure will serve the business of SFF while at the same time strengthening the leveraging position with Transnet ports for strategic stocks and oil pollution control services – working towards owning 25% of the liquid fuels storage market.

Diplomatic partnerships

The Group has identified the sourcing of oil and gas feedstock from other African countries through partnerships with industry players and governments.

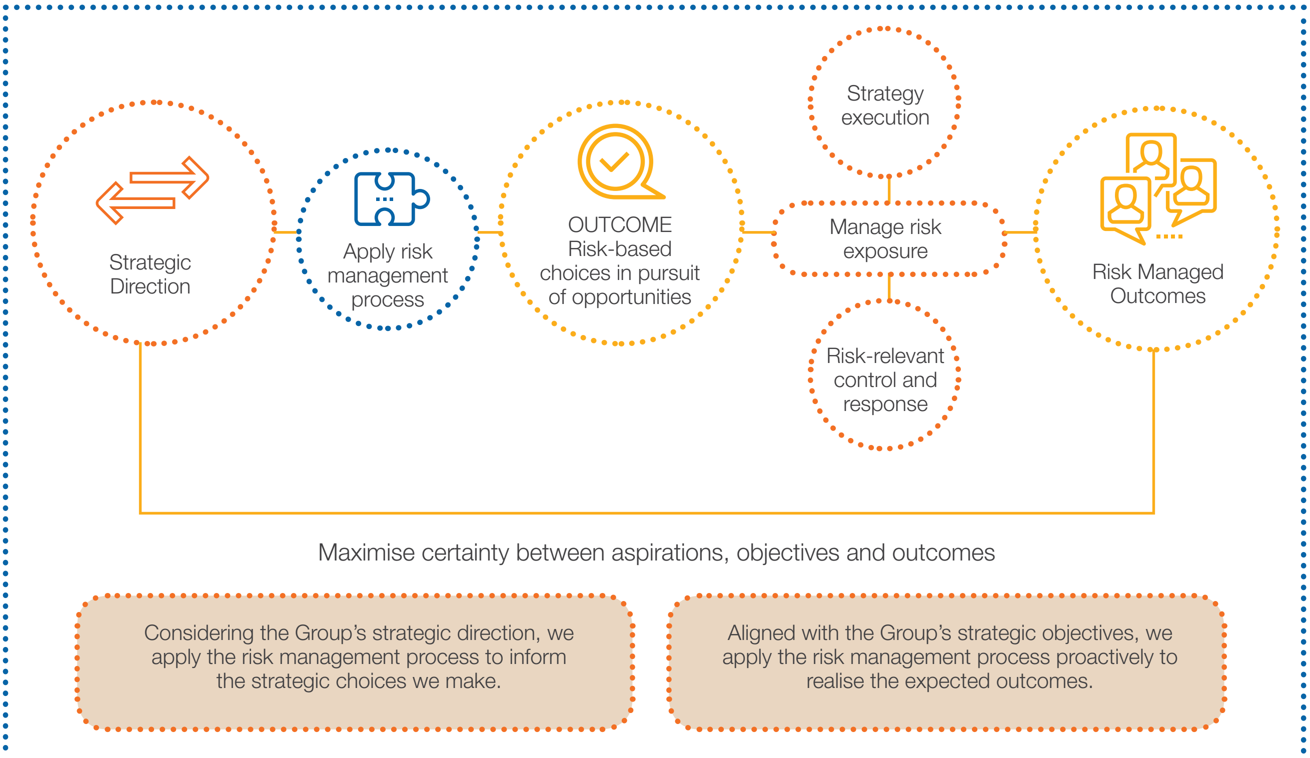
OUR RISK MANAGEMENT PROCESS – EMBEDDING RISK MANAGEMENT IN OUR BUSINESS OPERATIONS

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

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

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

Risk and opportunity management



The CEF Group continued to operate in challenging market conditions in which low commodity prices prevailed; mainly driven by a slowing global economy and oversupply. Furthermore, increased low-cost supplies from global demand continue to drive commodity prices downwards and further constrain investment appetite and thus curtail growth. In the face of current difficult conditions, the role of an effective risk management process is critical.

Effective risk management contributes to the achievement of our business objectives and will enhance the resilience of the business through the current, difficult trading times. Key to this is proactively anticipating change and how best to manage it.

Our risk management

Enterprise Risk Management (ERM) achievements in 2016 and our future plans

The CEF's risk management plan for the 2016/17 financial year details the ERM objectives, associated activities and initiatives. The themes for the 2016/17 risk management plans were to:

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

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

- Enhancing our risk governance structures through the establishment of a Group Risk Forum and documenting the terms of reference for the forum;
- Developing an ERM training manual and rolling it out to employees within the Group;
- Standardising the reporting template amongst the Group;
- Developing a compliance universe and compliance policy;
- Approving a Group strategic risk register and cascading it into business operations;
- Approving and reviewing a risk appetite for PetroSA and cascading it into business units;
- Monitoring the top Acts and codes that have an impact on CEF operations;
- Conducting an ERM maturity assessment.

The ERM maturity assessment highlighted the joint efforts required to implement the ERM initiatives

These are summarised below.

ERM maturity assessment

<table>
<tr>
<td>Risk Governance</td>
<td colspan="3">Board of Directors and Risk and Audit Committee
• Ensure the risk culture(tone at the top)
• Approve the risk appetite
• Ratify the key components of the ERM maturity index
• Discuss enterprise risks with executive management
• Approve ERM policies</td>
<td rowspan="2">Technology
• Provide real-time dashboards to oversee risks
• Facilitate risk escalations
• Make monitoring and reporting easier
• Support timely maintenance and pre-empt problems</td>
</tr>
<tr>
<td>Risk Resources and Management</td>
<td>Executive Management
• Define the risk appetite
• Evaluate proposed strategies against risk appetite
• Capacitate risk and compliance function</td>
<td>Enterprise Risk Management
• Create common ERM framework
• Provide direction on applying framework
• Implement and manage technology systems
• Provide guidance and training
• Aggregate risk information
• Monitor risks and mitigation plans</td>
<td>Internal Audit
• Provide assurance on ERM processes
• Provide assurance on the controls and the mitigations plans for the risks</td>
</tr>
<tr>
<td>Risk Ownership</td>
<td colspan="3">Business Units
• Take business appropriate risks
• Identify and assess risks
• Respond to risks
• Monitor risks and report to risk management
• Support the risk and compliance management</td>
<td></td>
</tr>
</table>

ERM maturity journey and focus for the new financial year

Training

- Develop a common understanding of risk across the group
- Conduct training of ERM principles

Monitoring

- Obtain GRC system to assist in information gathering
- Use dashboards to monitor risks
- Develop a compliance plans to maintain levels of corporate compliance

ERM process

- Approving Group risk appetite
- Develop Group ERM maturity index
- Ongoing project risk assessment
- Review the business continuity framework and plans

Embed ERM culture

- Establish a conducive culture including risk, compliance and BCM
- Leadership commitment to lead by example
- ERM applied against critical process
- De-risk the group through various projects

Risk Management is an essential part of the CEF; however we understand that if it is not properly managed it can impede growth. That is why we have we endeavoured to placed 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 operate within an integrated risk management approach, ensuring that the appropriate processes are used to address all risks across the Group.

We continue to integrate the risk management approach with the combined assurance model, to drive improved levels of assurance related to our significant risks. The adopted combined assurance model provides independent oversight, assurance and alignment on group-wide significant risks. Our Board-approved Risk Management Policy guides our approach to risk management. To ensure effective management of risks across the Group we have a risk management standard in place, supported by an integrated framework. The Risk Committee, a committee of the Board, oversees risk management on behalf of the Board, through regular feedback by management on all risk management activities. These activities include:

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

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

We have embedded the process to identify, track and report on emerging risks. The CEF integrated the Group Risk management approach with the Combined Assurance Model, to drive integration across risk-related functions such as Safety, Health and Environment (SHE), Procurement, Compliance, Internal Audit and Group Finance. In the year ahead, we will continue to prioritise key risk assessment focus areas, based on materiality, in relation to the CEF's strategy, sustainability issues and shareholder value drivers.

Risk tolerance and risk appetite

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

Risk identification and opportunities

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

Accordingly, key focus areas for 2016 have been identified. We use this process, as outlined earlier, to identify opportunities that the CEF Group has, both now and in the future, and to find ways to leverage these. The CEF Group's management considers the Company's key opportunities to include:

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

Residual risks

From our Group risk assessment workshops we have identified 12 strategic risks which we have grouped into the following 4 risk categories. The Board and Management continue to monitor the implementation of the risk mitigation plans for these risks.

Strategic risk categories – risk description, root causes and risk mitigation plan

Risk Category 1. FINANCIAL SUSTAINABILITY		
Risk Description: The financial sustainability of the CEF Group is under threat. **Root causes:** The CEF Group derives more than 70% of its revenue from PetroSA whose gas feedstock is depleting. At the same time PetroSA has an abandonment liability which needs to be funded by 2019. These 2 factors constrain the CEF Group balance sheet.	**Residual Exposure: EXTREME**	**Risk Mitigation Plan** 1. Implementation of the PetroSA turnaround recommendations 2. Develop and implement a Group Operating Model and diversification strategy 3. Secure strategic partnerships to leverage partner funding and skills. 4. Request for the deferment of the pre-funding of the Abandonment Liability 5. Develop a CEF Group funding plan for strategic projects.

Risk Category 2. SECURITY OF SUPPLY		
Risk Description: The risk that the CEF Group of Companies may not be able to effectively fulfil its mandate of supporting the DoE in ensuring security of energy supply for the country. **Root causes:** PetroSA does not have affordable feedstock to produce a significant portion of the market share of national liquid fuels demand. Non availability of strategic stock before replenishment is finalised.	**Residual Exposure: EXTREME**	**Risk Mitigation** 1. Implementation of viable survival options for the feedstock 2. Increase condensate processing to supplement production 3. Increase efficiencies in trading department (import finished product) 4. Develop Emergency Response Plan 5. Implementation of Partnership Strategy for oil and gas investment 6. Strengthen visibility in upstream to create confidence in the exploration sector 7. Secure funded mandate for strategic stock

Risk Category 3. HUMAN CAPITAL		
Risk Description: There is a risk that the CEF Group may not have the adequate skills and experience to implement strategic projects required for the financial sustainability of the Group. **Root causes:** The bad publicity that the Group is receiving may create the perception that the CEF Group is not the “employer of choice”.	**Residual Exposure HIGH**	**Risk Mitigation Plan** 1. Develop a cohesive brand strategy 2. Develop the Employee Value Proposition 3. Develop an Integrated Talent Pipeline and Sourcing Strategy 4. Targeted recruitment 5. Communicate sustainability of the business 6. Enhance the leadership development programme 7. Develop an Employee Engagement Strategy 8. Develop and implement a Workforce Plan
Risk Category 4. CORPORTATE GOVERNANCE/OPERATING MODEL		
Risk Description: The CEF Group governance and operating model is cumbersome and impacts on effective and efficient decision making. **Root causes:** Delay in effective decision making and non-optimisation of resources due autonomous governance structures .	**Residual Exposure HIGH**	**Risk Mitigation Plan** 1. Sharing of resources across the Group 2. Develop and implement a Group Operating Model to leverage synergies 3. Review, develop and obtain approval for appropriate working governance structures 4. Inculcate a Group-wide management mind-set/‘One CEF’ 5. Establish a Board Forum to deal with issues of misalignment 6. Develop and implement a group investment policy and procedure (Gated approach)

SECTION

VALUE CREATION

VALUE CREATION

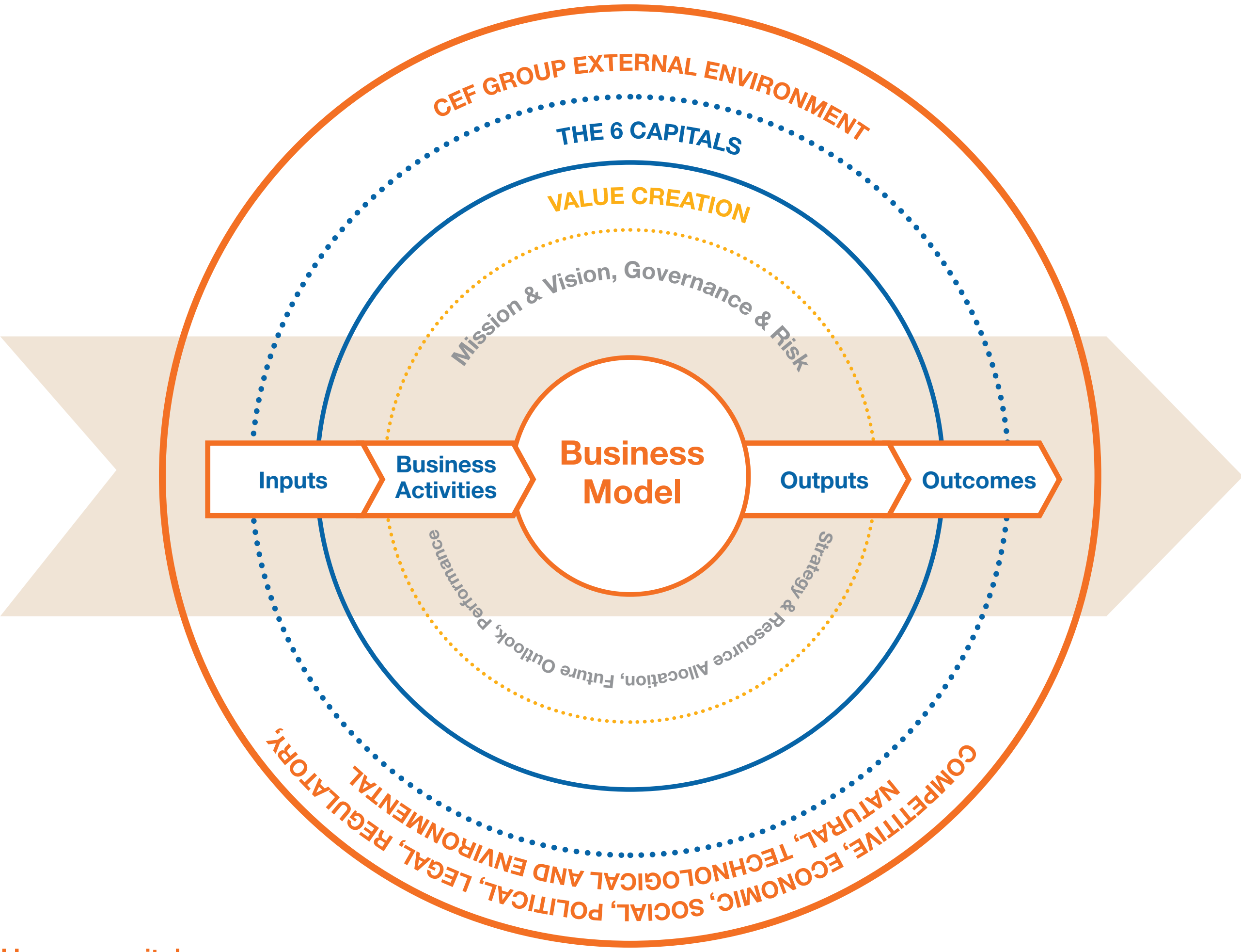
Value is not only created within the traditional boundaries of the CEF Group but the value creation process crosses organisational and geographical boundaries by connecting copius value drivers, many of which are intangible. This requires reputable information to inform good decision making and a clear strategy and business model – all of which rely on internal cohesion created through a clear understanding of what the Group is seeking to achieve and how in fulfilling its mandate.

As a responsible corporate citizen, the CEF Group through its business model seeks to operate and grow inclusively, responsibly and sustainably. The strategic decisions made in allocating required resources for our business and advancing our growth are based on integration of the six capitals, namely Human, Financial, Natural, Intellectual, Manufactured and Corporate and Social capital. These capitals are stores of value that, in one form or another, become inputs to the Group's business model. They are also increased, decreased or transformed through the myriad activities of the Group in that they are enhanced, consumed, modified or otherwise affected by those activities.

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

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

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



Human capital

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

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

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

Inputs	Activities	Outputs	Outcomes
• The business requires a safe, healthy, engaged, innovative and high performing workforce with expertise and right experience to grow the business. • A diverse and representative leadership team demonstrating a value driven behavior	• Exploration • Gas-to-Liquids (GTL) • Distribution of fuel • Coal extraction • Construction of gas infrastructure • Storage of crude oil • Regulation	The Group is in the business of production and trade of the following: • Petroleum products • Petrochemical products • Coal The Group further conducts following: • Oil Pollution Control • Mineral Regulation and Licensing • Rental of crude oil storage tanks • Transmission of gas	• LTIFR of 0.52 • 5 occupational incidents recorded • R1.2 billion spent in remuneration and benefits of employees. • Average revenue per employee: R5.89 million per employee • Integrated talent management (Human Capital Report) • Developing a capable, engaged and diverse workforce (Human Capital Report) • Ongoing work to improve health and safety in the workplace (Safety, Health, Environment and Quality).

Financial capital

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

Inputs	Activities	Outputs	Outcomes
For funding our operations and growth; we use retained profits, investments, debt and cash from operations	• Exploration • Gas-to-Liquids (GTL) • Distribution of fuel • Coal extraction • Construction of gas infrastructure • Storage of crude oil • Regulation	The Group is in the business of production and trade of the following: • Petroleum products • Petrochemical products • Coal The Group further conducts following: • Oil Pollution Control • Mineral Regulation and Licensing • Rental of crude oil storage tanks • Transmission of gas	• Earnings before interest and tax:-R638.6 million • Cash from operations: R327.5 million Various measures have been put in place to retain cash of R15 billion, reduce debt and protect the balance sheet. These include the following: • Implementation of cost saving plans (Group CFO) • Repayment of external debt R302 million (Group CFO) • Continued improvement of our ERM processes to enable the business to better understand the risks faced (Risk management Report) • Capital allocation • Turnaround cost optimization (Strategic Outlook) • Group Operating model review (Strategic Outlook)

Natural capital

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

Inputs	Activities	Outputs	Outcomes
• CEF's mandate is to contribute to national security of energy supply. • The CEF Group requires gas, oil, coal for production of petroleum and petrochemical products • Further to the above, water, land, air and energy are required in the process of conversion of mineral reserves into finished products.	• Exploration • Gas-to-Liquids (GTL) • Distribution of fuel • Coal extraction • Construction of gas infrastructure • Storage of crude oil • Regulation	The Group is in the business of production and trade of the following: • Petroleum products • Petrochemical products • Coal The Group further conducts following: • Oil Pollution Control • Mineral Regulation and Licensing • Rental of crude oil storage tanks • Transmission of gas	• Gas (Bscf):75.80 • Crude Oil/condensate (Mbbl) :17.49

Intellectual Capital

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

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

Within the Group we see close cutting of boundaries by the Intellectual Capita with Human capital and Social and relationship capital.

Inputs	Activities	Outputs	Outcomes
• Licensed technologies, patents to support the business • Technically skilled and experienced employees and external experts • CEF Group's business processes and management systems	• Exploration • Gas-to-Liquids (GTL) • Distribution of fuel • Coal extraction • Construction of gas infrastructure • Storage of crude oil • Regulation	The Group is in the business of production and trade of the following: • Petroleum products • Petrochemical products • Coal The Group further conducts following: • Oil Pollution Control • Mineral Regulation and Licensing • Rental of crude oil storage tanks • Transmission of gas	• Investment in research, development and technical studies of R37 million

Manufactured capital

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

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

Inputs	Activities	Outputs	Outcomes
• Property, plant and equipment that is able to extract and convert mineral resources into finished products. • Property, plant and equipment that operates efficiently, reliable and assists the Group to comply with applicable industry regulations.	• Exploration • Gas-to-Liquids (GTL) • Distribution of fuel • Coal extraction • Construction of gas infrastructure • Storage of crude oil • Regulation	The Group is in the business of production and trade of the following: • Petroleum products • Petrochemical products • Coal The Group further conducts following: • Oil Pollution Control • Mineral Regulation and Licensing • Rental of crude oil storage tanks • Transmission of gas	• Indigenous GTL production of 2.766 MMbbls • Coal production of 1.4Mt

Social and Relationship capital

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

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

To create an enabling environment for investment CEF is committed to integrating the needs of our stakeholders into our business processes. The Social and Relationship Capital is underpinned by our Stakeholder Management Philosophy which over the past year has had to be fortified to deal with a number of Group reputationanl challenges and misalignmnet with key stakeholders.

Inputs	Activities	Outputs	Outcomes
Developing and maintaining trusted relationships with our CEF Group stakeholders. • Sustained Investor and shareholder confidence • Strong engagement with employees and recognized unions • Effective and timely communication with internal stakeholders, customers, suppliers and industry sector • Positive relationships with government and regulators	• Exploration • Gas-to-Liquids (GTL) • Distribution of fuel • Coal extraction • Construction of gas infrastructure • Storage of crude oil • Regulation	The Group is in the business of production and trade of the following: • Petroleum products • Petrochemical products • Coal The Group further conducts following: • Oil Pollution Control • Mineral Regulation and Licensing • Rental of crude oil storage tanks • Transmission of gas	• Taxes paid of R112 million • Investment in CSI of R18.5 million • BBBEE spent of R4.2 billion • Investment on youth development of R44 million • 1976 jobs sustained • Making a positive social contribution through CSI and skills development (Human Capital Report – page 66 to 76) • Support the DoE in developmental mandate projects including CSI projects (Human Capital Report – page 74 to 76 • Provide extensive support to employees (Human Capital Report- page 66 to 74) • Engagement with unions through the year(Human Capital Report- page 66 to 74) • Continuous engagement with industry players, investors and shareholder

Stakeholder Philosophy

CEF defines a stakeholder as any group or individual who can affect or is affected by the achievement of the organisation's objectives. It is CEF's priority in creating value through (and in partnership with) our stakeholders to ensure that we manage our stakeholder relationships ethically and accountably. We do so through various governance mechanisms, including our Stakeholder Management Policy and Stakeholder Identification & Engagement and adopted in 2016.

The CEF Stakeholder Engagement Procedure defines the minimum requirements for engaging with external stakeholders for all Company operations and subsidiaries. It is mandatory, and is reported at subsidiary and Group level as part of CEF's commitment to transparent reporting. The stakeholder plan emphasises a clear understanding of the stakeholders and an engagement strategy for managing them is essential.

The CEF Stakeholder Engagement Procedure provides guidelines for establishing and maintaining good relationships with local stakeholders including residents, nongovernmental organisations, local authorities, customers, suppliers, academia and other institutions as well as national and international stakeholders.

Over the past year we have begun to actively work with the shareholder, government departments, other SOE's, regional players, employees, organised labour, business and civil society in achieving planning outputs and outcomes as part of broader stakeholder Management plan. This approach is geared towards ensuring that as a Group we continue to engage, involve, collaborate, consult and empower all our key stakeholders in all matters relating to our business operations.

Below is an overview of our stakeholder and our approaching in engaging with them.

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

SECTION

GROUP PERFORMANCE

GROUP PERFORMANCE SUMMARY

Outlined below is the CEF Group performance summary for the year ended 31 March 2017. A detailed report is contained in the CEF Group Annual Report.

CEF Group performance against target 2016/17

Strategic Pillar					
Objective					
	Indicator	Target	Weight	Score	Status
1 Financial performance					
Financial sustainability					
	Return on Capital Employed	10% year-on-year improvement for the financial year ending on 31 March 2017	8%	1	FY 2017 RCE = 0.8% FY 2016 RCE = 2.3% Result 63.4% decline
	Solvency (Improve year on year)	10% Improvement Year on Year	8%	1	2017 Debt to Equity (Gearing) = 57.0%: 43.0% FY 2016 Debt to Equity (Gearing) = 58.17%: 41.9% Result 1.8% decline
	Liquidity (Maintain)	02:01	9%	3	FY 2017 Current ratio = 3.4:1 Result over 2:1
2 Contribute to security of energy supply					
Normal production					
	Total Indigenous GTL Refinery Production at PetroSA	2.459 Mbbls	10%	3	FYE Actual is 2.766 Mbbls vs Target of 2.459 Mbbls. PetroSA attempted to change its target to 3.147 Mbbls late in 2016, but did not follow the required process to change target, hence the revision was never concluded.
	Strategic stock volumes held by SFF	20 Days cover	4%	1	0 Days covered. 20 days' cover which is 10.3 Mbbls is YE Target not met. The strategic stock could not be replaced because of the contract review as instructed by the Minister.
	Coal sales by African Exploration	1.5Mt	8%	2	FYE Target not met as 1.425 Mt were sold, due to developments during 2016/17.
New Business Development					
	As per the subsidiary plan	As per subsidiary target	15%	2,35	This weighted average score for across all subsidiaries

Strategic Pillar	Objective	Indicator	Target	Weight	Score	Status
3 Corporate Governance						
	Sound corporate governance					
		Audit Score	An unqualified final audit for the 2016/17 financial	7%	3	The audit opinion is unqualified
4 Innovation						
	Implement Video Conferencing Technology					
		Group entities' ability to link up through Video Conferencing	100% Completion by 31 March 2017	2%	2	The scope was broadened to include all subsidiaries. This is in accordance with business needs. This project required extension on time and will be completed 2017/18.
	Implement a MI System to consolidate financial reporting					
		MIS Tool implemented, automating consolidation of financial information from across the whole Group	100% Completion by 31 March 2017	2%	2	Project is revised to include the other entities and the resultant Group data consolidation and reporting.
	Enable HR Strategy through implementation of a comprehensive HR Information System					
		Selection of a comprehensive HR Information System	100% Completion by 31 March 2017	1%	2	EXCO resolved that CEF and other Information System Group subsidiaries should share IT Systems

5 Stakeholder management						
	Formalise stakeholder management process					
		Stakeholder management process and scorecard established and operational	Formulate Group Stakeholder management strategy	2%	3	The strategy is stated as a component of the Group corporate plan. This corporate operational plan was approved.
			Compile Group Communications Policy			Stakeholder engagement policy and procedure were compiled and approved by EXCO. Further, the policy is submitted to board for approval.
		Discretionary spend on B-BBEECompanies	1. SFF – 20% of discretionary spend	2%	3	SFF: R26.0 million discretionary spend on B-BBEE entities by 31 March 2017. This makes up 93%.
			2. PetroSA – 70-80% of discretionary spend			PetroSA – 96.6% of discretionary spend of R4.2 billion for FYE.
	Excellence in implementation of relevant SHEQS practices					
		Number of fatalities caused by operations	0	6%	1	2 Fatalities in the Group for the financial year 2016/17.
		Disabling injury frequency rate	DIFR less than or equal to 0.4 per 200000 hours in operational subsidiaries for the year ended 31 March 2017	1%	1	0 for AE; 0 for SFF; 0.69 for PetroSA. The weighted score is therefore 0.52 per 200000 hours for the CEF Group.
		Number of reportable environmental incidents	A maximum of 11 reportable environmental incidents by AE, PetroSA and SFF for the year ended 31 March 2017	2%	3	5 Incidents against the target of 11.
6 Human Capital Management						
	Redesign the employer brand such that it resonates with both employees and recruits; empowered and empowering leaders; and engaged high caliber employees					
		HR Sustainability Index	100% on HRSI (Scorecard (80% to 120%)).	13%	3	A significant portion of initiatives were rescheduled to later years due to a necessary sequencing for execution.
		TOTAL			3.61	
Achieved (3)						
Not achieved (1)						
Partially completed (2)						

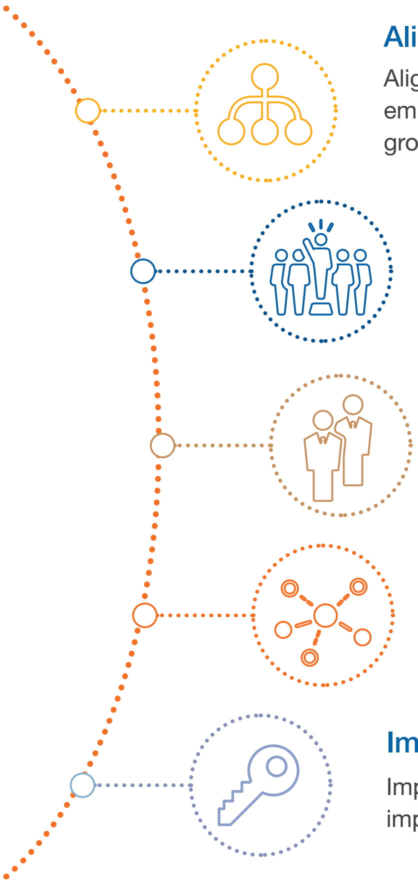
HUMAN CAPITAL

Journey towards a high performance organisation through our people

CEF Group Human Capital recognises that people and culture are the foundation of organisational effectiveness. The Human Capital (HC) Strategy is therefore premised on the understanding that intellectual capital i.e. the talent, skills and know-how of our people serve as an engine behind value creation for the organisation.

As the CEF Group is gearing to become a high performance organisation (HPO), it is essential that the organisational vision and strategy are clear and well understood across the business. To that end, the HC function has identified the key objectives and initiatives that are linked to the five pillars of a high performance culture (HPC). It is intended that these initiatives will not only leverage quick wins across all levels of the organisation, but will ensure that CEF has the requisite skills and talent to support its long-term sustainability.

High Performance Organisation Pillars



Aligned organisational brand

Aligned organisational 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 & empowering leadership

Empowered and Empowering Leadership: Facilitate that there is an aligned leadership that is effective and goes deep within the organisation.

Engaged high calibre employees

Engaged high calibre employees i.e. developing and retaining the most capable individuals.

Integrated structures, policies and systems

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

Impact measurement of key metrics

Impact: articulate and surface the ROI of the function and measure the improvement and progress in key human capital metrics.

Significant progress has been made in implementing the HPO pillars aligned with initiatives to drive performance, succession and diversity. The Figure below reflects the Group HC highlights and lowlights during the period under review.

2016/17 Highlights, Lowlights and 2017 Focus Areas

Highlights

- Graduates in Training participants increased to 47, while the learnerships and apprenticeship participants increased to 85 across the Group.
- Attrition rate for 2016/17 was 6.3% which is average when compared to the general market attrition rate.
- Despite financial constraints, the Group training spend for the reporting period was R48.5 million (0.38% of total guaranteed remuneration) including talent pipeline programmes and bursaries
- Various HPO pillar frameworks developed and socialised with HR Forum. Socialisation with respective Excos under way in 2017/18
- Four out of six prioritised Group policies completed. Approval process under way
- Performance management training rolled out at CEF SOC and SFF in line with the HC performance management

Lowlights

- Group demographic numbers dropped below set targets when compared to the 2015/16 FY – 78% male vs 22% female
- 27% of females at top management level (below the 50% target)
- 26% youth employment in professional level(below the target of 30%)
- HR automation delayed – linked to broader group IT automation project
- Group-wide employee engagement survey uptake was disappointing with only CEF SOC participating at 63%
- Group policy harmonisation implementation and other HPO initiatives deferred to 2017/18
- HC continued to have fragmented subsidiary objectives not aligned with Group Strategy
- Leadership instability continued during the period

Over the next five years, emphasis will remain on implementation of the respective HPO-aligned initiatives, while leading the journey towards High Performance. The Table below outlines the 2017/18 Group HC objectives aligned with the Group Corporate Plan and overall Group Strategy.

2017/18 Group HC Objectives

2017/18 Focus Areas
Support the CEF Group's sustainability by: • Developing leadership DNA thereby building a CEF culture and way of leading • Reduction of Group Executive leadership vacancies • Building strong cadre of leaders that exist deep in the organisation
Continue the drive towards achieving a common Group HR platform (systems, processes and policies): • Implement the prioritised Group policies • Roll out HR automation
Drive integrated talent management: • Embed the performance management process and related processes to elevate talent management as a key initiative towards the high performance of the organisation • Talent Sourcing Strategy • Integrated workforce planning – short- and long-term
Creation of CEF Group brand as an employer of choice: • Articulate the Group EVP initiatives and implementation (increase diversity by 20%, Employee Wellness, Training and Development, and Remuneration Strategy)

Group employee movements

The CEF Group employee headcount increased slightly between 31 March 2016 and the previous reporting period, to 1,976 (31 March 2016: 1,967) which includes permanent and fixed-term employees. While the organisation appointed 133 employees, 124 exited the organisation in the same reporting period. The Table below illustrates details of all employee movements.

Headcount movement including attraction and attrition

Number of Employees	2016/17
Headcount at 31 March 2016	**1967**
Add: Appointments	133
Less: Resignations	(60)
Deaths	(9)
Dismissal	(4)
Retirements	(13)
Retrenchments (VSPs)	(36)
Disability	(2)
Total Headcount at 31 March 2017	**1976**

Attrition rate for 2016/17 was 6.2%, which is not a cause for alarm due to the reorganisation and downsizing process in one of the subsidiaries.

"CEF Group Human Capital recognises that people and culture are the foundation of organisational effectiveness."

The CEF Group is committed to increasing demographic diversity and continues to strive to achieve long-term targets in line with the national economically active (EAP) population figures. Table below illustrates that there are gaps between the national EAP and the CEF Group demographic profile. The CEF Group demographic profile is below national EAP by 26.4% in the African segment and 0.7% in the Indian segment, while it is above the EAP for White and Coloured segments by 6.1 % and 21% respectively.

CEF Group demographic profile vs national EAP figures

Race	EAP Target	CEF Group at 31 March 2017
African	77.4%	51%
White	9.9%	16%
Coloured	10%	31%
Indian/Asian	2.7%	2 %

It should be noted that the Group's demographics are largely influenced by the Western Cape EAP profile in the Coloured and White segments. PetroSA and SFF together make up the bigger portion of the Group employee population. The Group's five-year employment equity strategy focus areas remain on the employment and promotion of African males and females, youth and people living with disabilities, thereby reducing the gaps when compared to EAP targets.

Integrated Talent Management

Our Integrated Talent Management (ITM) Philosophy ensures that HC provides the organisation with the right people in the right roles, with the right capabilities, at the right time and the right cost – adding significantly to the bottom line. ITM is a key strategic objective with focus placed on initiatives around attraction (talent sourcing), retention (succession & career management), alignment (performance management) and tracking ROI (HR metrics & employee satisfaction surveys). This strategy is critical for strengthening the leadership bench, ensuring we have a solid pipeline ready to succeed leaders, supported by a process to help us identify and develop the right people for the right roles across our group.

During 2016/17, the Group experienced slow progress in filling executive level vacancies although incumbents were appointed in acting capacities to maintain stability at that level. Progress was made in filling several key executive roles during the period under review:

1. Group Chief Financial Officer – Mr Lufuno Makhuba
2. Group Strategy Manager – Mr Sakhiwo Makhanya
3. Group Gas Commercial Manager – Mr Mohsin Seedat

Unlike most organisations, the Group does not have an immediate risk of an aging workforce because 60% of our workforce is between 36 and 55 years of age, as reflected in Table below. Strategic workforce planning remains one of the ITM framework's critical focus areas to ensure the Group's long-term sustainability.

CEF Group Age Analysis (profile)

Age Profile	Number	%
18-35	493	25%
36-45	623	32%
46-55	554	28%
55+	306	15%

Employee skills training and youth development

The CEF Group maintained a strong focus on training and developing employees at all levels by investing a total of R48.5 million on training activities during 2016/17. As part of fulfilling the Group's developmental mandate, youth employment and development remains the cornerstone of the ITM strategy, achieved through various Talent Development Pipeline Programmes whereby trainees acquire skills and qualifications that will enable them to participate meaningfully in the economy after completing their respective programmes.

R44 million of the training costs was spent on various youth development programmes, which covered artisan training, apprenticeships and graduates-i- training. The talent development pipeline costs include training costs, travel, salaries/ stipend etc. Tables below reflect the number of talent pipeline participants and associated costs.

Talent pipeline programme numbers

Area	Female	Male	Total youth (15–35 years) 31 March 2017
Artisan training			
Learnerships	12	25	37
Apprenticeships	14	43	57
Graduates-in-training, Interns	20	27	47
In-service training	2	5	7

Funding of talent pipeline programmes

Area	Number of Beneficiaries	Rand Value
Total spent on education and training	1 215	R24 088 346.85
Incentive funding for training (COE Stipend, Bursars allowance)	106	R6 321 387.44
Bursaries	16	R1 318 984.44
3rd year students	1	R133 924.00
Work exposure programmes (Graduates-in-training, Interns, In-service training)	53	R12 502 272.61
Total Spend on Youth Development	1 391	R 44 364 915

PetroSA Centre of Excellence (COE)

The vision of the PetroSA COE is to become the leading provider of quality artisans for the petrochemical sector and the industry at large. Since its inception, the COE has trained 2 837 candidates, offering a combination of skills programmes and learnerships/apprenticeships. The COE is affiliated to the Chemical Industries Education and Training Authority (CHIETA) to advance skills development in the sector. The below learnerships/apprenticeships have full CHIETA accreditation:

- Fitters;
- Electricians;
- Instrumentation;
- Riggers;
- Welders;
- Boilermakers and
- Turners.

The COE is also accredited as a decentralised trade testing centre. To ensure its sustainability, the COE is continually evaluating opportunities to partner with other role players in the skills development fraternity.

During 2016/17 the COE had an intake of 20 new students in the fitting, welding and rigging trades, which is below the target of 52 learners, due to:

- Most of the candidates not meeting the minimum requirement of Grade 12 Maths and Science or N2; and
- The intake being restricted to learners from the Eden District.

The Centre's next intake is planned in June 2017 for the instrumentation trade. In line with the cost-cutting mandate, the new learners will be paid in accordance with the sectorial determination from the Department of Labour, which stipulates a stipend of R2 500 per month compared to the old model where the Learners were remunerated at R5 500 per month, with yearly guaranteed salary adjustments.

Developing Leadership Capability

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

To that end, the HR team is in a process aimed to facilitate and co-create a leadership competency framework, which will inform the way forward for the Group. Some of the building blocks are already in progress to ensure the organisation has foundational principles of leadership at the core e.g. the Management Development Programme and Personal Mastery. The Personal Mastery Programme will deepen self-awareness; focusing on emotional intelligence and team dynamics as well as management basics, which will begin to touch on culture and impact on values within the organisation.

Key and integral to any of the interventions is the element of building a leadership cadre, able to respond to the current challenges both internal and external to the environment within which we operate. For the success of this process, the framework will adopt the following approach:

- Define Leadership Strategy;
- Review CEF Group values and develop a distinctive culture; and
- Socialise and integrate the CEF Leadership Framework (DNA).

Employee relations climate

The Group continued to experience a healthy employee relations climate considering that 63.6% of its employee population is unionised. AEMFC had a smooth transition from the National Union of Mineworkers to the Association of Mineworkers and Construction Union (AMCU) , which is now the recognised union. SFF maintained stable relationships with their bargaining unit. PetroSA experienced sporadic labour unrest during this reporting period, linked to non-payment of bonuses and the organisational realignment project. During the period under review, the Group handled five disciplinary matters, 10 grievance hearings and five CCMA referrals.

During this reporting period, PetroSA was involved in the following:

- Commenced an Organisational Re-alignment Project, which includes organisation, processes and people, designing and implementing an optimal organisational structure linked to the top structure and aligned with the value chain of the oil and gas industry and organisational strategy;

- High level assessment of business processes and redesign of critical processes affected by the organisational design changes;
- Identification and re-confirmation of critical skills or persons per division, informed by approved strategy and structure;
- Development of job profiles where new jobs are designed using the official PetroSA job profiling template;
- Development of new career paths based on the new structure and jobs;
- Development of training plans for the newly placed employees where they are more than 30% unskilled.

To further support and enhance ongoing cost optimisation in the organisation and mitigate possibility of involuntary retrenchment, and as part of the Organisational Re-Alignment PetroSA project, two Voluntary Severance Package (VSP) processes were opened. The first round of VSP resulted in a headcount reduction of 36 employees.

The PetroSA Board approved the proposed Re-Alignment Organisation Structure in Q1 2016/17 and the mandate to issue a formal LRA Section 189 notification to enable PetroSA management to commence with consultation process for a voluntary separations process. PetroSA issued a section 189A notice to its Labour Forum in February 2017. A CCMA-facilitated consultation process with Labour commenced in March 2017 as part of the PetroSA organisational realignment project. The reorganisation processes have been under way since 2014, and employees are experiencing change fatigue. This raises the following risks and challenges:

- Instability of leadership roles – acting positions;
- Leadership buy-in to the organisational change;
- Low engagement levels within the organisation;
- Clarity in the change rationale; and
- Alignment of re-organisational structure to strategy.

Change management

Programme, led by the CEF and supported by EY and PetroSA resources, has been implemented to support the Re-Alignment Project, focusing on minimising productivity loss, and minimising resistance to the proposed change through:

- Building sponsorships;
- Actively managing resistance;
- Listening to employee feedback;
- Coaching employees through the transition; and
- Providing knowledge on how to change.

Our approach to remuneration

The CEF Group's Remuneration Philosophy and Strategy is designed to attract and retain skilled, high-performing executives and employees. The approach to remuneration and reward takes cognisance of the critical role remuneration and reward play in attracting and retaining high performing individuals, thereby supporting the CEF's commitment to the achievement of its strategic objectives, which can only be attained through a highly motivated workforce. To that end, the CEF's Remuneration Policy has been designed to:

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

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

- Competitive Pay Levels: The 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: The CEF will manage the total cost of employment for all employees;
- Benefit Flexibility: The 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;
- Remain competitive to attract and retain key skills, by providing market-related remuneration structures, benefits and conditions of service;

- Position the executive remuneration to best practice; structure pay mix that includes guaranteed and variable remuneration (short- and long-term incentives) and rewards & recognition programmes.

The Group has implemented a centralised approach to the salary mandating process and for 2015/16 and 2016/17, a common salary mandate was sought from the CEF Group Board and subsidiaries were given the flexibility to implement their salaries according to the Board approved mandate.

Though inflationary indicators played an overriding role 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 2016/17 period included the following:

1. CPI as of end April 2016;
2. The financial position of the business and thus affordability;
3. Forecast salary budgets for 2016/17;
4. Trade union/Bargaining council agreements;
5. The Remuneration and Reward Strategy of the Company; and
6. Market Salary Survey.

Based on the April 2016 CPI figure of 6.2% and the South African economic climate, an average salary increase of 7% was approved by the Board and allocated as follows:

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 by measuring performance against individual key performance areas. The individual key performance areas, reflected in the performance targets, are linked to departmental/divisional objectives that are ultimately aligned with the overall Group objectives.

Group Remuneration Report for all employees including Executives

Group Remuneration	2016/17 (Figures in ZAR)	2015/16 (Figures in ZAR)
Guaranteed remuneration	1.1 billion	1.1billion
Bonus	95.8 million	41million
Other incentives (Retention)	18 million	-
Long-term Incentive Plan	428 thousand	-
Total remuneration	**1.2 billion**	**1.14 billion**

The Group remuneration bill showed a slight increase when compared with the 2015/16, due to higher performance pay-outs for the reporting period, based on the performance of the various entities and retention incentive pay-outs. Guaranteed remuneration remained constant despite employee movements. A total of R114 million was paid in bonuses during the period under review across the Group for all employees including the retention incentives of R18 million. The R18 million was paid to 13 employees who had entered into retention agreements with PetroSA, based on their involvement as critical talent in key strategic projects. None of these employees were executive managers, with the exception of two who were at Acting Executive level at the time the payment was made.

Remuneration of Non-Executive Directors and Executive Management

The remuneration of non-executive directors is determined by the Minister of Energy with the concurrence of the Minister of Finance as per the Central Energy Fund Act, No. 38 of 1977. The remuneration of directors and group executives for the year under review is disclosed in Note 43 of the annual financial statements. Non-executive directors received a fixed rate per hour as engagement fees for CEF Group business-related meetings.

Group total remuneration of non-executive directors and executive management

Remuneration of Non- Executive Directors and Group Executive Management	Remuneration		Bonus and Incentives	
	2016/17	2015/16	2016/17	2015/16
Non-executive directors	13.7 million	13 million	n/a	n/a
Executive members	78.8 million	75.9 million	20.5 million	13.9 million
Total Remuneration	92.5 million	88.9 million	20.5 mil	13.9 million

Corporate Social Investment

In pursuit of the vision of becoming a significant player within the energy sector, the CEF Group remains committed to sustainable development. We aim to align our corporate objectives with our performance as a corporate citizen. It is against this background that the CEF Group implements initiatives to advance the quality of life of historically disadvantaged communities central to the Group's CSI philosophy. During 2016/17, a total of R18 507 582.47 was spent in support of these development initiatives, covering the following key focus areas: community development, education, environment, health and sustainable development.

Consideration was given to the following, in terms of the extent to which projects will yield value to the CEF Group 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 the CEF and its subsidiaries;
- Improved community relations, specifically in geographical locations where the Group operates;
- Positive contribution to the CEF Group's B-BBEE scorecard; and
- Alignment with the CEF Group's corporate values.

Group CSI achievements for the year in review

CEF SOC LTD

Project	Description	Date	Category	Budget
2016 National Energy Indaba	The CEF took the gold sponsorship in the Indaba, which is highly relevant to companies actively involved in all areas relating to showcasing energy solutions for the benefit of Africa.	February 2016		R250 000
Cell C Take a Girl Child to Work	The CEF hosted 20 girl learners from Lamula Jubilee High in Soweto and 20 girl learners from Realogile High in Alexandra Township.	May 2016	Education	R50 000
Nelson Mandela Day	The CEF donated groceries, ten computers and a printer to Mofolo Home Based Care, which runs a soup kitchen, and assists learners from HIV affected homes with after-school lessons. The CEF also donated groceries to Sivile School for the Deaf in Soweto.	July 2016	Health and Education	R50 000
Primestars Educate Programme	The programme consists of 10 lessons covering the high school maths and science curriculum. It is aimed at helping learners improve their marks in maths and science, in entertaining but educationally sound filmed lessons, mediated by subject specialists.	September 2016	Education	R200 000
Annual Green Youth Indaba	The youth indaba is aimed at not only exposing opportunities for youth within the green economy, but effectively unpacking the strategies necessary to create easy access to support and funding for green innovations and the skills needed to eradicate youth unemployment and poverty in South Africa.	November 2016	Education	R100 000
Total				**R650 000**

African Exploration Mining & Corporation (AEMFC)				
Project	**Description**	**Date**	**Category**	**Budget**
UNISA Career Exhibition	Vlakfontein Mine attended the exhibition as part of informing students about opportunities available at AEMFC.	June 2016	Education	R9 900
Enterprise Development	Enterprise development training for Ogies/Phola small businesses to enable them to register as suppliers at the Vlakfontein mine.	June 2016	Sustainable Development	R66 558
Mandela Day	Spent 60 minutes of Mandela Day painting a community crèche, setting up a computer laboratory, organising lunch for the children and giving them small gifts.	July 2016	Early Childhood Development	R22 395.96
Soccer Kit Donation	Bought the Venter Soccer Team (community next to Vlakfontein mine operations) a soccer kit to encourage participation in sports as a way to reduce crime.	September 2016	Sport – Youth Development	R9 900
Relocation of Farm Community	Alongside the Vlakfontein Mine resides a community called the TWO LINE with no proper housing and no formal ablutions. The mine has requested that the Local Municipality donates 24 stands on which AEMFC will build bulk infrastructure and formal housing for this community. The project will run for a few months to completion and overlaps two financial years.	September 2016	Housing/ Community Development	R3 400 000
Electric Cable Donation	Installing electrical cables at Venter Farm to enable the farm community access to electricity.	February 2017	Community Development Youth Development	R11 060
Learners Licences	Vlakfontein Mine saw a need for Venter farm residents for learners' licences and drivers' licences. The company also provided them with transport and food allowances whilst they attended the sessions.	March 2017	Education	R156 118.51
Total				**R3 755 582.47**

STRATEGIC FUEL FUND (SFF)				
Project	**Description**	**Date**	**Category**	**Budget**
Nelson Mandela Day Initiative	Spent 60 minutes of Mandela Day at Ogies Khanyisa Crèche	July 2016	Early Childhood Development	R22 000
Saldanha Bay Water Quality Forum Trust (SBWQFT)	Sponsorship to the Saldanha Bay Water Quality Forum Trust	November 2016	Community Development	R90 000
Total				**R112 000**

Alex Blanket Handover - 11 August 2017

PETROSA				
Project	**Description**	**Date**	**Category**	**Budget**
Southern Cape Crèches & Primary Schools	Investment in Early Childhood Development was a direct benefit to 22 crèches and 1 540 pupils in the Southern Cape through the upgrading of learning venues, learning materials, educational toys and security fencing around the facilities. The project was accomplished through a partnership with the Mossel Bay Municipality and Provincial Department of Social Development.	2016	Early Childhood Development	R1 500 000
Smart Learning Centres	Investment towards the conversion of classrooms into smart learning centres at Siyazingisa Primary School, Gugulethu and Cape Town.	2016	Education	R1 390 000
Infrastructural Development	Investment for infrastructural development at two Eastern Cape primary schools; Maseleni Primary at Idutywa and Humansdorp Primary near Port Elizabeth.	2016	Infrastructural Development	R4 600 000
Youth Development Centre	Funded the construction of a Youth Development Centre in Great Brak, Mossel Bay. The Centre is a partnership with the Mossel Bay Municipality and Western Cape Department of Social Development. The Centre offers accredited training for the youth of Great Brak and surrounding areas.	2016	Youth Development	R6 500 000
Total				**R13 990 000**
Grand Total				**R18 507 582**

"In pursuit of the vision of becoming a significant player within the energy sector, the CEF Group remains committed to sustainable development."

SAFETY, HEALTH, ENVIRONMENT AND QUALITY

Mandela day

The CEF Group remains committed to excellence in SHEQ performance, referred to collectively as operations integrity. Operational integrity extends to all aspects of our business that can affect SHEQ performance. We believe the best way to manage the integrity of our business is through a capable, committed workforce, coupled with policies, practices and management systems designed to enable safe, secure and environmentally responsible operations.

For all our business operations, the Group has implemented appropriate Health, Safety and Environmental Management Systems (HSE-MSs) as a framework for managing the HSE risks of the business. These conform to the requirements of internationally recognised standards and set the expectations for conducting the business.

Further, where we have direct operational responsibility, we have management systems that are specific to coal and crude-storage.

The HSE-MS framework

Application of HSE-MS is required across all of the CEF Group operations, with particular emphasis on design, construction and operations. Regardless of job function, all CEF Group employees and third-party contractors have the responsibility and expectation to identify, assess and mitigate the risks associated with their activities and CEF Group operations.

Safety

At the CEF Group, safety is more than just a priority but is a core value and an integral part of our culture that applies to every aspect of our operations. We are committed to doing the right thing, the right way, every time so that every employee and contractor comes home from work safely and healthy each day.

Lost-time incident rate

The LTIR was measured as a composite score for three subsidiaries that have the bulk of current operations and projects. The subsidiaries are AEMFC (AE), SFF and PetroSA. There were no safety incidents or reportable environmental incidents reported at the subsidiaries AE and SFF. There were however, incidents at PetroSA as outlined in the following table:

Disabling injuries

At PetroSA, a total of twelve (12) disabling injuries were recorded. There were 0 for AE; 0 for SFF;

Total recordable incident rate

At PetroSA, a total of twelve (12) disabling injuries were recorded. There were 0 for AE; 0 for SFF;	0 for AE; 0 for SFF; 0.69 for PetroSA. The weighted score is therefore 0.52 for the CEF Group	17 Safety incidents for 2016/17 at PetroSA decreased the group aggregate score

The incidents reported above for PetroSA include one incident that resulted in two simultaneous fatalities on 31 January 2017 at the GTL Refinery.

The fatality incident of 31 January 2017

On 31 January 2017, an accident occurred at PetroSA GTL Refinery involving a Mechanical Fitter and a Process Controller who were found unconscious inside a dryer vessel. Both employees were certified dead following emergency rescue and medical response on the PetroSA premises. The cause of death was determined to be nitrogen asphyxiation.

The CEF Group passed its sincerest condolences to the families of Mr Luvuyo Mkutukana and Mr Sheradon Baker, following this tragic accident. Our aim is to provide a safe working environment and it is now incumbent on the organisation to learn from mistakes made so as to preserve the health and safety of our employees. Counselling has been extended to immediate colleagues and family members.

In terms of Section 60(1) of the Mine Health and Safety Act, 1996 (Act 29 of 1996) and PetroSA Incident Management process, investigations were conducted to determine the root causes and the circumstances that led to the 17 lost time injuries (LTIs) recorded. These investigations highlighted opportunities to further improve HSE Management systems.

A management drive to improve the culture of safety in the workplace is being pursued by the GCEO and the Board.

The management team has taken into account lessons learned from diagnostic and statistical analysis of all incidents, feedback from internal and external stakeholders, as well as recommendations from the enquiry into the two fatalities and has since implemented a number of safety initiatives to improve safety standards and awareness whilst raising accountability.

Mandatory legal training and skills development for both employees and contractors was conducted as part of a plan to improve competencies in HSEQ critical areas. These interventions included emergency and preparedness drills at all PetroSA facilities. This is part of PetroSA's long-term goal to create a culture of safety awareness. All meetings in the Group are opened with a Safety and Values moment to share best practices and instil focus.

Process safety

Our commitment to process safety, including the equipment, procedures and training that prevent the uncontrolled release of hydrocarbons and hazardous substances, is a core value that shapes risk management across our operations. We seek to ensure our facilities are well designed and safely operated to prevent potential safety incidents. To that end, we use a comprehensive and disciplined approach to identify, eliminate or manage the process safety risks associated with our operations. This employs layers of preventive measures, including equipment, processes and people, as illustrated in the Table below.

Preventive measures

Know the major hazards	Understand the measures	Maintain barrier health
Major asset-specific hazards are known	Preventative and mitigating measures are defined and individual responsibilities are assigned to protect from and mitigate risks	Barrier effectiveness is assessed and regularly discussed

Product/Service safety and responsibility

We recognise the importance of managing and communicating product safety information to those who handle and use the CEF Group products or services. Each business unit has developed management systems that address the key elements in our product safety policy. These management systems are reviewed on a routine basis to ensure compliance with the policy. A key component of these systems is the communication of the potential hazards and risks regarding the use of our products.

Emergency preparedness and response

The ability to respond to emergencies promptly is critical for our operations, and we conduct extensive training and drills to prepare for such situations. At the CEF Group, we believe effective emergency preparedness requires competent response teams. We have established strategic emergency support groups (ESGs) for our operational business units to develop and practice emergency response strategies and assist field responders. We routinely train ESG members, comprising a wide variety of CEF Group employees, on a range of possible scenarios, including simulated spills, fires, explosions, natural disasters and security incidents.

The CEF Group takes a disciplined and structured 'command and control' approach to emergency preparedness that is based on clear communication. Regardless of the size of an event, each business unit operating facility has access to a wide array of trained responders, including our response teams (RTs), which provide rapid tactical support when needed.

Workplace security

Ensuring the security of our people, physical assets and intellectual property is systemically embedded in our daily operations. We employ consistent, acceptable practices to address security challenges in the diverse locations where we do business. As the threat of cybersecurity continues to evolve, we must protect our business against the growing risk of cyberattacks, which can potentially affect our data, facilities and operations.

The CEF Group regularly assesses potential threats to our operations. Our security personnel commonly participate in security-related drills, training and industry forums to enhance our established risk management methodologies, threat-assessment capabilities and technical security applications. In higher-risk locations, we monitor local conditions and maintain detailed security preparedness plans, such as evacuation and intruder response plans.

Environmental management

A Cleaner tomorrow by acting today is a set of corporate-wide environmental performance expectations. These expectations build upon our corporate plan and strategic direction. As we manage our operations, we must understand the impact of our business on the environment, adhere to a consistent risk management approach and maintain a relentless focus on operational excellence. Our HS-MS drives our approach to environmental management. At all the affected group businesses, current environmental plans include the management of incidents and rehabilitation wherever applicable.

Economic regulation and regulatory reform

To protect the environment, the South Africa Government promulgated the Mineral and Petroleum Resources Development Act, No. 28 of 2002 (MPRDA), which applies to mineral extraction process on-shore, and off-shore production assets. Additionally the National Environmental Management Act, No.107 of 1998 (NERA), applies to refineries, power stations, petroleum product storage tanks and onshore oil and gas pipelines. These instruments govern the protection and restoration of the environment.

Environmental management performance for the year

There were no incidents reported in our coal mining, and liquid fuels storage businesses. For our integrated midstream, the Group reported five environmental incidents, measured against a group target of 11 incidents.

We implement preventive

measures to avoid spills and continually seek to improve our risk management, operations integrity and containment capabilities. If a spill does occur, we ensure a rapid, comprehensive response. The majority of these spills did not affect third parties or the communities that surround our assets.

Our oil pollution control services business puts the Group in a better position to manage environmental incidents, specifically in the Saldanha Bay terminal and Ogies underground storage tanks for the control of underground water spill. The country has acceded to the Fund Convention as oil operators will be required to have oil pollution emergency plans.

This, together with the implementation of Operation Phakisa will create opportunities for the Group to play a pivotal role, not only for our affected Group operations, but for the oil and gas industry at large.

Decommissioning and rehabilitation

The construction or development of a platform, mine infrastructure, storage tanks, oil and gas pipelines and the refinery causes damage to the environment and the Group ensures this is properly managed. Effectively decommissioning onshore and offshore assets is essential to reducing our overall environmental impact. When operations reach the end of their useful life, we work to ensure the safe and responsible decommissioning of our assets. To do so, we develop decommissioning plans that use proven and cost-effective methods and consider potential risks, costs and benefits.

Obligating events

Throughout our asset development life cycle, from feasibility studies to decommissioning, care is taken to limit disruptions to local communities and protect the environment. Accordingly, the CEF Group ensures that decommissioning activities are planned and conducted to appropriately manage risks.

Our assets that require environmental management are the platforms, oil and gas pipelines, the refinery, petroleum product tanks, overburden and underground coal mining shafts. For our coal mining, liquid fuel storage, gas pipelines, and power stations businesses, there are funds set aside for environmental rehabilitation and decommissioning on retirement and these are much less material in terms of quantum.

For our upstream and integrated midstream business, the group is exposed to a funding shortfall for the liabilities for the offshore South African production oil and gas assets. The NERA Financial Provision compliance date has been deferred to February 2019, and this has eased off the compliance pressure. PetroSA now has until 2019 to finalise the Technical Compliance Package and also to find financial instruments to cover the decommissioning liability. Independent Project Analysis (IPA) has completed the technical independent review exercise and has also provided lessons learned on decommissioning from other oil and gas majors.

“The CEF Group remains committed to excellence in SHEQ performance.”

SECTION 5

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

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

- Ethical culture
- Good Performance
- Effective Control
- Legitimacy

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

Ethics and integrity

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

Standards of business conduct

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

Internal audits

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

Audit and Risk Committee

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

Strategic Internal Audit Plan alignment

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

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

Systems and practices for anti-corruption

The Group is committed to the eradication of fraud, corruption, misconduct and any irregularities. 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. The subsidiary companies each have a Fraud Prevention Policy, which addresses fraud risk management from both proactive and reactive perspectives. The Group has contracted the services of an independent provider of a hotline service for the confidential reporting of fraud and other inappropriate behaviour.

Transparency

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

Board of Directors

In terms of section 49 of the PFMA, the Board is the accounting authority of the Group. The Group has a unitary Board structure made up of a majority of non-executive directors, appointed by the Shareholder. The size of the Board is dictated by Section 1 (4) of the Central Energy Fund Act, No. 38 of 1977 (CEF Act), as amended and the Memorandum of Incorporation. . In line with good governance principles, the positions of Chairman and Chief Executive Officer are separately held to ensure a clear division of duties.

The Board retains overall

accountability for the running of the Group and reserves decisions on matters that could have a material impact on the business.

To that end, Executive Management is charged with the day-to-day running of the business, with the Board addressing a range of key issues to ensure that it retains the strategic direction of, and proper control over the group. These issues include ensuring that policies and procedures are in place; monitoring the performance of the group against agreed objectives; identifying key performance and risk areas; providing effective leadership on an ethical foundation; ensuring that there is an effective risk based internal audit function; defining levels of materiality; reserving specific powers to itself and delegating other matters (with the necessary written authority) to the CEO; ensuring that timelines 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 a Shareholder Compact is concluded annually with the Shareholder in respect of agreed performance indicators for the company in the following year.

Board selection process

The Memorandum of Incorporation (previously Articles of Association) stipulates the minimum and maximum number of directors permitted to be appointed to the Board. 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.

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

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

CEF ensures that its takes cognisance of the skills, gender and race required on the Board, during the recruitment and selection process, in order to maintain a balanced and diversified Board capable of giving strategic direction to the entity in line with the agenda and strategy of the Shareholder and the CEF Group and in keeping with the national transformation and empowerment agenda.

Communicating with directors

As a state-owned entity the directors are constantly briefed via the quarterly reporting process in adherence with the PFMA. This affords the directors the opportunity to assess performance, recommend interventions as well as engage the Shareholder on performance and progress.

Each of the CEF Group entities concludes a Shareholder Compact with the CEF, which includes Corporate Plans and authority levels as approved at Group level.

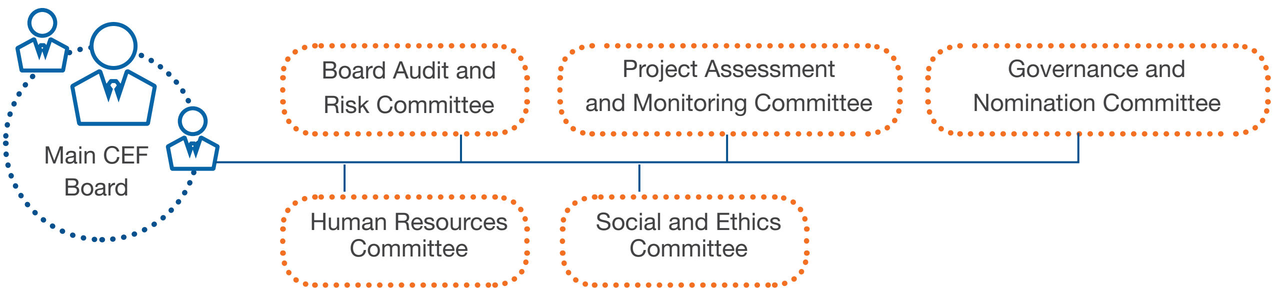
Compensation of Board of directors

CEF (SOC) Ltd remunerates its directors in terms of the Central Energy Fund Act, No. 38 of 1977. The fees of the non-executive directors are determined by the Minister of Energy by Ministerial Directive and approved by the Minister of Finance from time to time.

In terms of the CEF Act, employees in the full time employ of the state shall not, in respect of the services rendered by him/her as a director, be paid any remuneration in addition to his/her salary, nor shall such director be paid any travel and subsistence allowances at a rate other than that applicable to him/her by virtue of such service.

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. Our subsidiary Board of directors provides independent oversight of the respective group entities affairs.



Board Committee Structure	Strategic Responsibility
Board Audit and Risk Committee	Responsible for discharging its duties relating to the safeguarding of Group assets, the operation of adequate systems, control processes and the preparation of accurate integrated reporting and financial statements in compliance with all applicable legal, regulatory and reporting requirements and standard as well as reputational risk, as listed and defined in the Group's Enterprise-wide Risk Management Framework
Social and Ethics/Human Resource Committee	Responsible for providing leadership and taking responsibility for the CEF Group's undertakings in the sphere of transformation, social economic development, human capital development and sustainability, including the management of non-financial issues, within the broader Group strategic framework.
Project Assessment and Monitoring Committee	The objectives of the projects assessment and monitoring committee (PAMC) are the establishment of an integrated view of the Group capital expenditure requirements, optimum financial and non-financial resource allocation and provide oversight for all major projects/approvals undertaken by the Group.
Governance and Nominations Committee	Responsible for (a) monitoring the quality and integrity of the corporate governance practices of the CEF Group and general oversight regarding corporate policies and procedures involving corporate governance and compliance with significant legal, ethical, and regulatory requirements, and (b) responsibility for Board development and nomination.

Materiality and significance framework

A materiality and significance framework has been developed for reporting losses through criminal conduct and irregular, fruitless and wasteful expenditure, as well as for significant transactions envisaged per section 54(2) of the PFMA that requires ministerial approval. The framework was finalised after consultation with the external auditors and has been formally approved by the Board.

Board leadership structure

Today's boards are unquestionably expected to establish the procedural safeguards necessary to avoid conflicts of interests and ensure appropriate balance of power that supports the delivery of organisational strategic objectives and create value for the Shareholder.

Over the years, boards have expanded their expertise and intensified their monitoring activities to meet the many challenges posed by operational dynamics. To give effect to good governance, the respective duties of the CEF Board members are such that they are designed to enhance the CEF Group performance as it navigates through the various phases of the Group strategy. The CEF Board and its subsidiary leadership structures provide the Group with the independent perspective and diverse experience necessary for the Group to excel during its strategic transformation.

Key board attributes

Key Board Attributes	
• Significant leadership experience in legal, project management, corporate governance, policy formulation, trading, oil and gas, renewables, corporate finance, and refinery operations • Substantial experience in some of the directors in working for global entities and leading large and complex businesses • Strong independence • Detailed Board induction process • Strategic support and ongoing board development with leading independent institutions	• 80% Independence • Well balanced Board Tenure • 20 Years - The average director's tenure in a senior management position

The detailed report on committees, meeting dates, appointments and resignations are contained in the Group directors report as contained in the Annual Report.

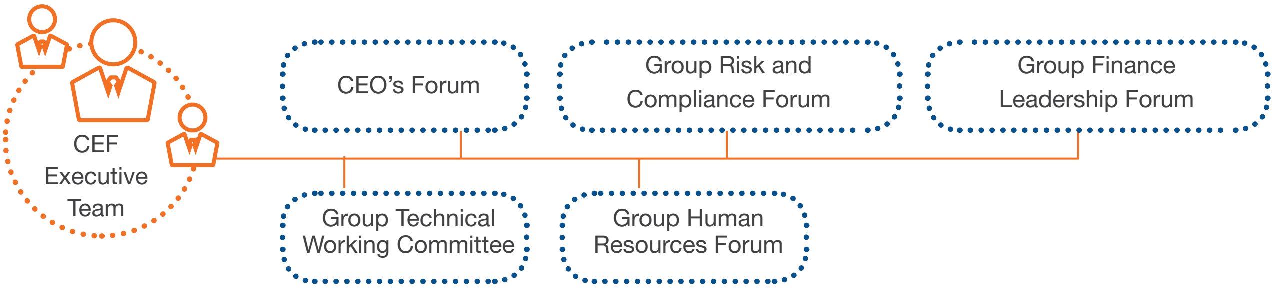
Executive management structures

In a challenging operational environment that is beset by shifts in the structure and viability of markets the only certainty the CEF Group has is our ability to cope with and manage the organisation through an unprecedented amount of uncertainty.

Fundamental to the success of the CEF Group is the effective strategic direction setting by senior management and operational efficiency in our day-to-day business activities coupled with the implementation of continual improvement throughout the organisation. Our leadership model is premised on the Group values and advocates for strong leadership; visible and active support; and demonstrated commitment.

The Group Chief Executive officer (CEO) is appointed by the CEF Board and has authority to lead the day-to-day operations of the business. The executive committee (EXCO) is constituted to assist the CEO to execute responsibilities, to guide and control the overall direction of the company's business and to act as a medium for communication and co-ordination between business units, companies and the Board. The EXCO members are accountable to the Group CEO for the execution of their responsibilities in their respective areas, and the Group CEO is accountable to the Board for the execution of their responsibilities. The subsidiary CEOs are appointed by their respective boards who in turn are supported by their respective executive management committees.

Supporting the Executive teams are active Group management governance forums that are designed to exploit Group synergies and ensure alignment in an effort to improve Group performance.



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

Management Committee Structure	Strategic Responsibility
CEO's Forum	This is the principal structure to give effect to integrated execution of strategy across the group. The forum is chaired by the CEF Group CEO, with the CEOs of each subsidiary making up its membership. Key CEF executives are invited to the forum such as the Group chief financial officer; group general manager: corporate services; group head of risk and compliance; group corporate planner; and general manager: EPD.
Group Legal, Risk & Compliance Forum	The purpose of the Group legal risk forum is to inform the state of practice across the Group for dealing with legal, risk-management and compliance matters; pursue the mandate of streamlining and improving governance and oversight across the Group for GRC purposes; streamline the risk management, compliance and fraud-management policies within the Group.
Group Finance Leadership Forum	The purpose of the finance leadership forum is to lead the CEF Group to achieve a uniformly high standard of practice on corporate financial management; provide financial leadership; drive standardisation of systems and processes; drive transition to high-performance financial organisation; drive integrated financial planning and reporting for the Group.
Group Technical Working Forum	Provides technical support to the PAMC; Reviews projects before they are tabled at the PAMC and gives assurance that all projects with a significant technical component are adequately evaluated. Such projects can commit significant amounts of capital, and often for lengthy periods of time.
Group Human Resources Forum	This forum, which consists of human capital business partners across the CEF Group, seeks to achieve a common base of practice and elevate the baseline on human capital management. The purpose of the group human capital forum is to: • Formulate a collaborative human-capital agenda that will support group operations in a cohesive, relevant manner; • Align the human-capital mandate in the CEF Group through co-ordination of efforts; • Identify and manage areas of convergence; • Eliminate duplication of policies and processes

SECTION

OPERATIONAL PERFORMANCE

PETROSA

PetroSA SOC Ltd is one of the major subsidiaries within the CEF Group of companies. The primary functions of the company is exploration for and production of oil and gas, refining operations, converting gas and gas condensate to liquid fuels and petrochemicals and the marketing thereof.

Economic regulation and regulatory reform

The company trades its petroleum and petrochemical products as regulated by Petroleum Products Act, No. 120 of 1077 as amended by the Petroleum Products Amendment Act, No. 58 of 2003 and its Regulations. The construction of platforms and the refinery causes damages to the environment and the company ensures this is properly managed. Both MPRDA (for off-shore oil and gas production assets) and NERA (for the refinery and onshore pipelines) require operators to rehabilitate the environment when assets are retired. In terms of MPRDA requirements the National Environmental Management Act 107 of 1998 has promulgated financial provision regulations that require the company to review, assess and adjust its financial provision before February 2019.

Financial performance

The fall in the Brent crude oil rate affected the group negatively across all operational units, necessitating the total impairment of the Oribi/ Oryx crude oil production division. The impairment was 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.

Continued cost-containment efforts remain a key focus area across the organisation. This is amidst a major crash in crude oil prices resulting in a very unstable business environment. On the GTL front, the pessimistic prediction of reduced Project Ikhwezi gas remains a major concern insofar as it affects planned production and liquidity management*.

Turnover: R10.4 billion

EBITDA: -R551.6 million

ROCE: -2.45%

Non-financial performance

Detailed below is the summary of the company performance for the year given its pre-determined objectives as agreed with the CEF SOC in the Shareholder's Compact1 .

Material projects commissioned and completed during the year

Upstream: Other African operations

In Ghana, Jubilee average production was 73 713 stbbl/pd, which was below the target due to turret problems that interrupted production, hence the drop in revenue. The TEN project remained on schedule and on budget throughout the development phase with first oil delivered in August 2016.

Material projects under study

Upstream: SA operations

E-BK Project

Two of the three planned data deployments have been completed successfully. A third deployment is currently in progress and is planned for recovery end-January 2017. The route survey is currently planned for April 2017 when the vessel becomes available.

West Coast

The PetroSA Board has approved an alternative cost efficient way to execute Block 2C, Block 5/6 and Block 3A/4A. The proposed alternative is awaiting CEF Board approval before the agreements are signed.

South Coast

Two offers were received for the Block 9/11A exploration right. Discussions between PetroSA and the bidders are ongoing. Full due diligence on bidders is still in progress.

Upstream: Other African operations

Deepwater Tano (DWT)

No new wells will be completed and drilled until a ruling is reached on the maritime border issue between Ghana and Cote d'Ivoire.

West Cape Three Points (WCTP)

The Mahogany and Teak fields are to be incorporated into the Greater Jubilee Full Field Development Plan as some of the reservoirs are hydraulically connected to the Jubilee field. The Akasa field still requires further appraisal. An application to the Ghana Government was sent to extend the Akasa appraisal period by a further two years. A response from Ghana Government has not yet been received.

Integrated Midstream operations

LNG Project

No material progress was made on the project due to new strategic direction from the DoE with respect to the location for the Liquefied Natural Gas (LNG) terminal. PetroSA continues to work with CEF to support CEF's participation in the LNG project. In addition to this, further work will be done to evaluate the commerciality of importing gas as feedstock for the GTL Refinery.

Enhanced Condensate Processing (ECP)

A technical feasibility study was initiated in the period under review and will be completed by May 2017. The risk of an enhanced condensate processing option remains extreme as the diesel product crack declined and economic indicators are not improving.

Mineral Reserve and Capacity report

Upstream (oil, gas (oil equivalent) and coal volumes)

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

AFRICAN EXPLORATION MINING AND FINANCE CORPORATION

AFRICAN EXPLORATION MINING AND FINANCE CORPORATION SOC LTD

AEMFC SOC Ltd is one of the major subsidiaries within the CEF Group of companies. The company was established as a state-owned mining company to secure South Africa's energy supply primarily through the mining and supply of coal for the generation of electricity, as well as securing other resources that will provide energy for the future. This includes key minerals for beneficiation in the energy and steel value chain.

AEMFC SOC Ltd is one of the major subsidiaries within the CEF Group of companies. The company was established as a state-owned mining company to secure South Africa's energy supply primarily through the mining and supply of coal for the generation of electricity, as well as securing other resources that will provide energy for the future. This includes key minerals for beneficiation in the energy and steel value chain.

Economic regulation and regulatory reform

On 27 November the AEMFC Bill 2015 was published in the Government Gazette for a 60-day window of public comment before legislation is passed to establish AEMFC by an Act of Parliament. CEF and AEMFC made their own comments on the Bill for submission. It is expected that the Bill will be passed into law in the forthcoming financial year.

Financial performance

The nature of the business is capital intensive and that poses a challenge in financing projects to increase the entity's capacity to supply energy. Those charged with governance have their finger on the pulse in efforts of raising capital for our projects under study moving to the next gate until they become operational.

Turnover: R376.1 million

EBITDA: R97.7million

ROCE: 19.87%

Non-financial performance

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

Material projects under study

- The Vlakfontein Mine Extension is at an advanced stage and on track to double current production by the 2018/2019 financial year pending regulatory approvals.
- The Klippoortjie Mine is at feasibility stage and awaiting finalisation of the regulatory approvals and finalisation of the surface rights access/ acquisition.
- The T Project mine commissioning is at capital raising stage and Eskom Coal Supply Agreement negotiation stage. First coal is expected in the second half of the 2018/2019 financial year.
- As part of the company's growth strategy strategic acquisitions have become available in collaboration with black owned entities.
- Other exploration rights owned by the company continue to be developed through various stages to provide a platform for further growth and sustainability.

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

CEF SOC LTD

CEF SOC is the holding company for the CEF Group of companies. The primary functions of CEF SOC are corporate governance, strategic leadership, new business development, financial management and other strategic functions of the Group and the DoE through management of the EQF and other levies as requested by National Treasury. Within CEF SOC, EPD is its strategic business unit to deliver alternative and renewable energy for the benefit of the country. The EPD is expected to grow to a full-grown subsidiary within the planning horizon to 2022. This is part of the broader strategic intent and as directed by the Shareholder to diversify South Africa's energy mix. In the long term, this will result in improved security of supply and enhanced social and environmental benefits.

Economic regulation and regulatory reform

The White Paper on Renewable Energy (2003) has set a target of 10 000GWh of energy to be produced from renewable energy sources (mainly from biomass, wind, solar and small-scale hydro) by 2013. The implementation plan of the various technologies was identified in a macroeconomic study undertaken in 2003. The White Paper's target of 10 000 GWh renewable energy contribution to final energy consumption by 2013 was confirmed to be economically viable with subsidies and carbon financing. Following Cabinet approval of the White Paper, the then Minister of Energy issued the CEF Group with a High Level Business Strategy for the execution of the Group's renewable energy chapter, given the DoE's renewable energy strategy.

Financial performance

Our turnover is backed up by the characters of our current asset base. Our ability to generate funds is enabled by our investment in projects, such as subsidiaries, associates, joint ventures and any other financial assets. The nature of activities in our strategic business unit requires major capital deployed in order to achieve the planned objectives*.

Turnover: R14.7 million

EBITDA: -R93.1 million

ROCE: -1.20%

Non-financial performance

Detailed below is the summary of the company performance for the year given its predetermined objectives as agreed with the Minister of Energy in the Shareholder's Compact*.

Material projects commissioned and completed during the year

The first two (of five) phases from our equity interest of 29% in our Robinson Deep 5 MW Land-fill gas power plant achieved commercial operation during the year and is supplying electricity.

Material projects under study

Progress on feasibility studies and development on the 15% expressed equity interest on the 100MW CSP and 10% – 20% on the 150MW CSP, has been impeded by Eskom's delay in signing the Power Purchase Agreements.

The Minister of Energy issued a Determination allocating 1500 MW to be procured from solar technologies, which was promulgated on 27 May 2016. This Determination stipulates that state-owned entities (SOEs) will take a minority equity stake in the Solar Park Project. The CEF is working with closely with the Independent Power Producers Office (IPPO) in the conceptualisation and frameworking of this project. The CEF will be the preferred SOE to take the minority equity stake as stipulated in the Solar Park Determination and also lead some of development activities, whilst IPPO should lead the selection of the strategic private partner.

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

IGAS

iGas SOC Ltd is one of the major subsidiaries within the CEF Group of companies. The company's key focus is promoting the diversification of energy usage into hydrocarbon gas which will facilitate the use of hydrocarbon gas in South Africa.

Economic regulation and regulatory reform

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

Financial performance

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

Turnover: R150 million

EBITDA: R131.6 million

ROCE: 4.6%

Non-financial performance

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

Material projects commissioned and completed during the year

As part of its investment and shareholder responsibilities, iGas supported ROMPCO to successfully commission and start operations of the second loop line in Mozambique. This ROMPCO project was below budget and within schedule. From 1 January 2017, it will enable for more gas to be transported within Mozambique and to South Africa.

Material projects under study

As part of the government's Gas-to-Power programme iGas has completed a detailed gas transportation pipeline routing, ready for an EIA, from Saldanha Bay to supply the Eskom power generation plant at Atlantis. iGas has also been developing options for LNG terminals in the ports of Richards Bay and Coega. It is also developing pipeline options from Richards Bay to Gauteng and to Durban and from Coega to Mossel Bay.

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

THE STRATEGIC FUEL FUND

The SFF NPC is one of the major subsidiaries within the CEF Group of companies. The primary function of the company is to manage the country's strategic stocks of crude oil in accordance with ministerial directives.

Economic regulation and regulatory reform

The company trading and storage of product activities are regulated under the National Energy Regulator Act, which overarches the Petroleum Product Act 58 of 2003. This is in respect of the tariff the company charges its customers for the storage of product in the tanks, and the trading thereof.

The construction of the tanks caused damages to the environment and the company ensures environmental obligations are properly managed. NERA and MPRDA require operators to rehabilitate the environment when assets are retired. Under MPRDA requirements, the financial provision regulations were promulgated under the National Environmental Management Act 107 of 1998. The company is required to review, assess and adjust its financial provision before February 2019.

Financial performance

The revenue sources for the company are storage services, pollution control services and trading of petroleum products. In financing the activities to achieve the following key performance areas we require access to rolling capital; security of energy supply masterplan; implementation of the strategic stock policy; and growth.

Turnover: R798.5 million

EBITDA: R196.3 million

ROCE: 2.13%

Non-financial performance

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

Material projects under study during the year

One our key objectives are to maintain 20 days cover of strategic crude oil. This has been achieved for the year, through an alternative agreement for the right of access to the crude oil matching the cover with the customers renting storage space in our tanks. Given the group's focus on financial sustainability our governance team, supported by CEF SOC, are continually engaging the DoE on the Strategic Stock Policy and its impact on the current financial resource.

Given the long-term objective of occupying 25% of the market, work on the Milnerton tank farm continues; although sluggish due to operational and regulatory bottlenecks.

In executing our growth strategy, work is underway developing our crude oil trading strategy and extending our oil pollution control services to other operating ports in South Africa.

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

THE SOUTH AFRICAN AGENCY FOR PROMOTION OF PETROLEUM EXPLORATION AND EXPLOITATION

The mandate of PASA SOC Ltd is the promotion and regulation of the Upstream petroleum industry in South Africa, both onshore and offshore. PASA is responsible for administering the petroleum section of the MPRDA. Furthermore, PASA's mandate includes receiving, maintaining, storing, interpreting, evaluating, adding value to, disseminating or dealing in all geological or geophysical information relating to petroleum.

Economic regulation and regulatory reform

PASA receives its mandate from the MPRDA, the principal statute that governs the regulatory function of Government on mineral and petroleum resources. The MPRDA is administered, through presidential proclamation by the Department of Mineral Resources (DMR). Noteworthy the MPRD Amendment Bill, which purports to provide clarity on the future of the Designated Agency, was referred back to Parliament by the President for reconsideration.

Financial performance

On 15 October 2014, the President of South Africa endorsed the recommendation by Operation Phakisa, an initiative that aims to address key national priority areas, to build a one-stop shop regulator within the DMR to streamline and regulate the licensing process. Pursuant to the endorsement, efforts are geared to migrate PASA as a complete entity to the DMR. In light of this development, the DMR has successfully applied to National Treasury for funding of the company from 2017/18 via the MTEF process, which is when the current reserves are to be depleted.

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

Turnover: R62.1 million

EBITDA: -R40.9 million

ROCE: -16.9%

Non-financial performance

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

Material projects under study

After the cabinet approval of the shale gas for exploration and development by the Minister of Minerals, PASA participated in the Shale Gas Imbizo in Richmond, Northern Cape on 30 March 2017.

Work on the Extended Continental Shelf Project continues; however, we note that recommendations issued by the Commission are not favourable. The only way forward is by making a re-submission. This we anticipate will take time and effort and will be delayed until the needed data in the saddle region and other additional supporting data and information is acquired. It is the view of the delegation that the matter be raised and addressed at the meeting of State Parties on the Law of the Sea (SPLOS). Pressure needs to be put on the commission to carry out their mandate as required by the Convention. South Africa should be ready with strong verbal statements in preparation for meetings at SPLOS in June 2017 where nominated candidates will be elected as members of the new commission – the aim is to express dissatisfaction in the services delivered by the Commission and establish why it is not doing its job as defined by UNCLOS.

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

SECTION 7

FINANCIAL PERFORMANCE

GROUP CFO REPORT FOR THE YEAR ENDED 31 MARCH 2017

INTRODUCTION

The CEF is a Schedule Two public entity in terms of the Public Finance Management Act. Schedule Two entities do not receive an allocation from government to fund their operations; therefore, they operate like commercial entities. For this reason, the CEF is expected to earn a profit from its operations to fund its commercial activities and developmental mandate.

FINANCIAL PERFORMANCE SUMMARY

To drive the commercial sustainability of the Group, the CEF has identified the following focus areas, namely profitability, liquidity and solvency.

Financial sustainability

Focus area	Measure	Target	Results
Profitability	Net profit/ Equity	10% improvement from prior year	The group reported a loss of R599 million, which is a 216% increase in the loss.
Liquidity	Current assets/Current liabilities	2:1	3.4:1
Solvency	Interest bearing debt/equity	40% debt: 60 equity	6% debt: 94% equity

Financial performance summary (continued)

Key statistics

Key financial analysis statistics

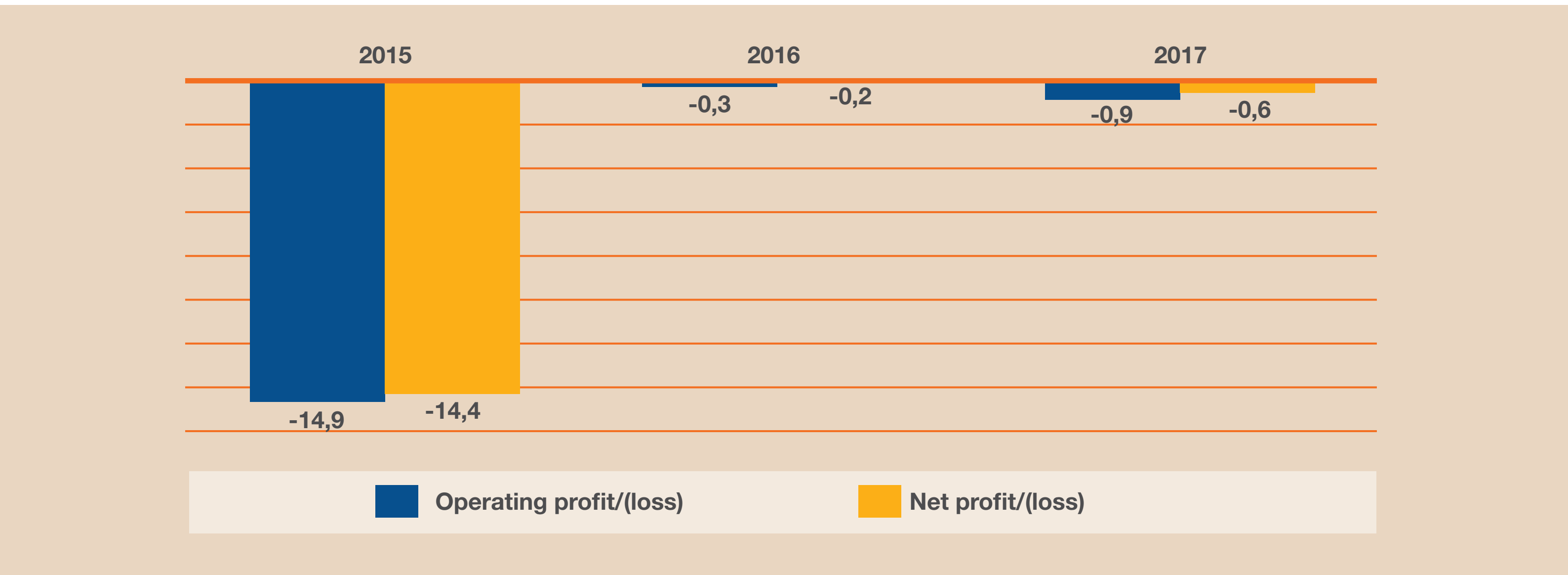
Indicator	2016/17	2015/16
Macro-economic factors		
Rand/Dollar average for the year	13.22	15.86
Rand/Dollar spot rate at 31 March	13.43	14.71
Average interest rate on money market investment	7.95%	6.79%
Crude oil price ($/bbl) spot rate at 31 March	51.97	39.07
Crude oil price ($/bbl) average for the year	50.90	37.34
Operational statistics		
Petroleum products (MMbbls) sales	10	16
Leased out space for crude oil tanks	93%	71%
Coal sales(volume in tons)	1.4 million	1.5 million
Tank rental/bbl/month(US cent)	10.7	10
Salary increase (%)	7	8.7
Headcount	1976	1967
GP Margin	4.83%	21.57%
Cost to income ratio	14%	24%

GROUP STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Abridged Statement of Profit or Loss and other Comprehensive Income

Description	31March 2017 (Audited) R'000	31March 2016 (Audited) R'000
Revenue	11,598,017	20,716,464
Cost of sales	(11,037,915)	(16,248,005)
Gross profit/(loss)	**560,102**	**4,468,459**
Other income	342,084	662,998
Operating expenses	(1,841,115)	(5,418,173)
Operating profit/(loss)	**(938,929)**	**(286,716)**
Investment income	943,062	709,132
Income from equity accounted investments	300,280	305,212
Finance costs	(572,878)	(553,256)
Profit /(Loss) before taxation	**(268,465)**	**174,372**
Taxation	(331,010)	(368,329)
Profit/(Loss) for the year	**(599,475)**	**(193,957)**
Other Comprehensive income/(loss)	**(231,014)**	**426,982**
Total comprehensive income/(loss)	**(830,489)**	**233,025**

Operating/Net profit/(loss) R'Billion



Profit/(Loss) after tax

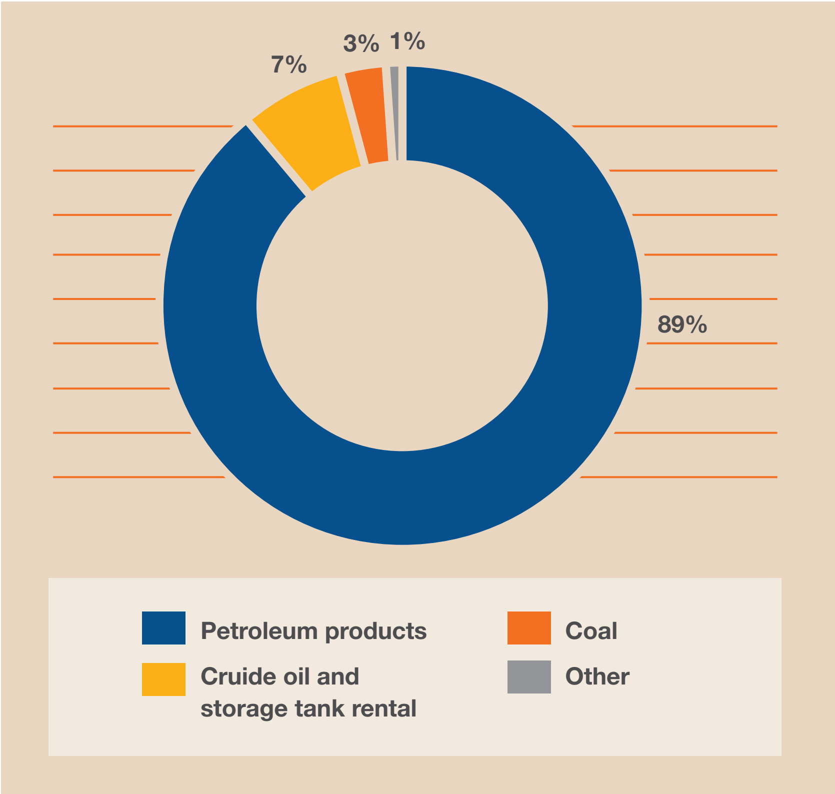
During the 2016/17 financial year, the Group generated a net loss of R599 million, compared to prior year loss of R194 million. The performance has been adversely affected by the collapse in the gross profit margin, which decreased from 22% to 5%. For the first time in the history of the Group, PetroSA has reported a gross loss of R475 million. The poor results are due to the new business model, which means PetroSA is processing condensate rather than gas due to the declining gas reserves.

Gross profit

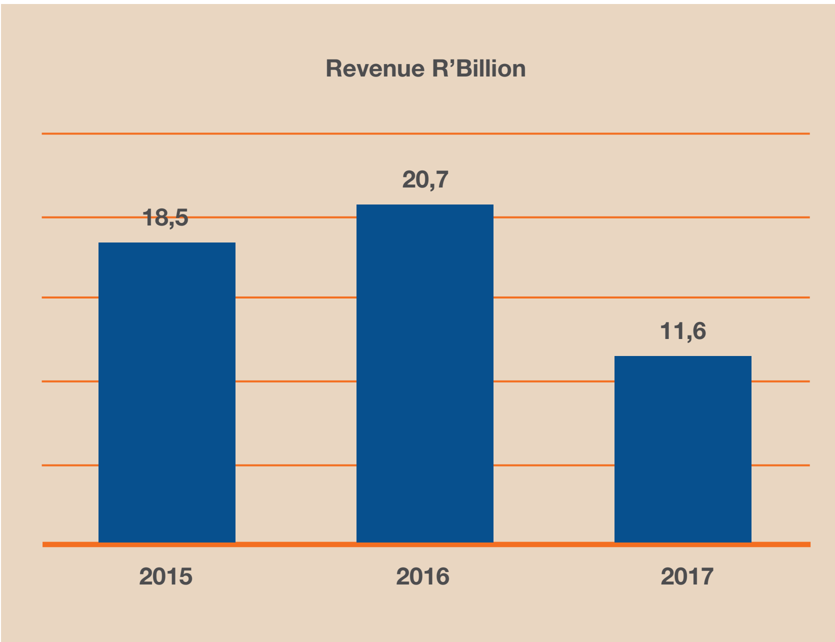
The gross profit for 2016/17 was 5%, representing a 77% decline in gross profit. The decrease in gross profit is due to changes in the operating model for the refinery, which were necessitated by the declining gas reserves. The new model has partially converted a gas-to-liquid refinery into a condensate-processing refinery. This change has had a negative impact on the gross profit margins because the cost of the new feedstock is higher than that of indigenous gas. For operations to generate adequate margins under the new operating model, the refinery needs to operate at maximum operating capacity.

Our revenue is mainly derived from the sale of petroleum products which constitutes 89% of total revenue for the Group; rental of crude oil storage tanks which constitutes 7% of the total revenue from the Group; and sale of coal which constitutes 3% of the total Group revenue. The revenue from petroleum products is under strain due to the declining gas reserves.

Revenue for 2016/17



Group revenue over three years



CEF Group revenue has been declining since 2015 due to the lower production of petroleum products because of declining gas reserves. Exceptionally however, during 2016 the revenue was high due to the rotation of strategic stock. Revenue should stabilise when the conversion of the refinery has been completed. The revenue from the rental of crude oil tanks and sale of coal continues to increase at a marginal rate. Conversely, Group revenue continues to decrease due to the relatively small impact of the other Group entities in comparison with PetroSA.

Operating expenses

Operating expenses decreased from R5.4 billion to R1.8 billion. The decrease in costs is due to a once-off transfer of R2.1 billion to the state, which was recorded in the 2015/16 financial year; net reversal of the impairment of R590 million which is made up of the gross reversal of impairment of R2.4 billion; and the gross impairment of R1.8 billion and the decrease in operating costs of R274 million.

The transfer to the state of R2.1 billion is a provision that has been raised as a result of the rotation of the strategic stock. In terms of the CEF Act, proceeds from the sale of the strategic stock need to be transferred to the Equalisation fund. The transfer has not yet taken place because the transaction has been subjected to the legal process.

The decrease in operating expenses is partly attributable to the net reversal of the impairment of R590 million. The net reversal is comprised of a gross reversal of R2.4 billion, which is due to the decrease of the rehabilitation provision. The rehabilitation provision decreased from R11.6 billion to R10.2 billion. The decrease in the rehabilitation provision is due to the changes in key assumptions pertaining to rehabilitation methodology and the decrease in cost of rehabilitation. The cost of rehabilitation decreased because the prices of equipment and the rehabilitation material have decreased.

Despite the decrease in the rehabilitation provision the production assets still had to be impaired by R1.8 billion. The impairment loss of R1.8 billion is partly attributable to the impairment of production assets of R1.4 billion and impairment of financial assets of R400 million. The impairment of the production assets is due to the decline in profits derived from the use of assets.

Further to the net reversal of the impairment, the group has saved R274 million. The savings are due to the voluntary separation packages that have resulted in annual savings of R129 million. The balance of the savings are R145 million, and are as a result of the implementation of cost containment measures.

Finance costs

The Group's profit has been adversely affected by the marginal increase in the finance costs, which increased from R553 million to R573 million. The increase in the finance costs is mainly attributable to the notional interest pertaining to the rehabilitation provision, which increased due to the additional costs for rehabilitation and change in estimates used on determination of the rehabilitation provision.

Income tax expense

The Group income tax expense has marginally decreased from R368 million to R331 million. The tax expense is mainly compromised of deferred tax which comes from the accelerated capital allowance for the exploration projects from PetroSA Ghana and the utilisation of the assessed losses, which will be utilised to offset taxable income

GROUP STATEMENT OF FINANCIAL POSITION

Abridged Statement of Financial Position

Description	31March 2017(Audited) R'000	31March 2016(Audited) R'000
Assets		
Non-current assets	13,280,164	15,106,389
Current assets	19,791,916	20,658,632
Disposal group	88,639	50,000
Total assets	**33,160,719**	**35,815,021**
Equity and liabilities		
Equity	14,258,377	15,021,282
Non-current liabilities	13,129,537	14,711,971
Current liabilities	5,753,890	6,081,768
Disposal group	18,915	-
Total liabilities	**18,902,342**	**20,793,739**
Total equity and liabilities	**33,160,719**	**35,815,021**

Assets

The Group assets decreased by R3 billion, from R36 billion to R33 billion. The decrease in assets is due to the decrease in property, plant and equipment, as well as the decrease in current assets. The decrease in property is due to the replacement rate being lower than the depreciation rate.

Equity

The equity decreased marginally from R15 billion to R14.3 billion. The decrease in equity is due the strengthening of the rand as compared to the US dollar, which resulted in a foreign currency translation loss and net loss, as reported during the year.

Liabilities

The Group liabilities decreased from R21 billion to R19 billion. The decrease in liabilities is mainly due to the decrease of the rehabilitation provision and repayment of the reserve-based lending. The Group gearing ratio is 94% equity and 6% debt. The gearing is below the self-imposed debt to equity ratio of 60% equity and 40% debt.

GROUP STATEMENT OF CASH FLOWS

Abridged Statement of Cash Flows

Description	31March 2017(Audited) R'000	31March 2016(Audited) R'000
Cash flow from operating activities	1,237,637	7,549,760
Cash flow from investing activities	(623,670)	(2,174,618)
Cash flow from financing activities	(238,014)	374,992
Net cash movement	**375,954**	**5,750,134**
Opening cash balance	**15,736,342**	**10,077,245**
Effects of foreign exchange	(417,460)	(91,031)
Closing cash balance	**15,694,839**	**15,736,342**

The Group had a cash balance of R15.7 billion as at 31 March 2017, decreased by only R41 million. The decrease in cash is due to the weakening of the US dollar against the rand which resulted in the Group cash, which is held in foreign accounts, decreasing by R417 million. Despite the resultant decrease in net cash the Group generated a net cash flow of R375 million. The net cash flow of R375 million emanates from cash flow from operating activities, investing activities and financing activities.

Cash flows from operating activities

The Group generated R1.2 billion cash flow from operating activities, compared to the prior year's R7.5 billion. The decrease in cash from operating activities is due to the deteriorating gross profit. Furthermore, in the prior year, the Group cash flow from operating activities was at an elevated level due to the proceeds from the rotation of the strategic stock.

Cash flows from investing activities

The Group has invested R856 million into the oil and gas business. The investment is lower than the 2015/16 investment of R2.3 billion. The lower investment rate is due to the delays in the procurement of the renewable energy projects and the deferral of risky exploration projects.

Cash flows from financing activities

The Group has paid R302 million relating mainly to the Reserve Based Lending that was used to acquire PetroSA Ghana. The balance of the facility is R867 million, which will be repaid over a seven-year period.

KEY RISKS AND UNCERTAINTIES AFFECTING THE CEF GROUP

Group profitability is severely challenged due to the declining gas reserves at PetroSA; however, the Group is developing a turnaround plan which is focused on converting the refinery from gas to condensate operations. The condensate business model has thin margins; therefore, the Group needs to reduce its operational costs in order to be profitable. As part of the turnaround plan, the Group will also focus on reducing its operational costs by leveraging assets within the Group.

Strategic Crude Oil

The contract review process undertaken by external legal advisors, which was triggered by the disposal of the strategic fuel stock, was completed at the beginning of the first quarter of 2017. The resulting report concluded that the disposal of the strategic fuel stock was invalid and void for various reasons, including failure by the Strategic Fuel Fund to procure the requisite approvals before entering into contracts with the buyers of the strategic fuel stock.

The revenue of R3.9 billion from the disposal of the strategic stock, which was recognised during the 2015/2016 financial year, may need to be reversed depending on the remedy prescribed by the court. Furthermore, the interest received on the proceeds from the disposal of strategic stock and rental on the storage of tanks may need to be refunded to the traders if the court declares the transaction invalid.

OUTLOOK

Despite the internal challenges, which emanate from the depleted gas reserves, the Group is determined to change the financial trajectory by reducing costs, improving liquidity and improving its revenue.

Reduce operational costs

Due to the new operating model being piloted at PetroSA, the Group needs to reduce its operational costs drastically to generate a profit. This will be done by consolidating support services and introducing strategic sourcing. In addition to the consolidation of the support services, the Group will endeavour to reduce the costs incurred on exploration and feasibility studies by partnering with strategic partners who possess the requisite resources and technical skills.

Improve liquidity

Further to improving profitability, the Group will be working harder on improving its liquidity, which is likely to be threatened by the implementation of the Financial Provision Regulations of the National Environmental Management Act, effective from February 2019. We will continue to engage with the policy makers to ensure the financial provision regulations do not have an adverse impact on the liquidity of the Group when they come into effect in 2019.

CONCLUSION

Despite all our challenges, the CEF Group remains a going concern, meaning that the Group will continue to operate in the foreseeable future. The assertion of going concern is premised on the fact that the Group gearing ratio is low and Group assets exceed liabilities by R14 billion. The bulk of our assets are comprised of cash of R15 billion, which is available for use in furthering our mandate. Further to our cash balances, the Group has capacity to borrow money because its gearing ratio is 4% debt and 96% equity – below the self-imposed ceiling of 40% debt and 60% equity. We believe that the cash can be deployed in funding the sustenance projects for the oil and gas business and it will also be deployed to fund our participation in the gas to power programme.

THANKS AND ACKNOWLEDGEMENTS

I thank Mr Mthethwa, former Group CFO, for building a strong foundation that allows me to focus on augmenting the team so they can play a vital role in shaping the future direction of the CEF Group.

My gratitude goes to the finance team who made sure we produce annual financial statements that meet the requirements of our stakeholders. Without the commitment of the finance team and the support of the subsidiaries' CFOs, these financial statements would not be possible.

Lastly, I thank the interim Group CEO for entrusting me with the responsibility of ensuring that CEF Group is a commercially viable entity that is able to contribute meaningfully to the developmental state.

Mr L Makhuba CA(SA)
Group Chief Finance Officer

SECTION 8

ANNUAL REPORT

GENERAL INFORMATION

Country of incorporation and domicile	South Africa
Nature of business and principal activities	The financing and promotion of the acquisition of, research into and exploitation of energy related products and technology.
Directors	Mr L Makasi (Chairperson) Adv L Mtunzi Ms M Molope Mr N Mompati Mr M Moagi Mr J Besnaar Mr G Bezuidenhoudt Mr G Leketi
Registered office	Block C, Upper Grayston Office Park 152 Ann Crescent Strathavon Sandton 2031
Business address	Block C, Upper Grayston Office Park 152 Ann Crescent Strathavon Sandton 2031
Postal address	P O Box 786141 Sandton 2146 http://www.cefgroup.co.za
Ultimate holding company	Department of Energy
Bankers	Absa Bank Limited
External Auditors	Auditor-General of South Africa
Secretary	Mr A Haffejee

INDEX

DIRECTORS RESPONSIBILITY AND APPROVAL

The Board is required in terms of the Companies Act, 71 of 2008 and the Public Finance Management Act 1 of 1999 to maintain adequate accounting records and is responsible for the content and integrity of the Consolidated Annual Financial Statements and related financial information included in this report. It is the Board's responsibility to ensure that the Consolidation Financial Statements fairly present the state of affairs of the Group as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the Consolidated Annual Financial Statements.

The Consolidated Annual Financial Statements are prepared in accordance with International Financial Reporting Standards and the Companies Act, 71 of 2008 and the Public Finance Management Act 1 of 1999 are based upon appropriate accounting policies and supported by reasonable and prudent judgments and estimates.

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

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

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

The Board is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the Consolidated Annual Financial Statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Board throughout reviewed the Group's cash flow forecast for the year to 31 March 2018 and, in the light of this review and the current financial position, they are satisfied that the Group has, or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the Group's Consolidated Annual Financial Statements. The Consolidated Financial Statements have been examined by the Group's external auditors and their report is presented on page 111 to 115.

The Consolidated Annual Financial Statements set out on page 131 to 228, which have been prepared on the going concern basis, were approved by the Board on 29 August 2017 and were signed on its behalf by:

Mr L Makasi
(Chairperson)
29 August 2017

Mr J Besnaar
(Independent Non-Executive)
29 August 2017

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE CENTRAL ENERGY FUND (CEF) SOC LIMITED AND ITS SUBSIDIARIES

Report on the audit of the consolidated and separate financial statements

Opinion

1. I have audited the consolidated and separate financial statements of the CEF SOC Limited and its subsidiaries (the group) set out on page 131 to 228, which comprise the consolidated and separate statement of financial position as at 31 March 2017, and the consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group as at 31 March 2017, and their statement of profit or loss and other comprehensive income and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies).

Basis for opinion

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

Emphasis of matter

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

Irregular expenditure

7. As disclosed in note 40 to the separate financial statements and note 50 to the group financial statements, irregular expenditure to the amount of R52 thousand and R20.8 million respectively were incurred, as a proper tender process had not been followed.

Fruitless and Wasteful expenditure

8. As disclosed in note 41 to the separate financial statements and note 49 to the group financial statements, fruitless and wasteful expenditure to the amount of R0,561 million and R16,5 million respectively were incurred, as penalties and fees were incurred in vain.

Funding of abandonment provision

9. I draw attention to note 24 to the group 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 R9.6 billion which is currently under funded by R7.4 billion at year end. In terms of the recently promulgated National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA) as amended, PetroSA is required to have the rehabilitation liability fully funded by April 2019 which is now a deferred date. 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 NEMA. Other stakeholders involved include the Departments of National Treasury, Mineral Resources and Environmental Affairs.

Significant uncertainties

10. With reference to note 24 to the group financial statements the abandonment provision of R9.6 billion is based on assumptions within the current economic environment. The actual abandonment costs will ultimately depend upon future market prices for the necessary abandonment works required when the fields cease to produce at economically viable rates which in turn will depend on future oil and gas prices, which are inherently uncertain.
11. As disclosed in note 39 to the group financial statement, PetroSA, one of CEF's subsidiaries, had notified employees in terms of section 189 of the Labour Relations Act, 1995 (Act No. 66 of 1995) of possible headcount reduction based on operational requirements, on 17 February 2017. 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.

Restatement of corresponding figures

12. As disclosed in note 40 to the group financial statements, the corresponding figures for 31 March 2016 have been restated as a result of an error in the financial statements of the CEF at, and for the year ended, 31 March 2017.

Material impairments

13. As disclosed in note 5 to the separate financial statements, material impairments to the amount of R 227 million were incurred as a result of the net asset value of the PetroSA investment being less than the cost as the subsidiary continued making losses.

14. As disclosed in note 30 to the group financial statements the group reversed impairments to the amount of R2.4 billion and also incurred material impairments to the value of R1.8 billion in respect of property, plant and equipment as a result of a change in estimate in the abandonment restoration asset.

Review of Contract entered into by SFF Association

15. With reference to paragraph 20 of the Director's report, the Contract review report that the Minister of energy had requested during the 2015-16 audit cycle for a thorough review of contracts entered into by Strategic Fuel Fund has been completed.

Additional matters

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

Unaudited supplementary schedules

17. The supplementary information set out on page 229 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Responsibilities of the accounting authority for the consolidated and separate financial statements

18. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with IFRS, the requirements of the PFMA and the Companies Act, and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
19. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the CEF SOC Limited ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless there is an intention either to liquidate the public entity or to cease operations, or there is no realistic alternative but to do so.

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

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

Report on the audit of the annual performance report

Introduction and scope

22. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
23. My procedures address the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
24. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the public for the year ended 31 March 2017:

Objectives	Pages in the annual report
Objective 1: Stakeholder Management/Corporate Citizenship	120
Objective 2: Financial Performance	118
Objective 3: Contribute to Security of Supply	118

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

26. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following objectives:
    - Objective 1: Stakeholder Management/Corporate Citizenship
    - Objective 2: Financial Performance
    - Objective 3: Contribute to Security of Supply

Other matters

27. 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

28. Refer to the annual performance report on pages 118 to 120 for information on the achievement of the planned targets for the year and explanations provided for the under/over achievement of a significant number of targets.

Adjustment of material misstatements

29. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for Contribute to Security of Supply. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on audit of compliance with legislation

Introduction and scope

30. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the public entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
31. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

Annual financial statements, performance and annual report

32. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 55(1)(b) of the Public Finance Management Act and section 29(1)(a) of the Companies Act. Material misstatements of expenditure, revenue, current liabilities, current assets and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion
33. Furthermore, in the separate financial statements material misstatements in Investments in subsidiary were identified; however as management subsequently corrected, this resulted in the financial statements receiving an unqualified audit opinion.

Other information

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

Internal control deficiencies

37. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

Leadership

38. Accounting authority did not exercise adequate oversight responsibility regarding financial and compliance and related internal controls.

Financial and performance management

39. Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information
40. There were inadequate reviews and monitoring of compliance with applicable legislation.

Auditor - General

Pretoria
30 August 2017

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

REPORT OF THE BOARD AUDIT AND RISK COMMITTEE

This report is provided by the Board Audit and Risk Committee collectively referred to as the Committee appointed in respect of the 2017 financial year for the Group.

Charter

The roles and responsibilities for 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 its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

Purpose

The audit committee's purpose and responsibilities arise from the Companies Act 71 of 2008 Section 94(7), 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 programme, 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 and comprise of at least three non-executive members. The committees consist of the members listed hereunder and should meet on a minimum of two occasions per annum as per the approved charter. During the financial year three meetings were held.

Name of member	Number
Mr M Moagi	1
Mr D Hlatshwayo	2
Mr T Sethosa	3
Adv L Mtunzi	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 2016/17 financial year and have approved the fees. The audit committee has satisfied itself that the Auditor-General of South Africa exercised its 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.

The Chief Audit Executive has direct access to the Committee, primarily through its Chairperson. The Committee is also responsible for the assessment of the performance of the internal audit function. In the 2012/13 financial year, an external effectiveness review was performed by the Institute of Internal Auditors (IIA), reporting positive results and rating the internal audit function as "general conformance" with the IIA Standards. The next external assessment will be done in 2018/19 financial year.

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

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

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 Group 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 Consolidated Annual Financial Statements for 2016/2017.

Appreciation

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

On behalf of the Audit Committee

Mr J Besnaar
Chairman Board Audit and Risk Committee
18 August 2017

REPORT ON PERFORMANCE AGAINST OBJECTIVES

Strategic Pillar					
Objective					
	Indicator	Target	Weight	Score	Status
1 Financial performance					
Financial sustainability					
	Return on Capital Employed	10% year-on-year improvement for the financial year ending on 31 March 2017	8%	1	FY 2017 RCE = 0.8% FY 2016 RCE = 2.3% Result 63.4% decline
	Solvency (Improve year on year)	10% Improvement Year on Year	8%	1	2017 Debt to Equity (Gearing) = 57.0%: 43.0% FY 2016 Debt to Equity (Gearing) = 58.17%: 41.9% Result 1.8% decline
	Liquidity (Maintain)	02:01	9%	3	FY 2017 Current ratio = 3.4:1 Result over 2:1
2 Contribute to security of energy supply					
Normal production					
	Total Indigenous GTL Refinery Production at PetroSA	2.459 Mbbls	10%	3	FYE Actual is 2.766 Mbbls vs Target of 2.459 Mbbls. PetroSA attempted to change its target to 3.147 Mbbls late in 2016, but did not follow the required process to change target, hence the revision was never concluded.
	Strategic stock volumes held by SFF	20 Days cover	4%	1	0 Days covered. 20 days' cover which is 10.3 Mbbls is YE Target not met. The strategic stock could not be replaced because of the contract review as instructed by the Minister.
	Coal sales by African Exploration	1.5Mt	8%	2	FYE Target not met as 1.425 Mt were sold, due to developments during 2016/17.
New Business Development					
	As per the subsidiary plan	As per subsidiary target	15%	2,35	This weighted average score for across all subsidiaries
3 Corporate Governance					
Sound corporate governance					
	Audit Score	An unqualified final audit for the 2016/17 financial	7%	3	The audit opinion is unqualified

Strategic Pillar						
	Objective					
		Indicator	Target	Weight	Score	Status
4 Innovation						
	Implement Video Conferencing Technology					
		Group entities' ability to link up through Video Conferencing	100% Completion by 31 March 2017	2%	2	The scope was broadened to include all subsidiaries. This is in accordance with business needs. This project required extension on time and will be completed 2017/18.
	Implement a MI System to consolidate financial reporting					
		MIS Tool implemented, automating consolidation of financial information from across the whole Group	100% Completion by 31 March 2017	2%	2	Project is revised to include the other entities and the resultant Group data consolidation and reporting.
	Enable HR Strategy through implementation of a comprehensive HR Information System					
		Selection of a comprehensive HR Information System	100% Completion by 31 March 2017	1%	2	EXCO resolved that CEF and other Information System Group subsidiaries should share IT Systems

5 Stakeholder management						
	Formalise stakeholder management process					
		Stakeholder management process and scorecard established and operational	Formulate Group Stakeholder management strategy	2%	3	The strategy is stated as a component of the Group corporate plan. This corporate operational plan was approved.
			Compile Group Communications Policy			Stakeholder engagement policy and procedure were compiled and approved by EXCO. Further, the policy is submitted to board for approval.
		Discretionary spend on B-BBEECompanies	1. SFF – 20% of discretionary spend	2%	3	SFF: R26.0 million discretionary spend on B-BBEE entities by 31 March 2017. This makes up 93%.
			2. PetroSA – 70-80% of discretionary spend			PetroSA – 96.6% of discretionary spend of R4.2 billion for FYE.
	Excellence in implementation of relevant SHEQS practices					
		Number of fatalities caused by operations	0	6%	1	2 Fatalities in the Group for the financial year 2016/17.
		Disabling injury frequency rate	DIFR less than or equal to 0.4 per 200000 hours in operational subsidiaries for the year ended 31 March 2017	1%	1	0 for AE; 0 for SFF; 0.69 for PetroSA. The weighted score is therefore 0.52 per 200000 hours for the CEF Group.
		Number of reportable environmental incidents	A maximum of 11 reportable environmental incidents by AE, PetroSA and SFF for the year ended 31 March 2017	2%	3	5 Incidents against the target of 11.
6 Human Capital Management						
	Redesign the employer brand such that it resonates with both employees and recruits; empowered and empowering leaders; and engaged high caliber employees					
		HR Sustainability Index	100% on HRSI (Scorecard (80% to 120%)).	13%	3	A significant portion of initiatives were rescheduled to later years due to a necessary sequencing for execution.
		TOTAL			3.61	
Achieved (3)						
Not achieved (1)						
Partially completed (2)						

DIRECTOR'S REPORT

1. Introduction

The Board has pleasure in submitting their report on the Consolidated Annual Financial Statement for the Group for the year ended 31 March 2017.

2. Nature of business

Our business

The principal activities of CEF are:

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

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

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

3. Shareholder's compact

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

4. Board of directors

Summary curricula vitae of each director, key activities and decisions of the Board and its committees and performance evaluations are set out in the governance section of the Integrated Report. The remuneration and fees paid to directors are set out in note 43 to the Consolidated Annual Financial Statements.

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

Directors	Office	Designation	Changes
Dr X Mkhwanazi	Chairperson	Non-Executive	Resigned Thursday, 08 September 2016
Adv L Mtunzi	Other	Non-Executive	
Ms M Molope	Non-Executive	Non-Executive	
Mr R Jawoodeen	Non-Executive	Non-Executive	Resigned Thursday, 07 July 2016
Mr MG Moagi	Other	Executive	
Mr T Maqubela	Other	Non-Executive	Resigned Tuesday, 20 December 2016
Mr G Bezuidenhoudt	Other	Non-Executive	
Mr T Sethosa	Alternate	Non-Executive	Resigned Tuesday, 20 December 2016
Mr L Makasi	Chairperson	Non-Executive	Appointed Tuesday, 20 December 2016
Mr N Mompati	Other	Non-Executive	Appointed Tuesday, 20 December 2016
Mr J Besnaar	Other	Non-Executive	Appointed Tuesday, 20 December 2016
Ms G Leketi	Alternate	Non-Executive	Appointed Tuesday, 20 December 2016

	Attendance Register															
Name of Director	**6-Apr-16**	**26-Apr-16**	**26-May-16**	**8-Jun-16**	**22-Jun-16**	**28-Jul-16**	**27-Sep-16**	**27-Oct-16**	**1-Dec-16**	**15-Dec-16**	**17-Jan-17**	**25-Jan-17**	**31-Jan-17**	**27-Feb-17**	**9-Mar-17**	**24-Mar-17**
	SB	B	B	SB	SB	SB	SB	B	SB	B	B	SB	B	B	SB	AGM
Dr X Mkhwanazi	Y	A	Y	A	A	Y	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mr T Maqubela	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N/A	N/A	N/A	N/A	N/A	N/A
Mr G Bezuidenhoudt	Y	A	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	A	Y	A	Y
Mr T Sethosa	A	A	Y	Y	Y	Y	Y	Y	Y	Y	N/A	N/A	N/A	N/A	N/A	N/A
Mr R Jawoodeen	Y	A	Y	Y	Y	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Adv L Mtunzi	A	Y	Y	A	A	Y	A	Y	Y	Y	Y	Y	Y	Y	Y	Y
Ms M Molope	Y	Y	A	A	A	Y	Y	Y	A	Y	Y	A	N	A	Y	A
Mr M Moagi	Y	Y	Y	Y	A	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Mr L Makasi	N/A	N/A	N/A	N/A	N	N/A	N/A	N/A	N/A	N/A	Y	Y	Y	A	Y	Y
Mr J Besnaar	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Y	Y	Y	Y	Y	Y
Ms G Leketi	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	A	N	Y	Y	Y	A
Mr N Mompati	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Y	Y	Y	Y	Y	Y

B – Board
AGM – Annual general meeting
SB – Special meeting
Y- Attended meeting
N – Did not attend meeting
A – Apology
N/A – Not a member at date of the meeting.
NB. The challenges faced by the Group at mainly PetroSA and SFF including the need for a revised strategy are reasons for the special Board meetings.

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

Name		Appointed	Resigned
Mr T Sethosa	Non-Executive	22 January 2015	20 December 2016
Mr MG Moagi	Non-Executive Chairperson	28 January 2016	20 December 2016
Adv L Mtunzi	Non-Executive	28 May 2016	
Mr J Besnaar	Non-Executive Chairperson	27 February 2017	
Mr N Mompati	Non-Executive	27 February 2017	

	23/05/2016	26/07/2016	08/08/2016
Mr T Sethosa	Y	Y	Y
Mr MG Moagi	Y	Y	N/A
Adv L Mtunzi	N/A	A	Y

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

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

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

Name		Appointed	Resigned
Adv L Mtunzi	Non-Executive	07 December 2016	
Mr G Bezuidenhoudt	Non-Executive	28 January 2016	
Ms M Molope	Non-Executive	28 January 2016	
Mr T Sethosa	Non-Executive	28 January 2016	20 December 2016

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

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

Name		Appointed	Resigned
Mr R Jawoodeen	Non-Executive	28 January 2016	07 July 2016
Mr G Bezuidenhoudt	Non-Executive	28 January 2016	
Ms M Molope	Non-Executive	28 January 2016	

Name	10/11/2017
Adv. L Mtunzi	Y
Ms. M Molope	Y
Mr. T Sethosa	Y

Governance and Nominations committee – This committee consists of the following members:

Name		Appointed	Resigned
Mr T Maqubela	Non-Executive	03 November 2014	20 December 2016
Mr T Sethosa	Non-Executive	01 September 2013	20 December 2016
Dr X Mkhwanazi	Non-Executive Chairperson	28 January 2016	08 September 2016
Mr M Moagi	Non-Executive	28 January 2016	
Adv L Mtunzi	Non-Executive	28 January 2016	
Mr G Bezuidenhout	Non-Executive	28 January 2016	

	05/07/2016	18/08/2016	17/11/2016
Mr T Sethosa (Alternate)	Y	Y	N/A
Mr T Maqubela	Y	Y	Y
Dr X Mkhwanazi	A	Y	N/A
Adv L Mtunzi	Y	Y	Y
Mr M Moagi	Y	Y	Y
Mr G Bezuidenhoudt	A	A	Y

5. Strategic overview and outlook

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

6. Performance for the year

Financial Summary

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

Consolidated R'000	2017	2016
Revenue	11 598 017	20 716 464
EBITDA	(746 747)	1 894 795
EBITDA margin %	(6.4)	9.1
Capital investment	855 553	2 319 965
Net asset value	14 258 377	15 021 282
Return on assets %	0.8	2.3
Return on equity (ROE) %	(4.6)	(1.5)
Cash generated from operations	327 525	6 796 694

None-Financial Summary

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

Natural capital

Upstream operations

- In Ghana, Jubilee average production was 73,713 stbbl/pd and they were below the target due to Turret problems that interrupted production, hence the drop in revenue. The TEN project remained on schedule and on budget throughout the development phase with first oil delivered in August 2016.

Alternative and Renewable Energy operations

- The first two phases from our equity interest of 29% in the 5MW Landfill gas power plant achieved commercial operation during the year supplying electricity.

Manufactured capital

Gas and Gas Infrastructure

- We are pleased to report the construction of the second loop line by Rompco has reached commercial operation. iGas investment in Rompco enabled 7,8 MGJ/pa capacity for the supply of gas in to South Africa.

Alternative and Renewable Energy

- In our 29% Landfill gas project, two of the five sites' constructions were completed for generating planned capacity combined 5MW to supply the market. One other site is expected to achieve commercial operation in July 2017 and the total generating capacity will be 13MW when all sites are fully operational.

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

6. Performance for the year (continued)

Material projects under study

Upstream SA operations

- E-BK: Two of the three planned data deployments have been completed successfully. A third deployment is currently in progress, and is planned for recovery end-January 2017. The route survey is currently planned for April 2017 when the vessel becomes available.
- In the West Coast: Block 2C & Block 5/6 and Block 3A/4A -The PetroSA board approved an alternative cost efficient way in executing the blocks in November 2016.
- In the South Coast: Two offers were received for the Block 9/11A Exploration Right. Discussions between PetroSA and the bidders are ongoing. Full due diligence on bidders are still in progress.

Upstream other African operations

- Deepwater Tano (DWT): No new wells will be completed and drilled until a ruling is reached on the maritime border issue between Ghana and Cote d'Ivoire.
- West Cape Three Points (WCTP): The Mahogany and Teak fields are to be incorporated into the Greater Jubilee Full Field Development Plan as some of the reservoirs are hydraulically connected to the Jubilee field. The Akasa field still requires further appraisal. An application to the Ghana Government was sent to extend the Akasa appraisal period by a further two years. A response from Ghana Government has not yet been received.
- Equatorial Guinea SOC Ltd (EG) Deregistration of the PetroSA Equatorial Guinea branch in Malabo, Equatorial Guinea is underway.

Integrated Midstream operations

- LNG Project: No material progress was made on the project due to new strategic direction from DOE with respect to the location for LNG terminal. PetroSA continues to work with CEF to support CEF's participation in the LNG project. In addition to this, further work will be done to evaluate the commerciality of importing gas as feedstock for the GTL Refinery.
- Enhanced Condensate Processing ECP): Technical feasibility study was initiated in the period under review and will be completed by May 2017. The risk of enhanced condensate processing option remains extreme as the diesel product crack declined and economic indicators are not not improving.

Coal mining operations

- The Vlakfontein Mine Extension is at an advanced stage to double current production by the 2018/2019 financial year pending regulatory approvals which the team is working hard to fast track.
- The Klippoortjie Mine is at feasibility stage and is awaiting finalisation of the regulatory approvals and finalisation of the surface rights access/acquisition.
- The T Project mine commissioning is at capital raising stage and Eskom Coal Supply Agreement negotiation stage for which first is expected in the second half of the 2018/2019 financial year.
- Strategic acquisitions that become available in the market in collaboration with Black Owned Entities as part of the company's growth strategy.
- Other exploration rights that the company owns which continue to be developed through various stages to provide a platform for further growth and sustainability.

6. Performance for the year (continued)

Gas and Gas Infrastructure

- iGas, as part of their investment and shareholder responsibilities, supported Rompco to successfully commission and start operations of the second loop line in Mozambique. This Rompco project was below budget and within schedule allowing more gas, from 1 January 2017, to be transported to the South African market and create the opportunity for more gas to be transported within Mozambique and to South Africa.
- As part of the government's LNG to power programme iGas has completed a detailed gas transportation pipeline routing, ready for an EIA, from Saldahna Bay to supply the Eskom power generation plant at Atlantis. The Department of Energy IPP Office in October 2016 noted that the preferred ports of import for LNG were Richards Bay and Coega. This project has been completed subject to a business case for gas supply.
- iGas has identified gas resources for the South African market and these projects are presently being reviewed internally.

Alternative and Renewable Energy

- Progress on studies and development on the 15% expressed equity interest on the 100MW CSP and 10% to 20% on the 150MW CSP, has been impeded by Eskom's delaying the signing of Power Purchase Agreements.
- The Minister of Energy issued a Determination allocating 1500MW to be procured from solar technologies, which was, promulgated on 27 May 2016. This Determination stipulates that state owned entities (SOEs) will take a minority equity stake in the Solar Park Project. CEF is working with closely with IPPO in the conceptualisation and framing of this projects. CEF will be the preferred SOE to take the minority equity stake as stipulated in the Solar Park Determination and also lead some of development activities, whilst IPPO should lead the selection of the strategic private partner.

7. Accounting policies

The accounting policies applied in the preparation of the Annual Consolidated Financial Statements for the year ended 31 March 2017 are in accordance with IFRS and are consistent with those applied in the prior year. Judgments and estimates made by management in the application of IFRS that have a significant impact on the Consolidated Annual Financial Statements are disclosed in the accompanying notes.

8. Share capital

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

9. Dividend distribution

Dividend Policy

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

- Shareholder approval after the Board resolution for a dividend distribution;
- The commitments as per the strategic objectives for investments and feasibility study expenditures in fulfilling the shareholder mandate; and
- The Group will reasonably satisfy the solvency and liquidity test immediately after completing the proposed distribution.

The declaration of dividends is reviewed annually, subject to the approval by the Shareholder representative in the AGM or through a Section 54 approval.

Dividend in Specie

Board declared the investment at PASA as a dividend in specie to the State (represented by DoE) on March 2017; subsequent to the request from Minister of Energy for CEF to develop modalities for the transfer of PASA to Department of Minerals. The transfer of PASA will result into a single reporting line for PASA as currently, the corporate mandate and ownership for PASA remains with the DoE; however the policy mandate has been assigned to the DMR resulting into multiple lines of accountability.

10. Investments

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

11. Impairment of assets

The Group performs an assessment for impairment of the property plant and equipment, and intangible and financial assets in line with the Group accounting policy. The total net impairment reversal for the year was R590 million. Included in the net amount is an impairment charge for the GTL R1.2 billion, however the R2.280 billion relate to a reversal of previous years' impairment relating. Additionally our intangible assets were impaired by R171 million and financial assets by R445 million. For more details on impairment refer to notes 3, 4 and 30 to the Consolidated Annual Financial Statements.

12. Capital expenditure and commitments

The Group's capital investment for the year ended 31 March 2017 amounted to R855.553 million (including intangible assets and capitalised borrowing costs). This represents a 63% decrease from the prior year investment of R2.319 billion, mainly as a result of delays on our feasibility and development studies pursuant to the challenges on off-takes and re-determination and priorities in capital rationing for upstream projects. R633.805 million of the capital expenditure was invested in the expansion projects and the Group equipment R216.650 million was invested to maintain capacity provided by our assets.

To support our strategic and developmental agenda, the Board has approved R1.315 billion but only contracted for R555 million. Further details regarding capital expenditure and commitments are reflected in the cash flow from investing activities and note 38 to the Consolidated Annual Financial Statements consecutively.

13. Contingencies

Refer to Note 39: Contingencies for the detailed disclosure.

14. Funding

Capital structure

The Group business and operating leverage is capital intensive and such activities require financial leverage to take of debt financing benefits given the capacity available towards our target debt to equity ratio. The Group debt is made up of operating debt and includes a reserved based loan of R866.846 million for the year.

Consolidated R'000	2017	2016
External Borrowings (Existing)	866 846	1 618 875
Gearing %	6.1	10.8
Cash Interest ratio as per NT	2.3	88.4

14. Funding (continued)

Funding of the decommissioning liability provision

In terms of the financial provision regulations which were promulgated under the National Environmental Management Act 107 of 1998, PetroSA is required to review, assess and adjust its financial provision before February 2019. At year-end the company had an obligation to rehabilitate and abandon its offshore and onshore facilities valued at R9.6 billion, which is currently not fully funded. Given that PetroSA has set aside R2.2 billion there is an identified projected shortfall of approximately R7.4 billion in PetroSA's closure financial provision. As per the approved corporate plan the gap would be funded over time in line with the expected maturity of the liability. Therefore, there are challenges with funding the current shortfall from equity due to PetroSA's weakened financial position, which has emanated from depleting feedstock, the limited success of Project Ikhwezi and the significant decline in crude oil prices. CEF has committed to assist PetroSA as far as it is able to close the funding gap, financially or non-financially, through various support and oversight mechanisms. In addition, CEF and PetroSA are working closely with the regulator (Petroleum Agency of South Africa) to ensure PetroSA discharges its responsibilities as required under NEMA.

15. Events after reporting date

Distribution of PASA investment

A final approval for the disposal of the investment was obtained in April 2017 from the Minister of Energy in terms of section 54(2) of the Public Finance Management Act with conditions yet to be fulfilled. Up to the date the CEF Group financial statement were published, the transfer is not effective due to the conditions that must be fulfilled as contained in the Section 54 approval from the Minister. No adjustments have been made to the financial statements except for the disclosure in note 18 to the financial statements.

16. Going concern

The Board is confident that the going concern assumption is appropriate in the preparation of the Group Consolidated Annual Financial Statements for the year ended 31 March 2017. While difficult economic conditions persist, the Board and management continuously review the operational and financial risks of the Group and ensure that appropriate initiatives, strategies and controls are in place to mitigate the risks and their impact on business.

17. Litigations

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 39 to the Consolidated Annual Financial Statements for the list of contingencies.

18. Compliance and legislation

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

PFMA

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

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

The PFMA impose obligations on the Board for subsidiaries relating to the prevention, identification and reporting of fruitless and wasteful expenditure; irregular expenditure; expenditure that does not comply with operational policies; losses of state resources through criminal conduct and the collection of all revenue.

The Board has a materiality framework, which was approved by the Shareholder Representative. The Shareholder has approved that the materiality Group limit for reporting in terms of sections 55(2)(b)(i), (ii) and (iii) of the PFMA is R635 million per transaction. All amounts are based on Consolidated Annual Financial Statement at 31 March 2015.

APPROVAL LEVELS IN TERMS OF SECTION 54

All amounts are based on Audited financial statement at 31 March 2015.

Figures R' 000	Group	PetroSA	CEF	PASA	AE	I-Gas	SFF	OPC	CCE	ETA
Public Entity's board approval levels	<634 631	<396 615	–	<6 292	<2 772	<57 831	<135 760	<710	<1 004	<34
CEF Board to approve	<634 631	>396 615	<634 631	>6 292	<2 772	<57 831	<135 760	<710	<1 004	<34
Obtain DoE approval and inform National Treasury via the top-most holding company	>634 631	>634 631	>634 631	>634 631	>634 631	>634 631	>634 631	>634 631	>634 631	>634 631

Irregular expenditure and fruitless and wasteful expenditure

For the list of the transgressions and management actions, refer to note 49 and 50 of the Consolidation Annual Financial Statements. In terms of this materiality framework, the following two items, albeit still under investigation, are reported as irregular expenditure

19. Economic regulation and regulatory reform

Economic drivers

The tariffs of two for SFF (Petrochemical infrastructure) and iGas investment asset (Pipelines) and are regulated by the National Energy Regulation Act (NERA). For the trading of petrochemical products the Group is affected by the Petroleum Product Act 58 of 2003 and its Regulations.

Investments and Asset Retirement Obligations

Our mandate stems from the CEF Act directing the Group's mandate which triggers significant matters for compliance while executing this mandate. Under the PFMA, section 54 is a key section read with section 3(3), 13 and section 112 of the Companies Act for the acquisition and disposals of significant assets. MPRDA read with NEMA and NERA regulates the recognition and measurement and the funding of decommissioning and rehabilitation of environment on asset retirement.

The Financial Provision required for funding of the decommissioning and rehabilitation liability has been deferred to April 2019 for the industry affected companies in general.

CEF Group opportunities

There are a lot of uncertainties that impact the Group due to delay in enactment of the revised MPRDA and the Mining Charter clarifying the 20% state carry on oil and gas finds off and on-shore and the role of the State in mining sector in South Africa.

Those charged with governance are assessing how to influence the Mandatory Blending of Biofuels Regulation and the Clean Fuels 2 Policy and its impact on our business model in relation to additional storage infrastructure build and the additional refining capacity planned for our growth strategy.

20. Contract Review

The contract review process undertaken by external legal advisors, which was triggered by the disposal of the strategic fuel stock, was completed at the beginning of the first quarter of 2017. The report resulting from that process concluded that the disposal of the strategic fuel stock was invalid and void for various reasons, including for failure by the Strategic Fuel Fund to procure the requisite approvals before entering into the contracts with the buyers of the strategic fuel stock. The revenue of R3.9 billion, which was recognised during the 2015/2016 financial year and the storage revenue, interest earned on proceeds from sale and accrual for the insurance since the transaction date might have to be reversed, depending on the remedy prescribed by the courts.

21. Auditors

The Auditor-General of South Africa continued in office as auditors for the Group and its subsidiaries for 2016/17. At the AGM, the shareholder will be requested to re-appoint the Auditor-General of South Africa as the independent external auditors of the Group and to confirm Ms Z. Zwakala as the designated lead audit partner for the 2016/17 financial year.

22. Annual general meeting

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

23. Company secretary

The Group secretary is Mr A Haffejee.

Postal address P O Box 786141
Sandton 2146
Business Address, Block C, Upper Grayston Office Park 152 Ann Crescent
Sandton 2031

24. Acknowledgments

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

The Consolidated Annual Financial Statements set out on pages which have been prepared on the going concern basis; were approved by the Board on 29 August 2017; and were signed on its behalf by:

Mr L Makasi (Chairperson)
Johannesburg
29 August 2017

Mr MG Moagi (Executive)
Johannesburg
29 August 2017

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2017

Figures in Rand thousand	Note(s)	2017	Restated 2016
Assets			
Non-current Assets			
Property, plant and equipment	3	9 050 665	10 583 072
Intangible assets	4	1 644 393	1 911 297
Investments in associates	7	909 106	670 988
Loans to Group companies	8	32 829	236 062
Other financial assets	9	183 572	344 985
Finance lease receivables		–	556
Deferred tax	12	334 771	386 601
Prepayments	13	830	933
Strategic inventory	14	1 123 998	971 895
		13 280 164	**15 106 389**
Current Assets			
Inventories	15	1 880 923	1 992 402
Trade and other receivables	16	2 097 403	2 155 658
Prepayments	13	103 820	351 464
Current tax receivable		14 931	5 557
Cash and cash equivalents	17	15 694 839	16 153 551
		19 791 916	**20 658 632**
Non-current assets held-for-sale and assets of disposal groups	18	88 639	50 000
Total Assets		**33 160 719**	**35 815 021**
Equity and Liabilities			
Equity			
Reserves		1 845 841	2 071 868
Retained income		12 413 560	12 950 318
Attributable to equity holders of parent		14 259 401	15 022 186
Non-controlling interest		(1 024)	(904)
		14 258 377	**15 021 282**
Liabilities			
Non-current Liabilities			
Other financial liabilities	23	866 846	1 201 666
Retirement benefit obligation	11	136 274	121 172
Deferred tax	12	1 888 793	1 768 004
Provisions	24	10 157 761	11 605 388
Other non-current liabilities	25	79 863	15 741
		13 129 537	**14 711 971**

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2017 (CONTINUED)

Figures in Rand thousand	Note(s)	2017	Restated 2016
Current Liabilities			
Trade and other payables	26	5 527 817	5 463 354
Other financial liabilities	23	88 943	56 202
Current tax payable		-	6 607
Provisions	24	137 130	138 396
Bank overdraft	17	-	417 209
		5 753 890	6 081 768
Liabilities of disposal groups	18	18 915	-
Total Liabilities		18 902 342	20 793 739
Total Equity and Liabilities		33 160 719	35 815 021

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2017

Figures in Rand thousand	Note(s)	2017	Restated 2016
Revenue	27	11 598 017	20 716 464
Cost of sales	28	(11 037 915)	(16 248 005)
Gross profit		**560 102**	**4 468 459**
Other income	29	342 084	662 998
Operating expenses		(1 841 115)	(5 418 173)
Operating loss	**30**	**(938 929)**	**(286 716)**
Investment revenue	31	943 062	709 132
Income from equity accounted investments		300 280	305 212
Finance costs	32	(572 878)	(553 256)
(Loss)/profit before taxation		**(268 465)**	**174 372**
Taxation	33	(331 010)	(368 329)
Loss for the year		**(599 475)**	**(193 957)**
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurements on net defined benefit liability/asset		(4 992)	(3 807)
Gains and losses on property revaluation		(22 669)	(22 860)
Total items that will not be reclassified to profit or loss		**(27 661)**	**(26 667)**
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		(203 864)	453 757
Effects of cash flow hedges (share of other comprehensive income of associates)		511	(108)
Total items that may be reclassified to profit or loss		**(203 353)**	**453 649**
Other comprehensive income for the year net of taxation	**35**	**(231 014)**	**426 982**
Total comprehensive (loss)/income for the year		**(830 489)**	**233 025**
Loss attributable to:			
Owners of the parent		(599 357)	(193 776)
Non-controlling interest		(118)	(181)
		(599 475)	**(193 957)**
Total comprehensive (loss)/income attributable to:			
Owners of the parent		(830 371)	233 206
Non-controlling interest		(118)	(181)
		(830 489)	**233 025**

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2017

Figures in Rand thousand	Foreign currency translation reserve	Hedging reserve (Share of associate)
Opening balance as previously reported	381 822	(302)
Adjustments		
Prior period error	–	–
Balance at 1 April 2015 as restated	**381 822**	**(302)**
Loss for the year	–	–
Other comprehensive income	453 757	(108)
Total comprehensive loss for the year	**453 757**	**(108)**
Transfer from revaluation reserve to retained earnings	–	–
Adjustment on reserves	–	–
Adjustment on opening reserves balance	–	(127)
Total contributions by and distributions to owners of company recognised directly in equity	**–**	**(127)**
Opening balance as previously reported	835 579	(537)
Adjustments		
Prior period errors	–	–
Balance at 1 April 2016 as restated	**835 579**	**(537)**
Loss for the year	–	–
Other comprehensive income	(203 864)	511
Total comprehensive loss for the year	**(203 864)**	**511**
Transfer from revaluation reserve to retained income	–	–
Adjustments on retained earnings due to equity accounting	–	–
Adjustments on retained earnings due to equity accounting of an associate (different reporting date)	–	(5)
Adjustment on opening reserves balance		
Other adjustments on retained earnings	–	–
Total contributions by and distributions to owners of company recognised directly in equity	**–**	**(5)**
Balance at 31 March 2017	**631 715**	**(31)**
Note(s)	20&35	21&35

Revaluation reserve	Total reserves	Retained income	Total attributable to equity holders of the Group/ Company	Non-controlling interest	Total equity
1 319 310	1 700 830	13 094 835	14 795 665	(483)	14 795 182
(59 624)	(59 624)	35 740	(23 884)	–	(23 884)
1 259 686	**1 641 206**	**13 130 575**	**14 771 781**	**(483)**	**14 771 298**
–	–	(193 776)	(193 776)	(181)	(193 957)
(22 860)	430 789	(3 807)	426 982	–	426 982
(22 860)	**430 789**	**(197 583)**	**233 206**	**(181)**	**233 025**
–	–	17 305	17 305	–	17 305
–	–	–	–	(240)	(240)
–	(127)	21	(106)	–	(106)
–	**(127)**	**17 326**	**17 199**	**(240)**	**16 959**
1 302 005	2 137 047	12 929 050	15 066 097	(904)	15 065 193
(5 555)	(5 555)	(14 475)	(20 030)	–	(20 030)
1 236 826	**2 071 868**	**12 950 318**	**15 022 186**	**(904)**	**15 021 282**
–	–	(599 357)	(599 357)	(118)	(599 475)
(22 669)	(226 022)	(4 992)	(231 014)	–	(231 014)
(22 669)	**(226 022)**	**(604 349)**	**(830 371)**	**(118)**	**(830 489)**
–	–	22 669	22 669	(2)	22 667
–	–	45 456	45 456	–	45 456
–	(5)	–	(5)	–	(5)
–	–	(534)	(534)	–	(534)
–	**(5)**	**67 591**	**67 586**	**(2)**	**67 584**
1 214 157	**1 845 841**	**12 413 560**	**14 259 401**	**(1 024)**	**14 258 377**
22&35		35			

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2017

Figures in Rand thousand	Note(s)	2017	Restated 2016
Cash flows from operating activities			
Cash generated from operations	36	327 525	6 796 694
Interest income		1 013 455	777 438
Dividends received		151 520	150 950
Finance costs		(142 921)	(76 929)
Tax paid	37	(111 942)	(98 393)
Net cash from operating activities		**1 237 637**	**7 549 760**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(803 975)	(2 085 786)
Sale of property, plant and equipment	3	75 371	39 478
Purchase of other intangible assets	4	(42 914)	(67 134)
Sale of other intangible assets	4	1 106	2 812
Investments in associates/Joint ventures		(8 664)	(167 045)
(Repayment)/Additions of Group loans		–	229 508
Sale/(Purchase) of financial assets		161 413	(126 451)
Purchase of property, plant and equipment - disposal group assets		(6 007)	–
Net cash from investing activities		**(623 670)**	**(2 174 618)**
Cash flows from financing activities			
(Repayment)/Additions in other financial liabilities		(302 079)	345 201
Decrease in unearned finance income		–	310
Loans from Group companies		–	(405)
Movement in loans from Group companies		(57)	–
Movement in deferred income/other non-current liabilities		64 122	15 038
Decrease in operating lease payments		–	14 472
Finance lease receipts		–	376
Net cash from financing activities		**(238 014)**	**374 992**
Total cash movement for the year		**375 953**	**5 750 134**
Cash at the beginning of the year		15 736 342	10 077 245
Effect of exchange rate movement on cash balances		(417 460)	(91 031)
Total cash at end of the year	17	**15 694 839**	**15 736 342**

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2017

1. Presentation of Consolidated Annual Financial Statements

Basis of preparation

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, except as stated in the notes below.

The preparation of the consolidated financial statements in conformity with IFRS require 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.

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

Comparative figures

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

1.1 Principal accounting policies

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, unless otherwise stated.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the Annual Financial Statement in terms of the International Financial Reporting Standards, the Group's management is required to make certain estimates and assumptions that may materially affect reported amounts of assets and liabilities at the date of the Annual Financial Statement and the reported amounts of revenues and expenses during the reported period and the related disclosures. As these estimates and assumptions concern future events, due to the inherent uncertainty involved in this process, the actual results often vary from the estimates. These estimates and judgements are based on historical experience, current and expected future economic conditions and other factors, including expectations of the future events that are believed to be reasonable under the circumstances.

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 a determination is made.

Environmental, decommissioning and rehabilitation provision

The determination of long-term provisions, in particular environmental provisions, remains a key area where management's judgement is required. Estimating the future cost of these obligations is complex and requires management to make estimates and judgements because most of the obligations will only be fulfilled in the future and contracts and laws are often not clear regarding what is required. The resulting provisions could also be influenced by changing technologies and political, environmental, safety, business, the exchange rate, inflation, discount rate and statutory considerations.

1.2 Significant judgements and sources of estimation uncertainty (continued)

It is envisaged that, based on the current information available, any additional liability in excess of estimates is based on costs that are regularly reviewed, by internal and external experts, and adjusted as appropriate for new circumstances.

Other provisions
For other provisions, estimates are made of legal or constructive obligations resulting in the raising of provisions, and the expected date of probable outflow of economic benefits to assess whether the provision should be discounted.

Recoverability of assets
The Group assesses its cash-generating units (CGUs) at each reporting period to determine whether any indication of impairment exists. Impairment tests are performed when there is an indication of impairment of assets or a reversal of previous impairments of assets. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs of disposal (FVLCD) and value in use (VIU). Management therefore has implemented certain impairment indicators and these include movements in exchange rates, commodity prices and the economic environment its businesses operate in. Estimates are made in determining the recoverable amount of assets which include the estimation of cash flows and discount rates used. In estimating the cash flows, management bases cash flow projections on reasonable and supportable assumptions that represent managements' best estimate of the range of economic conditions that will exist over the remaining useful life of the assets, based on publicly available information. The discount rates used are pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the assets for which the future cash flow estimates have not been adjusted. These estimates and assumptions are subject to risk and uncertainty.

Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of CGUs.

Impairments and impairment reversals
Impairment tests are performed when there is an indication of impairment of assets or a reversal of previous impairments of assets. Management therefore has implemented certain impairment indicators and these include movements in exchange rates, commodity prices and the economic environment its businesses operate in. Estimates are made in determining the recoverable amount of assets which include the estimation of cash flows and discount rates used. In estimating the cash flows, management base cash flow projections on reasonable and supportable assumptions that represent managements' best estimate of the range of economic conditions that will exist over the remaining useful life of the assets, based on publicly available information. The discount rates used are post-tax rates that reflect the current market assessment of the time value of money and the risks specific to the assets for which the future cash flow estimates have not been adjusted.

Mineral reserve and resource estimates
Mineral reserves are estimates of the amount of mineral that can be economically and legally extracted from the Group's mineral properties. The Group estimates its commercial reserves and resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the mineral body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of mineral in place, recovery factors and future commodity prices.

Future development costs are estimated using assumptions as to the number of wells and drill holes required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs.

1.2 Significant judgements and sources of estimation uncertainty (continued)

As the economic assumptions used may change and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Group's reported financial position and results which include:

a) The carrying value of exploration and evaluation assets and production assets may be affected due to changes in estimated future cash flows.
b) Depreciation and amortisation charges in the Statement of Profit or Loss may change where such charges are determined using the units of production (UOP) and life of mine (LOM) method.
c) Provisions for decommissioning may change, where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities.
d) The recognition and carrying value of deferred tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets.

Depreciation of mineral assets
Mineral properties are depreciated using the Units of Production (UOP) method. The actual production for the period is divided by the total proved developed and undeveloped mineral reserves. This results in a depreciation/amortisation charge (UOP rate) and life of mine (LOM rate) proportional to the depletion of the anticipated remaining production from the field.

The life of each item, which is assessed at least annually, has regard to both its physical life limitations and present assessments of economically recoverable reserves of the field at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. The calculation of the UOP and LOM rate of depreciation/amortisation will be impacted to the extent that actual production in the future is different from current forecast production based on total proved reserves whereas the life of each item and the total recoverable reserves is impacted by future capital expenditure (because the future estimated capex does not affect the UOP and LOM rate directly, it only affects the life and value of the assets to be depreciated).

Estimated economically recoverable reserves are used in determining the depreciation and/or amortisation of mine specific assets. This results in a depreciation/amortisation charge proportional to the depletion of the anticipated remaining life-of-mine production. The life of each asset, which is assessed at least annually, has regard to both its physical life limitations and present assessments of economically recoverable reserves of the mine property at which the asset is located.

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.

1.2 Significant judgements and sources of estimation uncertainty (continued)

Contingent liabilities
Management considers the existence of possible obligations which may arise from legal action as well as the possible non-compliance to the Companies Act, PFMA and the CEF Act, as well as the requirements of completion guarantees and other guarantees provided. The estimation of the amount disclosed is based on the expected possible outflow of economic benefits.

Exploration and evaluation expenditure
The amount of intangible exploration and evaluation assets represent active exploration assets. These amounts will be written off to the Statement of Profit or Loss and Comprehensive Income as exploration costs unless commercial reserves are established or the determination process is not completed and there are no indicators of impairment.

The key areas in which management have applied judgement are as follows: The Group's intention to proceed with future work programme for a prospect or license, the likelihood of licence renewal or extension, and the success of a well result or geological or geophysical survey.

Fair value measurement of financial instruments
When the fair values of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the 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.

Allowance for slow moving, damaged and obsolete stock
Net realisable value tests are performed at each reporting date and an allowance for stock to write stock down to the lower of cost or net realisable value is made. Management have made estimates of the selling price, production costs and cost to sell on certain inventory items. The write-down is included in operating expenses.

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 part of non-current assets.

Operating lease commitments – Group as lessor
The Group has entered into commercial property leases on its buildings and tanks. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Joint arrangements
Judgement is required to determine when the company has joint control, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The company has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement.

1.2 Significant judgements and sources of estimation uncertainty (continued)

Judgement is also required to classify a joint arrangement as either a joint operation or joint venture. Classifying the arrangement requires the company to assess their rights and obligations arising from the arrangement.

Specifically, the company considers:

- The structure of the joint arrangement – whether it is structured through a separate vehicle;
- The rights and obligations arising;
- The legal form of the separate vehicle; and
- The terms of the contractual arrangement.

Key management personnel
Key management personnel for the Group have been identified to be Chief Executive Officers for operating subsidiaries and the holding company.

1.3 Consolidated Annual Financial Statement

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

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

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on the investment in its associates or joint ventures and then recognises the loss as an impairment loss in the Statement of Profit or Loss.

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

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

1.4 Property, plant and equipment

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

Cost includes the purchase price or construction costs, the present value of the expected cost for the decommissioning and environmental rehabilitation of an asset after its use and qualifying borrowing costs.

When plant and equipment comprise major components with different useful lives, these components are accounted for as separate items.

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

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	5–65 years
Plant and machinery	Straight line	3–80 years
Furniture, fixtures and equipment	Straight line	3–20 years
Motor vehicles	Straight line	4–15 years
IT equipment	Straight line	2–10 years
Restoration costs	Straight line	Life of mine
Mine infrastructure	Straight line	5–20 years limited to life of the mine
Shutdown costs	Straight line	3–5 years
Production assets	Straight line	3–20 years limited to life of the mine/ units of production

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year-end and adjusted prospectively, if appropriate.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consists of interest and other costs that an entity incurs in connection with the borrowing of funds.

1.5 Capitalised stripping costs

Waste removal costs incurred in the production phase are incurred for production of inventory as well as the creation of future benefits by improving access to the ore to be mined, the latter being referred to as a stripping activity asset. Judgement is required to distinguish between these two activities. The ore bodies need to be identified in its identifiable components. An identifiable component is a specific volume of the ore body that is made more accessible by the stripping activity. Judgement is required to identify and define these components, and to determine the expected volumes (tonnes) of waste to be stripped and ore to be mined in each of these components. These assessments are based on a combination of information available in the mine plans, specific characteristics of the ore body and the milestones relating to major capital investment decisions.

1.5 Capitalised stripping costs (continued)

Judgement is required to identify a suitable production measure that can be applied in the calculation and allocation of production stripping costs between inventory and the stripping activity asset. The ratio of expected volume (tonnes) of waste to be stripped for an expected volume (tonnes) of ore to be mined for a specific component of the ore body, compared to the current period ratio of actual volume (tonnes) of waste to the volume (tonnes) of ore is considered to determine the most suitable production measure. These judgements and estimates are used to calculate and allocate the production stripping costs to inventory and/or the stripping activity asset(s). Furthermore, judgements and estimates are also used to apply the depreciation method in determining the depreciable lives of the stripping activity asset.

The process of removing overburden and other mine waste materials to access mineral deposits is referred to as stripping. In open-pit mining, stripping costs are accounted for separately for each component of an ore body. A component is a specific section within an ore body that is made more accessible by the stripping activity. The identification of components is dependent on the mine plan.

There are two types of stripping activities:

- 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.

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 a 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. The production stripping asset is accounted for as an addition or enhancement to the mine infrastructure. The asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component, plus an allocation of attributable overheads. If the production stripping asset and the inventory produced are not separately identified, a production measure is used to allocate the production stripping costs between the inventory produced and the production stripping asset.

Production stripping assets are carried at cost less depreciation and impairment loss.

1.6 Intangible assets

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

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.

Alternative energy research and development costs
Research expenditure relating to gaining new technical knowledge and understanding is charged to the Statement of Profit or Loss when incurred.

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

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

Patents and licences
The Group also has internally generated patents that were developed by internal experts. These patents have an indefinite useful life.

Patents purchased are granted to be used for the duration of the contract by the relevant owner with the option of renewal at the end of this period.

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

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

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

1.7 Exploration, evaluation and development

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

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 activities involve the search for hydrocarbons resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

1.7 Exploration, evaluation and development (continued)

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.

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 Statement of Profit or Loss.

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 Statement of Profit or Loss when the well is identified as being dry and the costs of carrying and retaining undeveloped properties are charged to the Statement of Profit or Loss as incurred.

Coal mining

Coal mining exploration and evaluation expenditure is charged to the Statement of Profit or Loss 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.

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.

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.

1.7 Exploration, evaluation and development (continued)

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 comparing 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

Financial assets and financial liabilities are recognised in the Consolidated Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

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

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

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

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

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

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

Impairment of financial assets
The Group assesses at each Statement of Financial Position date whether a financial asset or group of financial assets is impaired.

1.8 Financial instruments (continued)

Loans and receivables

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

Financial liabilities

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

Financial liabilities measured at amortised cost

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

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

Fair value determination

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate to the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Impairment of financial assets

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

For amounts due to the Group, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default on 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.

1.8 Financial instruments (continued)

Impairment losses are recognised in profit or loss.

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

Reversals of impairment losses are recognised in profit or loss.

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

1.9 Tax

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

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

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

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

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

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

Royalty taxes
In addition to corporate income taxes, the Group recognises taxes on royalty income. Royalty tax is treated as a taxation arrangement when it has the characteristics of a tax. This is considered to be the case when it is imposed under government authority and the amount payable is calculated by reference to revenue derived (net of any allowable deductions) after adjustment for temporary differences.

1.9 Tax (continued)

Value-Added Tax (VAT)

Expenses and assets are recognised net of the amount of VAT, except:

- when the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, where applicable, receivables and payables are stated with the amount of VAT included. The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

1.10 Leases

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

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

Group as a lessee

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

Operating lease payments are recognised as an operating expense in the Statement of Profit or Loss on a straight-line basis over the lease term.

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

Group as a lessor

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

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

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

1.11 Inventories

Inventories are valued at the lower of cost and net realisable value and the costs are determined using the weighted average method. There are five types of inventory in the Group:

Unpumpable crude oil/crude oil sludge

These items are initially measured at historical and subsequently measured at costs less accumulated depreciation and impairment.

Depreciation is charged so as to write-off the depreciable amount of the assets over their estimated useful lives, using the straight-line method. The useful life of the assets is between five and 80 years.

1.11 Inventories (continued)

Strategic inventory

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

The carrying amount of the strategic crude oil is expected to be realised more than 12 months after the reporting date, thus it is included in non-current assets. The net realisable value is referenced against the crude oil market prices from Platts. This is based on the exercises where benchmarking had to be done to the Platts data.

Also included in strategic inventory is diesel. The diesel was acquired by the Group but has been pumped into Transnet's pipeline in order for that pipeline to operate. The diesel remains in the pipeline at all times. Although the diesel is in a pipeline owned by Transnet, the diesel still belongs to the Group and will be returned to the Group in the same condition (quality) when the pipeline ceases to operate. This is revalued annually against the market prices.

Petroleum products

Finished and intermediate inventory is measured at the lower of cost and net realisable value according to the standard costing method. Cost includes production expenditure, depreciation and a proportion of triennial turnaround expenses and replacement of catalysts, as well as transport and handling costs. Provision is made for obsolete, slow moving and defective inventories.

Coal inventory

Cost includes expenditure incurred in acquiring, manufacturing and transporting the inventory to its present location. Manufacturing costs include an allocated portion of production overheads, which are directly attributable to the cost of manufacturing such inventory.

Net realisable value is the estimated future sales price of the product the entity expects to realise when the product is sold, less estimated costs to bring the product to sale.

The future sales price is based on Eskom's fixed price as the majority of sales are made to Eskom.

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 discontinued operations

The Group classifies non-current assets and disposal groups as held-for-sale/held for distribution to owners if their carrying amounts will be recovered principally through a disposal rather than through continuing use. Such non-current assets and disposal groups classified as held for disposal are measured at the lower of their carrying amount and fair value less costs to sell or to distribute. Costs to distribute are the incremental costs directly attributable to the distribution, excluding the finance costs and income tax expense.

The criteria for held for disposal classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate disposal and transfer in its present condition. Actions required to complete the disposal should indicate that it is unlikely that significant changes to the disposal will be made or that the disposal will be withdrawn. The probability of shareholders' approval (if required in terms of the PFMA and other applicable laws and regulations) should be considered as part of the assessment of whether the distribution/sale is highly probable. Management must be committed to the disposal expected within one year from the date of the classification.

1.12 Non-current assets held-for-sale and discontinued operations (continued)

Depreciation of assets ceases from the date of classification in non-current assets held-for sale.

Assets and liabilities classified as held for disposal/distribution to owners are presented separately as current items in the Consolidated Statement of Financial Position.

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

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

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the Statement of Profit or Loss.

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

1.13 Impairment of assets

The Group assesses, at each reporting date, whether there is an indication that an asset (other than inventory and deferred tax asset) may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the assets recoverable amount. An assets recoverable amount is the higher of an assets 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, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the Statement of Profit or Loss in expense categories consistent with the function of the impaired asset.

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 its recoverable amount.

1.14 Materiality and aggregation

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the Financial Statements. The nature and size of the line item is also taken into consideration.

Line items that are not considered to be individually material are aggregated with other items in the statements and disclosed separately in the notes.

1.15 Employee benefits

Short-term employee benefits
Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined contribution plans
The Group operates a defined contribution plan, the assets of which are held in a separate trustee administered fund. When there are no assets held separately to fund the defined contribution plan, the retirement benefit obligation is funded through operating assets of the Group.

The plan is funded by payments from the Group, and takes into account the recommendations of independent, qualified actuaries.

Contributions to a defined contribution plan in respect of service in a particular period are recognised as an expense in that period.

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 healthcare to certain retirees. The entitlement to pension and post-retirement healthcare benefits is based on the eligible employees remaining in service up to retirement age. These benefits are funded by the Group. The cost of providing retirement benefits under a defined benefit plan is determined using a projected unit credit valuation method. The liability recognised in the Statement of Financial Position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets.

Remeasurements, comprising actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the Statement of Financial Position with a corresponding debit or credit to OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of the date of the plan amendment or curtailment and the date that the Group recognises related restructuring costs. Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation in the Statement of Profit or Loss

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements; and
- Net interest expense or income.

1.15 Employee benefits (continued)

Termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits.

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

1.16 Provisions and contingencies

Provisions represent liabilities of uncertain timing or amounts.

Provisions are measured at the expenditure required to settle the present obligation. Where the effect of discounting is material, provisions are measured at their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks for which future cash flow estimates have not been adjusted. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

Provision for the cost of environmental and other remedial work such as reclamation costs, shutdown and restoration costs is made when such expenditure is probable and the cost can be estimated with a reasonable range of possible outcomes.

Estimated decommissioning and restoration costs are based on current requirements, technology and price levels. Provision is initially recognised net all estimated decommissioning costs as soon as an obligation to rehabilitate the area exists, based on the present value of the future estimated costs. These costs are capitalised by increasing the carrying amount of the related mineral asset and depreciated over the useful life of the assets to which they relate based on the same reserve quantities as are used for the calculation of depletion of mineral assets.

The amount recognised is the estimated cost of restoration, discounted to its net present value, and is reassessed each year in accordance with local conditions and requirements. Changes in the estimated timing of restoration or restoration cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. Any reduction in the restoration liability and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to profit or loss.

The unwinding of the discount on the restoration provision is included as a finance cost.

Environmental expenditures that relate to current revenues are expensed and/or future revenues are capitalised as appropriate. Expenditures that relate to an existing condition caused by past operations and do not contribute to current or future earnings are expensed.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

1.17 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied net of 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.

1.17 Revenue (continued)

1. Sale of goods

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

Coal
Revenue from the sale of coal is recognised has passed to the buyer. Title passes when delivery has been made and the coal has been accepted by the buyer to meet the required specifications.

2. Rendering of services

Management fees
Revenue from management services is recognised with reference to the stage of completion. Stage of completion is measured by referring labour hours incurred to date as a percentage of total estimated labour hours for each contract. When the contract outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Oil pollution control levy
Levy income is recognised when the service is delivered based on the number of barrels, using the average USD:ZAR exchange rate applicable on the days of service.

3. Royalties and licence fees

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

4. 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.

5. 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.

6. Dividend income

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

7. Data sales

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

1.18 Cost of sales

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

1.19 Translation of foreign currencies

Foreign currency transactions

The Group's Consolidated Annual Financial Statements are presented in South African Rands which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into South African Rand at the rate of exchange prevailing at the reporting date and their Statement of Profit or Loss are translated at exchange rates prevailing at the dates of transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

1.20 Related parties

Parties are considered to be related if one party directly or indirectly has the ability to control or jointly control the other party or exercise significant influence over the other party or is a member of the key management of the reporting entity.

In particular, this relates to joint ventures and associates. Disclosure in respect of joint ventures and associates is provided in note 41.

Group companies, in the ordinary course of business, entered into various purchase and sale transactions with associates and joint ventures. The effect of these transactions is included in the financial performance and results of the Group. Terms and conditions are determined on an arm's length basis. Amounts owing (after eliminating inter-company balances) to related parties are disclosed in the respective notes to the financial statements for those Statement of Financial Position items.

Key management personnel for the Group have been identified to be Chief Executive Officers for operating subsidiaries and the holding company.

1.21 Events after reporting period

Recognised amounts in the Consolidated Annual Financial Statements are adjusted to reflect events arising after the reporting date that provide evidence of conditions that existed at the reporting date. Events after the reporting date that are indicative of conditions that arose after the reporting date are dealt with by way of a note.

1.22 Irregular, fruitless and wasteful expenditure

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including the PFMA. It has been proved that the Group has not procured goods and services within the procurement pillars for a process that is, fair, equitable, transparent, competitive and cost effective.

National Treasury Practice Note No. 4 of 2008/2009 which was issued in terms of Sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year-end and/or before finalisation of the financial statements must be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

1.22 Irregular, fruitless and wasteful expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year-end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the Accounting Officer or Accounting Authority may write-off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/ expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

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

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the Statement of Financial Performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

All irregular and fruitless and wasteful expenditure is charged to profit or loss in the period in which it is incurred and disclosed as a note to the annual Financial Statements Of The Group.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

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 for the Group is for years beginning on or after 1 January 2016.

The Group adopted the the amendment for the first time in the 2017 consolidated Consolidated Annual Financial Statement.The impact of the amendment is not material.

2.1 Standards and interpretations effective and adopted in the current year (continued)

Amendment to IFRS 7: Financial Instruments: Disclosures: Annual Improvements project
The amendment provides additional guidance regarding transfers with continuing involvement. Specifically, it provides that cash flows exclude cash collected which must be remitted to a transferee. It also provides that when an entity transfers a financial asset but retains the right to service the asset for a fee, that the entity should apply the existing guidance to consider whether it has continuing involvement in the asset.

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

The group expects to adopt the amendment for the first time in the 2017 consolidated annual financial statements. The impact of the amendment is not material.

Amendment to IAS 19: Employee Benefits: Annual Improvements project
The amendment clarifies that when a discount rate is determined for currencies where there is no deep market in high quality corporate bonds, then market yields on government bonds in that currency should be used.

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

The Group adopted the amendment for the first time in the 2017 Consolidated Annual Financial Statement.

The impact of the amendment is not material.

Disclosure Initiative: Amendment to IAS 1: Presentation of financial statements
The amendment provides new requirements when an entity presents subtotals in addition to those required by IAS 1 in its Consolidated Annual Financial Statement. It also provides amended guidance concerning the order of presentation of the notes in the Consolidated Annual Financial Statement, as well as guidance for identifying which accounting policies should be included. It further clarifies that an entity's share of comprehensive income of an associate or joint venture under the equity method shall be presented separately to its share of items that a) will not be reclassified subsequently to profit or loss and b) that will be reclassified subsequently to profit or loss.

The effective date for the Group is for years beginning on or after 1 January 2016.

The Group adopted the amendment for the first time in the 2017 Consolidated Annual Financial Statement. The impact of the amendment is set out in the prior period error and other restatements note.

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 1 April 2017 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.

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 the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset 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 apposed 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 1 January 2018.

The effective date has not yet been established as the project is currently incomplete. The International Accounting Standards Board has communicated that the effective date will not be before years beginning on or after 1 January 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.

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; and
- Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also includes extensive new disclosure requirements.

The effective date of the standard is for years beginning on or after 1 January 2017.

The Group expects to adopt the standard for the first time in the 2018 Consolidated Annual Financial Statement. The impact of this standard is currently being assessed.

IFRS 16 Leases

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

<u>Company as lessee:</u>

Lessees are required to recognise a right-of-use asset and a lease liability for all leases, except short-term leases or leases where the underlying asset has a low value, which are expensed on a straight-line or other systematic basis.

The cost of the right-of-use asset includes, where appropriate, the initial amount of the lease liability, lease payments made prior to commencement of the lease less incentives received, initial direct costs of the lessee, and an estimate for any provision for dismantling, restoration and removal related to the underlying asset.

The lease liability takes into consideration, where appropriate, fixed and variable lease payments, residual value guarantees to be made by the lessee, exercise price of purchase options, and payments of penalties for terminating the lease.

The right-of-use asset is subsequently measured on the cost model at cost less accumulated depreciation and impairment and adjusted for any remeasurement of the lease liability. However, right-of-use assets are measured at fair value when they meet the definition of investment property and all other investment property is accounted for on the fair value model. If a right-of-use asset relates to a class of property, plant and equipment which is measured on the revaluation model, then that right-of-use asset may be measured on the revaluation model.

The lease liability is subsequently increased by interest, reduced by lease payments and remeasurement for reassessments or modifications.

Remeasurements of lease liabilities are effected against right-of-use assets, unless the assets have been reduced to nil, in which case further adjustments are recognised in profit or loss.

The lease liability is remeasured by discounting revised payments at a revised rate when there is a change in the lease term or a change in the assessment of an option to purchase the underlying asset.

2.2 Standards and interpretations not yet effective (continued)

The lease liability is remeasured by discounting revised lease payments at the original discount rate when there is a change in the amounts expected to be paid in a residual value guarantee or when there is a change in future payments because of a change in index or rate used to determine those payments.

Certain lease modifications are accounted for as separate leases. When lease modifications which decrease the scope of the lease are not required to be accounted for as separate leases, then the lessee remeasures the lease liability by decreasing the carrying amount of the right of lease asset to reflect the full or partial termination of the lease. Any gain or loss relating to the full or partial termination of the lease is recognised in profit or loss. For all other lease modifications which are not required to be accounted for as separate leases, the lessee remeasures the lease liability by making a corresponding adjustment to the right-of-use asset.

Right-of-use assets and lease liabilities should be presented separately from other assets and liabilities. If not, then the line item in which they are included must be disclosed. This does not apply to right-of-use assets meeting the definition of investment property which must be presented in investment property. IFRS 16 contains different disclosure requirements compared to IAS 17 leases.

<u>Company as lessor:</u>
Accounting for leases by lessors remains similar to the provisions of IAS 17 in that leases are classified as either finance leases or operating leases. Lease classification is reassessed only if there has been a modification.

A modification is required to be accounted for as a separate lease if it both increases the scope of the lease by adding the right to use one or more underlying assets and the increase in consideration is commensurate to the stand alone price of the increase in scope.

If a finance lease is modified, and the modification would not qualify as a separate lease, but the lease would have been an operating lease if the modification was in effect from inception, then the modification is accounted for as a separate lease. In addition, the carrying amount of the underlying asset shall be measured as the net investment in the lease immediately before the effective date of the modification. IFRS 9 is applied to all other modifications not required to be treated as a separate lease.

Modifications to operating leases are required to be accounted for as new leases from the effective date of the modification. Changes have also been made to the disclosure requirements of leases in the lessor's financial statements.

<u>Sale and leaseback transactions:</u>
In the event of a sale and leaseback transaction, the requirements of IFRS 15 are applied to consider whether a performance obligation is satisfied to determine whether the transfer of the asset is accounted for as the sale of an asset.

If the transfer meets the requirements to be recognised as a sale, the seller-lessee must measure the new right-of use asset at the proportion of the previous carrying amount of the asset that relates to the right-of-use retained. The buyer-lessor accounts for the purchase by applying applicable standards and for the lease by applying IFRS 16 .

If the fair value of consideration for the sale is not equal to the fair value of the asset, then IFRS 16 requires adjustments to be made to the sale proceeds. When the transfer of the asset is not a sale, then the seller-lessee continues to recognise the transferred asset and recognises a financial liability equal to the transfer proceeds. The buyer-lessor recognises a financial asset equal to the transfer proceeds.

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

The Group expects to adopt the standard for the first time in the 2020 financial statements. The impact of this standard is currently being assessed.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

3. Property, plant and equipment

Figures in Rand thousand	2017 Cost	2017 Accumulated depreciation	2017 Carrying value	2016 Cost	2016 Accumulated depreciation	2016 Carrying value
Land	70 183	–	70 183	55 517	–	55 517
Buildings	380 613	(87 201)	293 412	369 515	(81 289)	288 226
Assets under development	400 949	(216 547)	184 402	343 458	(33 326)	310 132
Plant and machinery	1 847 394	(322 331)	1 525 063	1 843 289	(290 447)	1 552 842
Furniture and fixtures	664 770	(587 636)	77 134	659 292	(571 013)	88 279
Motor vehicles	104 327	(58 293)	46 034	97 048	(52 595)	44 453
Office equipment	3 396	(2 407)	989	5 990	(4 964)	1 026
IT equipment	16 881	(10 272)	6 609	23 297	(13 725)	9 572
Computer software	–	–	–	2 344	(1 931)	413
Production assets	37 631 006	(30 958 037)	6 672 969	37 471 826	(29 799 755)	7 672 071
Shutdown costs capitalised	637 848	(637 848)	–	637 846	(619 931)	17 915
Restoration cost	1 731 308	(1 585 184)	146 124	3 664 739	(3 152 979)	511 760
Mine infrastructure	56 943	(29 197)	27 746	53 757	(22 891)	30 866
Total	**43 545 618**	**(34 494 953)**	**9 050 665**	**45 227 918**	**(34 644 846)**	**10 583 072**

3. Property, plant and equipment

Reconciliation of property, plant and equipment – 2017

Figures in Rand thousand	Opening balance	Additions	Disposals	Classified as held-for-sale	Transfers in
Land	55 517	–	–	–	14 666
Buildings	288 226	9 615	–	(703)	3 383
Assets under development	310 132	170 967	–	–	100 837
Plant and machinery	1 552 842	–	–	–	–
Furniture and fixtures	88 280	12 947	(505)	(627)	–
Motor vehicles	44 453	8 128	–	(42)	–
Office equipment	1 026	981	–	(400)	–
IT equipment	9 571	6 709	(5)	(5 545)	–
Computer software	-	413	–	(262)	-
Production assets	7 672 071	590 688	(74 861)	–	163 650
Shutdown costs capitalised	17 915	3	–	–	–
Restoration costs	511 760	–	–	–	–
Mine infrastructure	30 866	3 937	–	–	–
	10 583 072	**803 975**	**(75 371)**	**(7 579)**	**282 536**

Reconciliation of property, plant and equipment – 2016

	Opening balance	Additions	Disposals	Transfers
Land	57 065	–	(1 548)	–
Buildings	281 618	1 825	–	11 661
Assets under development	624 265	184 922	(745)	(464 984)
Plant and machinery	1 589 945	–	(4 524)	–
Furniture and fixtures	110 552	13 741	(362)	–
Motor vehicles	35 576	14 757	–	–
Office equipment	1 333	113	–	–
IT equipment	7 862	2 333	(28)	2 519
Computer software	171	309	–	–
Production assets	6 299 934	1 696 939	(32 271)	402 636
Shutdown costs capitalised	51 746	9	–	–
Restoration costs	349 432	168 603	–	–
Mine infrastructure	35 135	2 235	–	–
	9 444 634	**2 085 786**	**(39 478)**	**(48 168)**

Transfers out	Change in estimates	Foreign exchange movements	Write-offs	Depreciation	Impairment loss	Total
–	–	–	–	–	–	70 183
–	–	–	–	(7 089)	(20)	293 412
(180 987)	–	–	–	–	(216 547)	184 402
–	4 104	–	–	(31 883)	–	1 525 063
–	–	–	(13)	(22 940)	(8)	77 134
–	–	–	–	(6 505)	–	46 034
–	–	–	(325)	(293)	–	989
–	–	–	(44)	(4 056)	(21)	6 609
–	–	–	–	(151)	-	–
–	–	(386 881)	–	(888 760)	(402 938)	6 672 969
–	–	–	–	(17 918)	–	–
–	(1 907 916)	(18 130)	–	(105 714)	1 666 124	146 124
–	–	–	–	(6 486)	(571)	27 746
(180 987)	**(1 903 812)**	**(405 011)**	**(382)**	**(1 091 795)**	**1 046 019**	**9 050 665**

Change in estimate	Foreign exchange movements	Depreciation	Impairment loss	Total
–	–	–	–	55 517
–	–	(6 855)	(23)	288 226
–	–	–	(33 326)	310 132
–	–	(32 579)	–	1 552 842
–	3	(28 637)	(7 017)	88 280
–	–	(5 880)	–	44 453
–	–	(420)	–	1 026
–	–	(3 070)	(45)	9 571
–	–	(67)	–	413
–	529 626	(1 670 517)	445 724	7 672 071
–	–	(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**	**(1 912 674)**	**(255 292)**	**10 583 072**

3. Property, plant and equipment (continued)

Transfers in/(out)

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

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

Capitalised decommissioning and rehabilitation provision

Restoration expenditure relates to the decommissioning and environmental rehabilitation capitalised. The asset is depreciated using units of production method. The mineral reserves at the end of the reporting period differ from the previous period therefore necessitating a review of the useful life of the asset. The effect in the current financial year as a result of change in useful life for restoration expenditure is a decrease in depreciation of R290 million. Due to the number of variables involved in the depreciation calculation it is not practicable to estimate the effect in future years.

Further to the above, the change in estimate of R1 billion was as a result of the decrease in the provision for decommisioning and rehabilitation for the Jubilee Field which was due to a reduction in the vessel/ rig rate from USD1.1 million per day to USD0.538 million per day. Other changes in assumptions include a decrease in discount rate from 4.59% to 4.02%. Changes in cost estimates are driven by revisions to the Operator's cost assumptions and estimates. Detailed information regarding provisions has been disclosed in Note 24.

Impairment

Net reversal of impairment of R1 billion was due to the following:

- The Group's impairment reversal was primarily driven by the change in estimate in the decommissioning and rehabilitation provision that resulted into a decrease in Property, plant and equipment;
- Improvement in commodity prices; and
- Change in proven and probable reserves for gas.

Macro-economic assumptions

For the South African operations, the Macro-economic assumptions used in the net present value computation include brent crude oil prices at $50, improved from $41.67 forecast for 2016, (2017: $64, 2018: $67, 2019: $75, 2020: $80). Rand-based WACC of 14% (2016: 14%) and US Dollar-based WACC of 11% (2016: 11%). PetroSA will continue to review the recoverable amounts of the CGUs in the event of future changes in reserves and relevant macro-economic indicators.

For the Ghanaian operations, the macro-economic assumptions used in the net present value computation include brent crude oil prices at $50, improved from $41.67 forecast for 2016, (2017: $64, 2018: $67, 2019: $75, 2020: $80) with comparative prices of $61.49 (2016: $77, 2017: $81, 2018: $86, 2019: $91). A US Dollar-based WACC of 11% (2016: 10%) was used. The company will continue to review the recoverable amounts of the CGUs in the event of future changes in reserves and relevant macro-economic indicators.

4. Intangible assets

	2017			2016		
	Cost	**Accumulated amortisation**	**Carrying value**	**Cost**	**Accumulated amortisation**	**Carrying value**
Patents, trademarks and other rights	57 424	(53 242)	4 182	57 424	(52 965)	4 459
Computer software	68 047	(59 769)	8 278	68 278	(55 975)	12 303
Intangible assets under development	–	–	–	203	–	203
Exploration evaluation	1 786 603	(171 494)	1 615 109	1 877 331	(539)	1 876 792
Restoration costs	16 824	–	16 824	17 540	–	17 540
Total	**1 928 898**	**(284 505)**	**1 644 393**	**2 020 776**	**(109 479)**	**1 911 297**

4. Intangible assets (continued)

Reconciliation of intangible assets – 2017

	Opening balance	Additions	Disposals
Patents, trademarks and other rights	4 459	–	–
Computer software	12 303	12 158	–
Intangible assets under development	203	–	–
Exploration evaluation	1 876 792	30 756	(1 106)
Restoration costs	17 540	–	–
	1 911 297	**42 914**	**(1 106)**

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)

Other information

Transfers in/out
Transfers into assets under development of R100.837 million relate to exploration and evaluation costs incurred for T-project which is currently on infrastructure development phase.

Exploration and evaluation are costs which are capitalised to the following projects:

- Vlakfontein Mine Extension;
- Klippoortjie Mine;
- T Project; and
- PetroSA Upstream projects

Classified as held for sale	Transfers	Foreign exchange movements	Change in estimates	Amortisation	Impairment loss	Total
–	–	–	–	(277)	–	4 182
(7 052)	203	–	–	(9 334)	–	8 278
–	(203)	–	–	–	–	–
–	(101 549)	(18 829)	–	–	(170 955)	1 615 109
–	–	(1 695)	979	–	–	16 824
(7 052)	**(101 549)**	**(20 524)**	**979**	**(9 611)**	**(170 955)**	**1 644 393**

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

5. Interests in subsidiaries

The following table lists the entities which are controlled directly/indirectly by the Group companies, and the carrying amounts of the investments in the company's separate financial statements. The country of incorporation for all subsidiaries is the Republic of South Africa, except for PetroSA Europe BV which was incorporated in the Netherlands and PetroSA Ghana Ltd which was incorporated in British Virgin Islands.

Name of company	Held by	% holding 2017	% holding 2016	Carrying amount 2017	Carrying amount 2016
AEMFC SOC Ltd	CEF SOC Ltd	100.00%	100.00%	–	–
CCE Solutions SOC Ltd	CEF SOC Ltd	89.20%	89.20%	–	–
CEF Carbon SOC Ltd	CEF SOC Ltd	100.00%	100.00%	–	–
Cotec Development SOC Ltd	CEF SOC Ltd	100.00%	100.00%	–	–
Cotec Partrade SOC Ltd	CEF SOC Ltd	100.00%	100.00%	–	–
ETA Energy SOC Ltd	CEF SOC Ltd	100.00%	100.00%	–	–
SASDA NPC	CEF SOC Ltd	100.00%	100.00%	–	–
Klippoortjie Koolemyne SOC Ltd	SFF NPC	100.00%	100.00%	–	–
Mahnes Areas SOC Ltd	SFF NPC	100.00%	100.00%	–	–
OPCSA NPC	CEF SOC Ltd	100.00%	100.00%	–	–
PetroSA Brass SOC Ltd	PetroSA SOC Ltd	100.00%	100.00%	–	–
PetroSA Egypt SOC Ltd	PetroSA SOC Ltd	100.00%	100.00%	–	–
PetroSA Equatorial Guinea SOC Ltd	PetroSA SOC Ltd	100.00%	100.00%	–	–
PetroSA Europe BV	PetroSA SOC Ltd	100.00%	100.00%	–	–
PetroSA Ghana Ltd	PetroSA SOC Ltd	100.00%	100.00%	–	–
PetroSA Gryphon Marin Permit SOC Ltd	PetroSA SOC Ltd	100.00%	100.00%	–	–
PetroSA Iris SOC Ltd	PetroSA SOC Ltd	100.00%	100.00%	–	–
PetroSA Namibia SOC Ltd	PetroSA SOC Ltd	100.00%	100.00%	–	–
PetroSA SOC Ltd	CEF SOC Ltd	100.00%	100.00%	–	–
PetroSA Sudan SOC Ltd	PetroSA SOC Ltd	100.00%	100.00%	–	–
PetroSA Synfuels International SOC Ltd	PetroSA SOC Ltd	100.00%	100.00%	–	–
PetroSA Themis SOC Ltd	PetroSA SOC Ltd	100.00%	100.00%	–	–
PASA SOC Ltd	CEF SOC Ltd	100.00%	100.00%	–	–
iGAS SOC Ltd	CEF SOC Ltd	100.00%	100.00%	–	–
SFF NPC	CEF SOC Ltd	100.00%	100.00%	–	–
				–	–

5. Interests in subsidiaries (continued)

Subsidiaries pledged as security

PetroSA SOC Ltd has provided its shares in PetroSA Ghana Ltd as security to the lenders for the reserve based lending facility of R867.288 million (2016: R1.201 billion). Refer to note 3.

Reporting period

The end of the reporting period of PetroSA Ghana Ltd was, 31 December 2016.

Non-current asset held for distribution to owners

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

A final approval for the disposal of the investment was required in terms of S54(2) of the Public Finance Management Act which was obtained after the reporting date, with conditions yet to be fulfilled.

6. Joint arrangements

Joint operations

The following joint operations are material to the Group Companies:

The joint operations are for gas exploration by PetroSA SOC Ltd. The country of incorporation is the same as the principle place of business for all joint operations. The Group's proportionate share in the assets and liabilities of unincorporated joint ventures, which are included in the financial statements are as follows:

		% Ownership interest	
Joint operation	**Partner**	**2017**	**2016**
Block 2A	Sunbird	24 %	24 %
Block 2C	Arnadako	35 %	35 %
Block 3A/4A	Sasol	50 %	50 %
Block 3A/4A	Arnadako	20 %	20 %
Block 1	Cairn	40 %	40 %

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

6. Joint arrangements (continued)

Joint ventures

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

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

Pan African Mineral Development Company (Pty) Ltd

The governments of South Africa, Zimbabwe and Zambia created a structured entity, PAMDC (Pty) Ltd, to collaborate and develop mineral resources in the region as enshrined in the Southern African Development Community Mining Protocol, the Plan of Action for the Global Mining Initiative of the New Partnership for Africa's Development and African Mining Partnership. PAMDC (Pty) Ltd is co-owned by the parties in equal proportions. The South African Government, through AEMFC SOC Ltd is a co-share owner in PAMDC (Pty) Ltd.

The memorandum of agreement states that decisions on the relevant activities require the unanimous consent of all 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 economic activity.

GTL.F1 AG

GTL.F1 AG is the process 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	2017	2016
Share of profit or loss from continuing operations	250	(1 388)
Share of total comprehensive income	250	–

Reporting period

The reporting date of GTL.F1 is not the same as that of the Group. GTL.F1 AG's year end was 31 December 2016.

Unrecognised losses

PAMDC (Pty) Ltd

The share of losses recognised in the current year was limited to the carrying amount of the investment of R0.153 million (2016: R1.746 million).The total accumulated unrecognised losses amount to R2.9 million (2016: 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 for the joint venture. The total unrecognised losses for the current period amount to R20.3 million (2016: R29.9 million). The accumulated unrecognised losses to date amount to R145.2 million (2016: R124.8 million).

7. Investments in associates

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

Name of company	Held by	% ownership interest 2017	% ownership interest 2016	Carrying amount 2017	Carrying amount 2015
Baniettor (Pty) Ltd	CEF SOC Ltd	49.00%	49.00%	–	–
Ener-G Systems (Pty) Ltd	CEF SOC Ltd	29.00%	29.00%	8 754	8 541
Mzimkhulu Mining (Pty) Ltd	AEMFC SOC Ltd	26.00%	–%	3 900	–
Republic of Mozambique Pipeline Company (Pty) Ltd	iGAS SOC Ltd	25.00%	25.00%	881 694	648 143
Thin Film Solar Technology (Pty) Ltd	CEF SOC Ltd	45.00%	45.00%	14 758	14 304
				909 106	670 988

Mzimkhulu Mining (Pty) Ltd
AEMFC SOC Ltd holds a 26% share in Mzimkhulu Mining (Pty) Ltd. At the reporting date, Mzimkhulu Mining (Pty) Ltd had not commenced with mining operations.

Ener-G Systems (Pty) Ltd
An additional investment to the value of R3.6 million was made to Ener-G Systems (Pty) Ltd in the current financial year. This additional investment has not affected the ownership interest in the associate. The additional contribution was made via a cash purchase.

Material associates
The following associate is material to the group:

	Country of incorporation	Method	% Ownership interest 2017	% Ownership interest 2016
Republic of Mozambique Pipeline Company (Pty) Ltd	South Africa	Equity	25%	25%

Rompco (Pty) Ltd
Shares beneficially owned in the company, which is involved in the supply of gas from Mozambique to South Africa. The percentage voting rights is equal to the percentage ownership.

7. Investments in associates (continued)

Summarised financial information of material associates

	Republic of Mozambique Pipeline Company (Pty) Ltd	
Summarised Statement of Profit or Loss and Other Comprehensive Income	**2017 R'000**	**2016 R'000**
Revenue	1 966 000	1 816 000
Other income and expenses	(703 000)	(385 000)
Profit before tax	1 263 000	1 431 000
Tax expense	(402 000)	(450 000)
Profit/(loss) from continuing operations	861 000	981 000
Total comprehensive income	**861 000**	**981 000**
Dividends received from associate	**115 000**	**150 000**

	Republic of Mozambique Pipeline Company (Pty) Ltd	
Summarised Statement of Financial Position	**2017 R'000**	**2016 R'000**
Assets		
Non-current	6 046 000	5 448 000
Current	2 619 000	1 322 000
Total assets	8 665 000	6 770 000
Liabilities		
Non-current	4 351 000	3 472 000
Current	796 000	521 000
Total liabilities	5 147 000	3 993 000
Total net assets	**3 518 000**	**2 777 000**

	Republic of Mozambique Pipeline Company (Pty) Ltd	
Reconciliation of net assets to equity accounted investments in associates	**2017 R'000**	**2016 R'000**
Interest in associates at percentage ownership	881 694	648 143
Carrying value of investment in associate	881 694	648 143
Investment at beginning of period	648 143	489 589
Adjustment on opening balance	45 815	(128)
Share of profit before elimination of intra-Group transactions	302 225	308 790
Share of OCI	511	(108)
Dividends received from associate	(115 000)	(150 000)
Investment at end of period	**881 694**	**648 143**

7. Investments in associates (continued)

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

Share of profit from associates after accounting for inter-company transactions at year end is R302.2 million (2016: R308.8 million). The total inter-company transaction relating to rental and recovery of expenses eliminated is R0.019 million (2016: R0.016 million)

Aggregated individually immaterial associates accounted for using the equity method

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

Associates with different reporting dates
The following associates, included in the Consolidated Financial Statements have different reporting dates to that of the CEF Group companies:

- Rompco (Pty) Ltd: 30 June
- Baniettor (Pty) Ltd: 30 June

Unrecognised share of losses of associates

Baniettor Mining (Pty) Ltd
The accumulated unrecognised losses amount to R16.650 million (2016: R21.244 million).

Associates pledged as security
Rompco (Pty) Ltd, with a carrying value of the investment of R881 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. iGas therefore has pledged its shares at Rompco to secure the banking facilities granted to Rompco for construction of Loopline 2.

8. Loans to/(from) Group companies

Joint ventures

Figures in Rand thousand	2017	2016
GTL.F1 AG	192 349	213 159
	192 349	213 159
Impairment of loans to JV's	(192 349)	–
	–	**213 159**

The subordinated loan accrues interest at EURIBOR + 0.75%. This loan was repayable by 31 December 2016.

Figures in Rand thousand	2017	2016
Associates		
Baniettor Mining (Pty) Ltd	16 646	23 933
Darling Wind Power (Pty) Ltd	–	502
Ener-G Systems (Pty) Ltd	32 829	22 903
	49 475	47 338
Impairment of loans to associates	(16 646)	(24 435)
	32 829	**22 903**

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

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

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

Fair value of loans to and from Group companies
The carrying amount of the loans to and from Group companies at 31 March 2017 approximates fair value.

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

Loans to Group companies impaired
As of March 31, 2017, loans to Group companies of R192.349 million (2016: R24.435 million) were impaired and provided for in full. The GTL.F1 AG loan was fully impaired in the current year. The loans impaired in the prior year relate to DWP (Pty) Ltd and Bannietto Mining (Pty) Ltd.

Baniettor Mining (Pty) Ltd has been classified as non-current asset held-for-sale in the current year as the company is expected to be deregistered in the next 12 months.

DWP (Pty) Ltd was disposed of, in the prior year and CEF no longer holds share capital in the company.

Figures in Rand thousand	2017	2016
Over six months	192 349	24 435

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

9. Other financial assets

Figures in Rand thousand	2017	2016
At fair value through profit or loss – designated		
Listed shares		
2 164 Sanlam Limited shares held by SFF valued at R67.37 (2017), R68.49 (2016).	146	148
Loans and receivables		
Ghana National Petroleum Corporation (GNPC)	139 845	126 645
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 schedules were met with first shipment of oil delivered in August 2016.		
Methcap Investment	1 475	1 475
19% investment at Methcap.		
Lurgi	169 651	198 400
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.		
Darling Wind Power (Pty) Ltd	502	–
The loan is due, however, the liquidators have not repaid the loan. The loan is interest free.		
Restricted cash guarantee (AEMFC SOC Ltd)	26 011	17 667
An insurance rehabilitation guarantee is in place whereby the insurer guarantees to pay the 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 earns interest to meet environmental obligations at the end of life of mine. The cash is restricted for use.		
Investment (AEMFC SOC Ltd)	–	650
The company paid commitment fees that would form part of the purchase price of a shareholding in a structured entity to be created on completion of the due diligence process. The due diligence process completed in 2016/17 concluded that investing in the structured entity was not commercially viable. The commitment fees have been transferred to short-term receivables because they will be recovered.	337 484	344 837
Loans and receivables (impairments)	(154 058)	–
	183 426	**344 837**
Total other financial assets	**183 572**	**344 985**

9. Other financial assets (continued)

Figures in Rand thousand	2017	2016
Non-current assets		
Designated as at fair value through profit or loss (fair value through income)	146	148
Loans and receivables	183 426	344 837
	183 572	**344 985**

Loans and receivables impaired

The loan to DWP (Pty) Ltd was fully impaired at R0.502 million

The loan to Lurgi was impaired by R153.556 million in the current year.

The ageing of these loans is as follows:

Figures in Rand thousand	2017	2016
Over 6 months	154 058	–

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

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

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

10. Operating lease asset (liability)

Contracts relating to rental payable have been smoothed over the contract period. Refer to note 38 for disclosure of commitments.

Current portion of operating lease liabilities is included in trade and other payable.

11. 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 current benefit policy.

PetroSA
The obligation is partially funded and was valued using the projected unit credit method. A discount rate of 9.8% (2016: 9.8%) and a healthcare cost inflation of 7.75% (2016: 8.25%) were assumed. Mortality assumptions were in line with standard table SA56/62 ultimate (pre-retirement) and PA (20) rated down by two years (post-retirement).

11. Retirement benefits (continued)

SFF

The obligation is not funded and was valued using the projected unit credit method. A discount rate of 9.45% (2016: 9.6%) and a healthcare cost inflation of 8.5% (2016: 7.56%) were assumed. Mortality assumptions were in line with standard table PA(90) ultimate (pre-retirement) rated down by two 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 in 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 appointed a liquidator whose appointment was approved by the Registrar and liquidated 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 2016 financial year.

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

Figures in Rand thousand	2017	2016
Carrying value		
Present value of the defined benefit obligation–wholly unfunded	(136 816)	(121 166)
Present value of the defined benefit obligation–partially or wholly funded	(97 138)	(97 285)
Fair value of plan assets	97 680	97 279
	(136 274)	**(121 172)**
The fair value of plan assets includes:		
Movements for the year		
Opening balance	121 172	107 646
Current year service costs	2 215	2 408
Past year service costs	907	3 380
Net interest return (costs)	11 450	6 225
Net benefit payments	(5 716)	(4 404)
Net actuarial (gains) and losses	6 246	5 917
	136 274	**121 172**

11. Retirement benefits (continued)

Figures in Rand thousand	2017	2016
Key assumptions used		
Assumptions used for last valuation on Friday, 31 March 2017.		
Discount rates used by PetroSA	9.75%	9.75%
Discount rates used by SFF	9.45%	9.60%
Medical inflation rate used by PetroSA	7.75%	8.25%
Medical inflation rate used by SFF	8.50%	7.56%
Sensitivity of the benefit obligations to 1% or 1 year downgrade in the weighted principal assumptions		
Mortality rate (1% downward rating)	12 303	11 060
Discount rate (1% downward rating)	26 803	26 360
Inflation cost (1% downward rating)	21 403	25 967
Mortality rate (1 year downward rating)	11 737	11 285
Discount rate (1 year downward rating)	22 737	22 985
Inflation cost (1 year downward rating)	24 037	22 997
	119 020	**120 654**

Defined contribution plan

It is the policy of the Group to provide retirement benefits to all 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.

This excludes instances where the defined benefit plan is applicable–refer to above.

The group is under no obligation to cover any unfunded benefits.

12. Deferred tax

Figures in Rand thousand	2017	2016
Deferred tax liability		
Operating lease accrual	(10)	–
Property, plant and equipment and intangible assets	(1 888 129)	(1 767 780)
Prepayments	(654)	(224)
Total deferred tax liability	**(1 888 793)**	**(1 768 004)**
Deferred tax asset		
Provisions	61 915	61 937
Tax losses available for set–off against future taxable income	272 816	324 664
Total deferred tax asset	**334 731**	**386 601**
Deferred tax liability	(1 839 355)	(1 768 004)
Deferred tax asset	285 333	386 601
Total net deferred tax liability	**(1 554 022)**	**(1 381 403)**

12. Deferred tax (continued)

Figures in Rand thousand	2017	2016
Reconciliation of deferred tax asset/(liability)		
At beginning of year	(1 381 403)	(973 069)
Increase/(decrease) in tax loss available for set off against future taxable income	(51 848)	197 978
Increase/(decrease) in provisions and accruals	723	2 972
Taxable/(deductible) temporary difference movement on tangible and intangible assets	(173 321)	(659 002)
Taxable/(deductible) temporary difference movement in fair value on acquisition of subsidiary	52 353	50 197
Taxable/(deductible) temporary difference on prepayments	(526)	(479)
	(1 554 022)	**(1 381 403)**

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. The assessed loss position is directly attributable to PetroSA's oil and gas activities.

As it is unlikely that the assessed loss will be utilised in the foreseeable future, no deferred tax asset has been recognised. The current tax value of the unrecognised estimated tax loss/assessed loss is R5.6 billion (2016: R5.2 billion). The unused estimated/assessed tax loss at year-end is R19.9 billion (2016: R18.6 billion).

Unrecognised deferred tax asset

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

Use and sales rate

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

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

13. Prepayments

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

Figures in Rand thousand	2017	2016
Insurance	79 339	305 055
Royalties advance payment	13 248	19 230
Other	12 063	28 112
	104 650	**352 397**

14. Strategic inventory

Strategic inventories are being held in accordance with Ministerial Directives as prescribed by the Minister of Energy. The carrying amount of Strategic inventories are expected to be realised 12 months after the reporting date, thus it is included in non- current assets.

An amount of R1.074 billion was spent to purchase 155 million litres of diesel white product was injected into the New National Multi-Products Pipeline by the company during the 2011/12 financial year. The product is valued at R857 million (2016: R716 million).

The volume of crude oil of 1.2 Mbbls (2016: 1.2 Mbbls) are unpumpable.

Inventory loan
0.300Mbbls of crude oil (Basrah) was advanced to Enviroshore in the prior financial year at cost of R60.402 million. The settlement is expected to be in the same number of barrels of crude oil (Bonny Light). It came to management attention that the counterparty will not be able to fulfill the obligation and therefore the stock was written down by R60.402 million.

Figures in Rand thousand	2017	2016
Values of product held:		
Crude Oil	266 174	255 932
Diesel	857 824	715 964
	1 123 998	**971 896**
Volumes of product held:		
Crude oil (barrels):		
Barrels held at year-end	1 356 113	1 304 142
Consignment stock	(33 995)	(33 000)
	1 322 118	**1 271 142**
Diesel (litres)	155 000 000	155 000 000

15. Inventories

Figures in Rand thousand	2017	2016
Consumable stores, spares and catalysts	366 877	295 293
Crude oil	37 876	43 185
Crushed coal	3 568	2 412
Petroleum fuels	1 475 339	1 652 055
Run of mine stock (ROM)	1 202	3 078
Inventories (write-downs)	(3 939)	(3 621)
	1 880 923	**1 992 402**

15. Inventories (continued)

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

Inventory quantities:

Type	tons
Coal	10 000
Run of Mine (ROM)	22 952
Crushed coal	
Type	**Barrels**
Petroleum Products	
Finished Goods	
Produced Diesel	161 395
Imported Diesel	322 967
Petrol	319 798
Oil and Gas	122 989
Crude oil	14 717
Work in Progress	
Petroleum Products	223 897

16. Trade and other receivables

Figures in Rand thousand	2017	2016
Trade receivables	1 710 837	1 489 511
Finance lease receivable	475	265
Statutory receivables (tax and levies)	125 326	283 063
Deposits	10 421	9 694
VAT	67 544	99 516
Underlift	–	2 941
Payroll receivable	3 994	12 929
Interest receivable	108 379	107 201
Sundry debtors	70 427	150 538
	2 097 403	**2 155 658**

Trade and other receivables pledged as security
The group does not hold collateral over trade and other receivables as security.

Credit quality of trade and other receivables
The maximum exposure to credit risk at 31 March 2017 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 or to historical information about counterparty default rates.
A significant balance of trade receivable relate to sales to multinational oil companies.

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.

16. Trade and other receivables (continued)

Trade and other receivables past due but not impaired

Trade and other receivables are not considered to be impaired, except where there are individually impaired debtors. Individual debtors that are more than three months past due are not considered to be impaired. Furthermore, the ability to settle outstanding debts and the financial status of individual debtors are considered when the assessment for impairment is conducted. At 31 March 2017, R10.657 million (2016: R48.040 million) were past due but not impaired.

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

Figures in Rand thousand	2017	2016
One month past due	53	867
Two months past due	91	340
Three months past due	10 513	46 833

Trade and other receivables impaired

As at 31 March 2017, trade and other receivables of R86.536 million (2016: R35.007 million) was impaired for the current reporting period. The value of the provision for doubtful debts was R259.712 million as at 31 March 2017 (2016: R180.989 million).

Over six months	259 712	180 989

Figures in Rand thousand	2017	2016
Reconciliation of provision for impairment of trade and other receivables		
Opening balance	180 989	149 797
Provision for impairment	86 536	35 007
Amounts written off as uncollectable	–	(3 713)
Unused amounts reversed	(2 560)	(102)
Transfer to disposal group	(5 253)	–
	259 712	**180 989**

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

17. 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 Statement of Financial Position comprise the following:

Figures in Rand thousand	2017	2016
Cash on hand	57	67
Bank balances	571 834	1 456 881
Short-term deposits	15 122 948	14 696 603
Bank overdraft	–	(417 209)
	15 694 839	**15 736 342**
Current assets	15 694 839	16 153 551
Current liabilities	–	(417 209)
	15 694 839	15 736 342
Restricted cash relating to sale of strategic stock	3 786 566	2 990 354

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

The carrying amount of cash and cash equivalents approximates the fair value due to the short-term nature of the instruments.

Credit quality of cash at bank and short-term deposits, excluding cash on hand
The credit quality of cash at bank and short-term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by referencing external credit ratings (if available) or historical information about counterparty default rates.

Figures in Rand thousand	2017	2016
Other Cash and cash equivalents restricted		
Demand site levy	53 868	24 340
Cash held on behalf of third parties	35 870	32 612

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

2017:

Investment at PASA SOC Ltd

The Minister of Energy requested CEF to develop modalities for the transfer of PASA to the Department of Mineral Resources. CEF Board of Directors declared the investment at PASA as a dividend in specie to the State (represented by DoE) in March 2017.

The transfer of PASA will result in a single reporting line for PASA as currently, the corporate mandate and ownership for PASA remains with the DoE, however, the policy mandate has been assigned to the DMR resulting in multiple lines of accountability.

A final approval for the disposal of the investment was sought from the Minister of Energy in terms of Section 54(2) of the Public Finance Management Act which was obtained after the reporting date with conditions yet to be fulfilled.

The carrying amount of the investment at 31 March 2017 after consolidation is R18 million and R188 million before consolidation. The fair value of the investment at 31 March 2017 was determined to be R190 million before the audit. It is expected that the conditions attached to the Section 54(2) approval will be fulfilled within the next 12 months.
The investment is currently held at carrying amount which is the lower of fair value less costs to distribute.

2016:

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

CCE Solutions SOC Ltd

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 were concluded with the George Wood Waste Consortium at an asking price of R50 million. A Section 54(2) of the Public Finance Management Act to dispose of the asset was obtained from the Minister of Energy in February 2017.

The asset is still classified as non-current held-for-sale as the condition of the sale is subject to the project reaching financial close that is dependent on concluding a power purchase agreement.

18. Discontinued operations or disposal groups or non-current assets held-for-sale distribution to owners (continued)

Figures in Rand thousand	2017	2016
Profit and loss from PASA SOC Ltd		
Revenue	61 553	14 970
Expenses	(110 581)	(107 185)
	(49 028)	**(92 215)**
Assets and liabilities		
Non-current assets held-for-sale relating to CCE Solutions equipment		
Property, plant and equipment	50 000	50 000
Assets of disposal groups relating to PASA SOC Ltd		
Property, plant and equipment	7 580	–
Other financial assets	369	–
Inventories	358	–
Trade and other receivables	23 280	–
Intangible assets	7 052	–
	38 639	**–**
	88 639	**50 000**
Liabilities of disposal groups relating to PASA SOC Ltd		
Other liabilities	18 915	–
Net assets		
Retained earnings	19 724	–

Liabilities of the disposal group relating to PASA SOC Ltd are made up of the following:

Bonus provision

Operating lease liability

Trade and other payables

Operation Phakisa

Environment deposits advance payment

	2017	2016
Cash flow information for PASA SOC Ltd		
Net cash from operating activities	(51 887)	(71 874)
Net cash from investing activities	51 910	71 887
Net cash movement for the period	**23**	**13**

19. Share capital

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

20. Foreign currency translation reserve

Translation reserve comprises exchange differences on consolidation of foreign subsidiaries.

Figures in Rand thousand	2017	2016
FCTR arising from consolidation of PetroSA's foreign subsidiaries	631 715	835 579

21. Hedging reserve

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

Figures in Rand thousand	2017	2016
Cash flow hedge reserve arising from equity accounting of an associate	(31)	(537)

22. Revaluation reserve

Figures in Rand thousand	2017	2016
Revaluation of property, plant and equipment at SFF on first time conversion to IFRS.		
Revaluation surplus arising from conversion of SA GAAP to IFRS	1 236 826	1 259 686
Realised to retained income	(22 669)	(22 860)
	1 214 157	**1 236 826**

23. Other financial liabilities

Figures in Rand thousand	2017	2016
Held at amortised cost		
Reserve based lending facility	866 846	1 201 245
The facility is a revolving credit facility secured against the producing asset of PetroSA Ghana Ltd. 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 Ltd. Additional security includes an offshore debenture comprising security over contemplated hedging agreement, inter-company loans granted by PetroSA Ghana Ltd to its subsidiaries and certain project accounts into which transaction funds are deposited. The available facility amount/borrowing base is reevaluated every six months, at the end of June and December, and is a function of the present value of future cash flows generated by producing/developing assets. The available facility amount is most sensitive to economic assumptions such as the brent crude oil price and changes to independently audited oil reserves.		
Cash on call (Upstream Training Trust)	34 602	31 432
These are funds held and invested in call accounts on behalf of the Upstream Training Trust that is managed by the Petroleum Agency South Africa (PASA).		
Cash on call	12	1
These are funds held and invested in call accounts on behalf of group companies.	461	429
Cash on call (Darling Wind Power)		
These are funds held and invested in call accounts on behalf of Darling Wind Power (Pty) Ltd.		
Environmental deposits	-	421
These relate to cash deposits received from operators and licences 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	53 868	24 340
These are levies collected by CEF SOC Ltd on behalf of the Department of Energy from oil companies as mandated by the Central Energy Fund Act 38 of 1977.		
	955 789	**1 257 868**
Non-current liabilities		
At amortised cost	866 846	1 201 666
Current liabilities		
At amortised cost	88 943	56 202
	955 789	**1 257 868**

24. Provisions

Reconciliation of provisions – 2017

	Opening balance	Additions
Environmental rehabilitation	11 618 762	4 105
Product warranties	34	–
Bonus	79 124	68 976
Social investment	24 208	7 422
Restructuring	21 656	4 368
	11 743 784	**84 871**

Reconciliation of provisions – 2016

	Opening balance	Additions
Environmental rehabilitation	10 139 529	168 652
Product warranties	64	–
Bonus	46 491	78 264
Social investment	34 153	–
Restructuring	–	21 656
	10 220 237	**268 572**

Non-current liabilities

Current liabilities

	Utilised during the year	Reversed during the year	Change in estimate	Unwinding of discounting	Total
	(34 783)	(310)	(1 873 423)	499 908	10 214 259
	(30)	–	–	–	4
	(87 150)	(1 385)	–	–	59 565
	(10 567)	–	–	–	21 063
	(26 024)	–	–	–	–
	(158 554)	**(1 695)**	**(1 873 423)**	**499 908**	**10 294 891**

	Utilised during the year	Reversed during the year	Change in discount factor	Interest expense	Total
	19 377	(1 315)	805 847	486 672	11 618 762
	(30)	–	–	–	34
	(41 995)	(3 106)	(530)	–	79 124
	(9 945)	–	–	–	24 208
	–	–	–	–	21 656
	(32 593)	**(4 421)**	**805 317**	**486 672**	**11 743 784**

	10 157 761	11 605 388
	137 130	138 396
	10 294 891	**11 743 784**

24. Provisions (continued)

Environmental rehabilitation

PetroSA
The amount of R12.339 million (2016: R12.437 million) is for the rehabilitation of the land at the Voorbaai terminal.

The abandonment provision represents the present value of abandonment costs relating to oil and gas interests, the majority of which are expected to be incurred by 2023. Assumptions, based on the current economic environment, have been made which, management believes are a reasonable basis on which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual abandonment costs will ultimately depend on 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 on future oil and gas prices, which are inherently uncertain.

Major assumptions included in the calculation of provisions is that South African inflation decreased from 5.4% to 6.35% and US inflation of 1.1%. A sensitivity analysis indicates that a R1 weakening of the Rand against the US Dollar translates into a R800 million increase in the provision and a US$1 decrease in the brent crude oil price translates into a decrease in the provision of R19 million.

The total cost of future restoration is estimated to be R9.6 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 five 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. Therefore, no amounts have been provided for these items.

At year-end the company had an obligation to provide for the rehabilitation and abandonment of its offshore and onshore facilities valued at R9.6 billion, which is currently not fully funded. Given that PetroSA has set aside R2.2 billion, there is shortfall of approximately R7.4 billion in PetroSA's closure financial provision. In terms of the financial provision regulations which were promulgated under the National Environmental Management Act 107 of 1998, PetroSA is required to review, assess and adjust its financial provision and associated plans in accordance with these regulations before 20 April 2019, by which time the financial provision funds will need to be available. The provision calculation is based on comprehensive technical work conducted by an international decommissioning contractor and thereafter reviewed by an independent specialist.

PetroSA is working with all key stakeholders to ensure compliance with the requirements of the financial provision regulations before 20 April 2019. To this extent, the holding company (CEF) has committed to assist PetroSA, through various support and oversight mechanisms, to close the funding gap. In addition, PetroSA is working closely with the regulator (the Petroleum Agency of South Africa) to ensure that it discharges its responsibilities as required under the NEMA financial provision regulations. Other key stakeholders involved include the Department of Energy, National Treasury, Mineral Resources and Environmental Affairs.

24. Provisions (continued)

SFF NPC

The provision amount of R554 million (2016: R516 million) relates to the decommissioning and rehabilitation of the Milnerton and Saldanha tank farms in line with the requirements of NERA and the environmental monitoring and rehabilitation of the underground crude oil tanks in Ogies according the requirements of in the MPRDA.

-Saldanha and Milnerton

The six Saldanha inground 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. No allowance has been made for the removal of crude oil/sludge from the tanks and pipeline.

The decommissioning cost estimate will not include the removal or mothballing of the Chevron facilities as it is assumed that this would be undertaken by Chevron at their expense.

The total provision for Saldanha and Milnerton tank farms are R261.699 million and R173.856 million respectively.

-Ogies

The provision for this site is to address the economic analysis of the worst case environmental damages and the clean-up costs for the assessed hazard. Environmental damage affects ground water, soil that produces food in the surrounding area, property and trading damages such as human life and mineral rights. The assumptions used in the calculation take into account the probability of occurrence.

At year-end, the total provision for the Ogies tank storage mine infrastructure is R118.468 million.

AEMFC

As at 31 March 2017 the environmental rehabilitation balance of R18.7 million (2016 : R18.5 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-term bond yield rates of 7.57% for 2018 cash flows and 9.68% for 2039 cash flows (2016: 8.38% and 9.79% respectively) and inflation rate of 5.6% (2016: 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 life of mine.

In respect of the rehabilitation provision, a corresponding asset write-down of R0.264 million (2016: R0.709 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 R0.045 million and the excess is recognised in profit or loss.

24. Provisions (continued)

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

Figures in Rand millions	2017	2016
Cash deposits	477	477
Cash in escrow account	1 577	1 453
Financial guarantee	206	198
	2 260	**2 128**

Social investment
This provision amount of R21.063 million (2016: R24.208 million) is for commitments to community investment projects as a pre-condition for the issuing of exploration licences.

Bonus
Provision for performance bonuses for an amounts to R57.915 million (2016: R79.124 million) which represents incentives for employees who qualify in terms of their performance during the current year.

Included in the bonus reversal is PASA's transfer as held for distribution of R8.440 million.

The estimate is based on the expected average performance of the group and employees using the variables as determined in the CEF group incentive bonus policy. The bonus liability is anticipated to be paid within the next 12 months

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

25. Other non-current financial liabilities

Operating lease liability
Contracts relating to rental payable have been smoothed over the contract period. Refer to note 38 for disclosure of commitments.

Current portion of operating lease liability is included in trade and other payable.

Deferred income

CEF SOC Ltd
The deferred grant was received by CEF SOC Ltd from the Department of Energy. These funds grant is used to fund feasibility studies for the Vaal Dam projects. The balance of this grant is R.808 million(2016:R.750 million).

SFF NPC
An upfront, non-refundable reservation is applicable to one of the crude oil storage contracts with a duration of seven years. The balance of the deposit is R73.754 million.

Figures in Rand millions	2017	2016
Operating lease liability	15 964	14 991
Deferred income	63 899	750
	79 863	**15 741**

26. Trade and other payables

Figures in Rand thousand	2017	2016
Trade payables	1 240 700	1 106 451
Amounts received in advance	10 663	6
VAT	11	–
Sundry creditors	125 825	307 171
Withholding tax	111	111
Accrued leave pay	70 892	66 819
Cash calls in advance	320 510	425 808
Statutory payables	860 524	794 458
Liabilities arising from sale of strategic stock	2 888 022	2 737 321
Operating lease payables	215	1 465
Unearned finance income	75	173
Payroll liabilities	10 269	23 571
	5 527 817	**5 463 354**

Fair value of trade and other payables

The carrying amount for trade and other payables at 31 March 2017 approximates fair value.

27. Revenue

Figures in Rand thousand	2017	2016
Fuel production sales	9 632 281	15 124 077
Other revenue from rendering of services	9 474	–
Oil pollution control	17 397	20 423
Administration and management fees received	4 008	4 838
Rental Income	784 213	586 422
Interest received (trading)	92	145
Crude oil sales	725 066	4 599 744
Fees earned	204	27
Sale of coal	376 170	376 067
Data sales	49 112	4 721
	11 598 017	**20 716 464**

28. Cost of sales

Figures in Rand thousand	2017	2016
Sale of goods		
Sale of goods	11 037 915	14 469 908

29. Other income

Figures in Rand thousand	2017	2016
Profit and loss on sale of assets and liabilities	–	2 483
Profit and loss on exchange differences	5 578	305 470
Commissions received	41	69
Royalties received	79	198
Rental income	7 388	8 575
Recoveries	2 978	2 742
Revaluation and impairment	(1 158)	121 372
Recovery of coal transport costs	87 984	81 886
Other income	224 627	42 054
Income from landfill	14 039	11 134
Management fees	501	8 475
Insurance claims	27	2 688
Gantry fee	–	75 852
	342 084	**662 998**

30. Operating loss

Operating loss for the year is stated after accounting for the following:

Operating lease charges		
Premises		
• Contractual amounts	19 255	25 372
Motor vehicles		
• Contractual amounts equipment	46	189
• Contractual amounts	1 777	1 981
	21 078	**27 542**

30. Operating loss

Figures in Rand thousand	2017	2016
Loss on sale of property, plant and equipment	182	2 116
Impairment on property, plant and equipment	1 234 640	1 526 343
Reversal of impairment on property, plant and equipment	(2 280 540)	(1 271 761)
Tax related expenses	112 682	1 880
Auditors' remuneration	10 070	10 106
Reversal of impairment inventories	(152 102)	180 235
Impairment on intangible assets	170 955	–
Impairment on loans to Group companies	–	16 498
Administration and management fees	2 249	3 058
Accounting fees	1 520	3 333
Reversal of impairment on loans to group companies	(7 287)	(16 498)
Impairment on other financial assets	345 905	–
Reversal of impairment on other financial assets	–	(1 475)
Consulting and professional fees	43 518	30 885
Insurance	39 797	35 171
Hedge premium	9 182	5 684
Impairment of trade and other receivables	99 036	34 673
Financial services fees	11 688	11 397
Repairs and maintenance	13 181	10 655
(Profit)/loss on exchange differences	391 178	352 392
Amortisation of intangible assets	9 610	13 543
Transport and freight	267 510	365 022
Restatement of financial assets and financial liabilities	154 957	111 655
Travel – overseas	3 172	10 495
Depreciation on property, plant and equipment	1 091 531	1 909 121
Travel – local	10 837	10 449
Employee costs	414 716	324 074
Computer maintenance	7 957	4 643
Motor vehicle maintenance expenses and other related expenses	6 569	5 678
Security	4 289	2 483
Staff welfare	3 481	3 312
Training	7 923	6 223
Municipal expenses	9 230	6 807
Participating fees	6 998	–
Administration expenses PetroSA (employee costs, depreciation,impairment and administration costs)	782 788	1 056 669
Research and development costs	6 153	8 777

Expenses by nature (summarised)

Employee costs	414 717	324 075
Depreciation, amortisation and impairment	(528 808)	531 879
General expenses	1 955 206	4 562 221

31. Investment revenue

Figures in Rand thousand	2017	2016
Dividend revenue		
Other financial assets–shareholding less than 20% at Methcap	1 552	950
Interest revenue		
Associates	2 197	1 067
Loans at amortised cost	5 170	2 888
Bank and investments	929 415	703 887
Interest charged on trade and other receivables	4 728	340
	941 510	**708 182**
	943 062	**709 132**

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

32. Finance costs

Figures in Rand thousand	2017	2016
Group companies	14	–
(Profit) and loss insurance discounting	–	24 775
Trade and other payables	1 108	1 285
Bank	5 524	3 031
Current borrowings	28 427	–
Late payment of tax	941	6 160
Interest due to third parties as result of cash held on behalf of third parties	2 525	1 777
Unwinding of discount on provisions and other liabilities	534 339	516 228
	572 878	**553 256**

Capitalisation rate used during the period was 4% (2016: 3.09%). Total borrowing costs capitalised were R20.370 million (2016: R50.107 million). The borrowing costs are capitalised on assets under development–exploration and evaluation assets.

33. Taxation

Figures in Rand thousand	2017	2016
Major components of the tax expense		
Current		
Local income tax – current period	94 836	46 814
Local income tax – recognised in current tax for prior periods	(418)	(126)
Foreign income tax or withholding tax – current period	2 070	4 200
	96 488	50 888
Deferred		
Originating and reversing temporary differences	213 979	454 908
Changes in tax rates	–	105
Benefit of unrecognised tax loss/tax credit/temporary difference used to reduce deferred tax expense	20 543	(137 572)
	234 522	317 441
	331 010	368 329
Reconciliation of the tax expense		
Reconciliation between accounting profit and tax expense.		
Accounting loss	(268 465)	174 372
Tax at the applicable tax rate of 28% (2016: 28%)	(75 170)	48 824
Tax effect of adjustments on taxable income		
Income not subject to tax	(378 649)	(1 348 947)
Expenses not deductible for tax purposes	317 844	1 435 624
Associates results reported net of tax	(83 664)	(85 233)
Temporary differences	–	492
Effects of tax rates in different jurisdictions	(46 192)	(35 875)
Tax losses carried forward	596 228	359 549
Changes in tax rates	–	105
Tax expense in respect of prior years	613	(6 210)
	331 010	368 329

The average effective tax rate is -123% (2016: 16%). Companies are subject to income tax at company level and not at group level. The tax expense arises from individual group companies that are subject to income tax and generated taxable profits during the financial year.

Non deductible and non-taxable income is made up of income and expenditure from subsidiaries (SFF NPC, PASA SOC Ltd, OPCSA NPC) which are not subject to income tax and income from equity accounting of associates.

Tax losses carried forward mainly originate from PetroSA Ghana.

Figures in Rand thousand	2017	2016
Deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset has been recognised.	19 900 000	18 600 000

34. Auditors' remuneration

Figures in Rand thousand	2017	2016
Fees	10 070	10 106

35. Other comprehensive income

Components of other comprehensive income – 2017

Figures in Rand thousand	Gross	Tax	Net
Items that will not be reclassified to profit or loss			
Remeasurements on net defined benefit liability/asset			
Remeasurements on net defined benefit liability/asset	(4 992)	–	(4 992)
Movements on revaluation			
Transfers in	(22 669)	–	(22 669)
Items that may be reclassified to profit or loss			
Exchange differences on translating foreign operations			
Exchange differences arising during the year	(203 864)	–	(203 864)
Effects of cash flow hedges			
Gains/(losses) on cash flow hedges arising during the year	511	–	511
Total	**(231 014)**	**–**	**(231 014)**

Components of other comprehensive income – 2016

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)
Movements on revaluation			
Gains/(losses) on property revaluation	(22 860)	–	(22 860)
Total items that will not be reclassified to profit or loss	**(26 667)**	**–**	**(26 667)**
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)
Total items that may be reclassified to profit or loss	**453 649**	**–**	**453 649**
Total	**426 982**	**–**	**426 982**

36. Cash generated from operations

Figures in Rand thousand	2017	2016
Loss before taxation	(268 465)	174 372
Adjustments for:		
Depreciation and amortisation	1 101 704	1 922 664
Net profit/(loss) on disposal of property, plant and equipment	182	(2 483)
Loss on foreign exchange	600 620	294 037
Income from equity accounted investments	(300 280)	(305 212)
Interest received – investment	(943 062)	(709 132)
Finance costs	572 878	553 256
Write-off of property, plant and equipment	382	–
Impairment/(reversals of impairment)	(873 785)	133 210
Group loan impairment	203 233	–
Increase in retirement benefit assets and liabilities	15 102	13 526
Movements in provisions	(87 847)	220 523
Other non-cash items	(22 873)	3 790
Change in discounting factor on provisions	–	–
Other non-cash items	–	–
Changes in working capital:		
(Increase)/in inventories	111 479	220 830
(Increase)/Decrease in trade and other receivables	58 255	819 475
Decrease in prepayments	247 644	38 123
(Increase)/Decrease in strategic stock	(152 103)	1 958 332
Increase/(decrease) in trade and other payables	64 461	1 461 383
	327 525	**6 796 694**

37. Tax paid

Figures in Rand thousand	2017	2016
Balance at beginning of the year	(1 050)	(48 555)
Current tax for the year recognised in profit or loss	(96 488)	(50 888)
Adjustment in respect of businesses sold and acquired during the year including exchange rate movements	527	–
Balance at end of the year	(14 931)	1 050
	(111 942)	**(98 393)**

38. Commitments

Figures in Rand thousand	2017	2016
Authorised capital expenditure		
Already contracted for but not provided for:		
• AEMFC SOC Ltd	208 528	188 736
• CEF SOC Ltd	3 379	2 052
• PASA SOC Ltd	558	937
• PetroSA SOC Ltd	342 456	862 614
Not yet contracted for and authorised by Directors (CEF SOC Ltd and SFF NPC)	1 315 051	1 028 548

This committed expenditure relating to the above and will be financed by available bank facilities, retained profits, existing cash resources and debts.

Operating leases – as lessee (expense)

	2017	2016
Minimum lease payments due		
– within one year	23 225	21 652
– in second to fifth year inclusive	68 361	77 572
– later than five years	35 693	42 494
	127 279	**141 718**

CEF SOC Ltd and AEMFC SOC Ltd lease office equipment over an average term of three years.

Operating lease payments at SFF represent rentals payable by the company for land in Saldanha. Leases are negotiated for an average term of 17 years and rentals increase with a fixed percentage of 9%, as per the contract with Transnet National Ports Authority, on an annual basis.

Properties/premises operating lease commitments relate to the following:

- PetroSA SOC Ltd leases premises and other properties from Transnet National Ports Authority at a monthly fee of R0.260 million escalating at 9%. The lease term of 10 years commenced on 1 April 2012.
- PetroSA SOC Ltd leases premises at Willemswerf, 13^{th} Floor, Boomjes, effective 1 December 2004. The current lease payment is Euro 0.030 million per annum, with an inflationary escalation per annum. The period of the lease agreement was initially for five years and was extended for a further three year period ending on 30 November 2017, at which time PetroSA Europe BV has the option to renew the lease.
- PetroSA SOC Ltd leases office space at the general aviation area of the George Airport effective from 1 October 2012. The lease payment is fixed at R0.040 million per month with a 9% escalation per annum. The lease period is five years and ends on 30 September 2017.

38. Commitments (continued)

- PASA leases office space from Sulnisa Property for a period of five years ending 30 September 2019. The initial lease payment was fixed at R0.530 million per month, with an escalation linked to CPI. The company has renewed for a further five years under the same terms and conditions and expiring on 30 September 2019.
- PASA leases storage space at Modderdam Road, Airport Industria from Redefine Properties which expires on 30 June 2017. The lease payment is fixed at R0.011 million per month, with no escalation clause per annum. The company has an option to renew the lease.
- AEMFC SOC Ltd operating lease payments represent rentals payable by the company for certain of its office properties. Leases are negotiated for an average term of five years and rentals are fixed for an average of three years.
- CEF SOC Ltd leases machinery. The rental increases annually at CPI + 1%. The average contract term is three to five years. CEF SOC Ltd leases office space. Contracts are renewed annually.

No contingent rent is payable.

Figures in Rand thousand	2017	2016
Operating leases – as lessor (income)		
Minimum lease payments due		
– within one year	1 772	769
– in second to fifth year inclusive	4 330	1 025
	6 102	**1 794**

There are no contingent rents receivable.

Commitments relating to operating activities		
The company (AEMFC SOC Ltd) has entered into contracts at year-end, to the value of:		
Commitments to contribute to operating activities	330 637	67 992
Commitments to provide property, plant and equipment to joint ventures	47 826	–
Commitments to acquire interests from other joint ventures	82 880	–
	461 343	**67 992**

39. Contingencies

Figures in Rand thousand	2017	2016
Guarantees		
The Group has issued guarantees for the rehabilitation of land disturbed by mining on the Sable field	180 000	180 000
The Group has issued a manufacture and excisable bond in favour of the South African Revenue Service	5 000	5 000
The Group has issued an evergreen VAT guarantee in favour of the Dutch VAT Authorities (Euro 0.5 million)	7 143	8 392
The Group has issued a guarantee in lieu of a lease in the Netherlands (Euro 0.016 million)	–	268
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 iGas Deed of Suretyship	2 100	2 100
	685 263	**686 780**
Claims		
PetroSA is considering settling claims made in terms of contracts	17 646	13 978

Contingencies arising from litigious matters

SFF NPC

Customer claim

An appeal against an arbitration decision 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 0.051 Mbbls of crude oil. The claim for the damages is USD 5.865 million plus interest, calculated at 15.5% per annum, from September 2011. SFF defended the claim and filed a counter claim against the customer for the recovery of the amount of R45.967 million 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.

SFF successfully defended the claim for damages during the arbitration hearing held in November 2016. The customer was successful in its alternative delictual claim that it brought against SFF at a much later stage. SFF did not succeed in its defence that the customer's delictual claim had prescribed. SFF, however, has lodged an appeal against the decision taken by the sole arbitrator in the matter with regard to the later delictual claim.

Restraint of trade claim

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.

39. Contingencies (continued)

Tank refurbishment

NERSA is defending an action brought by a property developer as a result of NERSA having awarded SFF NPC a licence to operate the 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. 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. The matter involving the review application by the property developer to set aside the decision by NERSA in approving the operation of a storage facility in Milnerton has been held in abeyance until such time that the applicant prosecutes the matter further.

Tender process damages claim

SFF received a letter from a supplier's attorneys after year-end demanding damages to be paid to their client amounting to R2.5 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 SOC Ltd

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 notified employees in terms of Section 189 of the Labour Relations Act (Act No. 66 of 1995) of possible headcount reduction based on operational requirements, on 17 February 2017. 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.

CEF SOC Ltd

Litigation is in progress against a former employee for potential damage to the company. The claim is for R0.205 million. Management are uncertain of the outcome of this case. The case should be resolved within the next three months.

There is a matter that has been referred to the Labour Court by a former employee. The claim cannot be quantified.

40. Prior period errors and other restatements

The table summarises the adjustments made to the Statement of Financial Position and Statement of Profit or Loss:

Reconciliation of equity at April 1, 2016: Effects of restatement in the Statement of Financial Position

Figures in Rand thousand	Note	Previously reported	Adjustment	Restated
Property, plant and equipment		10 616 462	(33 390)	10 583 072
Other financial assets		344 837	148	344 985
Total non-current assets		**10 961 299**	**(33 242)**	**10 928 057**
Trade and other receivables		2 155 393	265	2 155 658
Finance lease receivable		265	(265)	–
Assets of disposal group		60 669	(10 669)	50 000
Cash and cash equivalents		16 153 554	(3)	16 153 551
Total current assets		**18 369 881**	**(10 672)**	**18 359 209**
Unearned finance income		150	(150)	–
Trade and other payables		5 461 743	1 612	5 463 355
Other financial liabilities		55 772	430	56 202
Operating lease liability–current portion		1 465	(1 465)	–
Operating lease liability–non–current portion		14 991	(14 991)	–
Deferred income		750	(750)	–
Other financial liabilities-non-current portion		–	15 741	–
Loans from Group companies		430	(430)	–
Total liabilities		**5 535 301**	**(3)**	**5 519 557**
Total assets less total liabilities		**23 795 879**	**(43 911)**	**23 767 709**
Reserves		2 137 047	(65 179)	2 071 868
Retained earnings		12 929 050	21 268	12 950 318
Total equity		**15 066 097**	**(43 911)**	**15 022 186**

40. Prior period errors and other restatements (continued)

Explanations

Effects on individual companies

SFF NPC

a. Adjustment as a result of revaluation reserve
Certain components of property, plant and equipment were revalued during the 2015 financial year, as part of the transition from GAAP to IFRS. The revaluation was based on the net book values of the assets as at 31 March 2015, whilst the revaluation report was to be implemented effective from April 2014.

Retained earnings
Retained earnings increased by R25.96 million.

The change is made up of an adjustment from revaluation reserve to retained earnings of R45 million. This is due to realisation of the revaluation reserve as required by International Financial Reporting Standards.

Depreciation expense increased by R1.6 million resulting in a decrease in retained earnings.

The correction journal of R17.3 million between property, plant equipment and retained earnings was processed. This resulted in a decrease in property, plant and equipment and a decrease in retained earnings.

Property, plant and equipment
Property, plant equipment decreased by R39 million.

The correction journal of R17.3 million between property, plant equipment and retained earnings was processed. This resulted in decrease in property,plant and equipment and a decrease in retained earnings.

Depreciation expense increased by R1.6 million resulting in a decrease in retained earnings.

The change is made up of an adjustment from revaluation reserve to property, plant and equipment of R20 million.

Reserves
Reserves decreased by R65 million.

The change is made up of an adjustment from revaluation reserve to property, plant and equipment of R20 million
The change is made up of an adjustment from revaluation reserve to retained earnings of R45 million. This is due to realisation of revaluation reserve as required by International Financial Reporting Standards.

b. Adjustment as a result of demutualisation of Sanlam
It was discovered during the 2017 financial year that SFF is the registered owner of 2 164 shares in Sanlam Limited.

Retained earnings
Increase in retained earnings of R0.148 million due to:
- Increase in operating expenditure as a result of an adjustment of R0.022 million as a result of restatement of the investment (change in fair value of shares); and
- Recognition of the investment at Sanlam of R0.170 million; and

Other financial assets
Adjustment of R0.148 million due to the following:
- Recognition of the investment at Sanlam of R0.170 million.
- Decrease in the fair value of shares adjustment of R0.022 million.

40. Prior period errors and other restatements (continued)

OPC NPC

c. Reversal of assets of disposal group in terms of IFRS 5

The Minister of Energy's approval in terms of Section 54(2) of the Public Finance Management to dispose of the OPC NPC was received on 26 October 2012. The Minister approved the CEF SOC Board's request to dispose of the business of OPC NPC and to donate the assets to SFF NPC. Legal ownership has not yet transferred to SFF NPC. and is still owned by OPC NPC to date.

The fixed assets and intangible assets were reclassified as non-current assets held-for-sale in the 2013 financial year, as well as subsequent financial years.

It was concluded in the 2017 financial year-end that these assets do not meet the criteria to be classified as such.

Adjustment on property, plant and equipment

Increase in property, plant and equipment by R5 million.
As the result of the reversal of assets of disposal group, the cost of property, plant and equipment was increased by R33.015 million and accumulated depreciation increased by R27.118 million.

Adjustment on assets of disposal group

Decrease in assets of disposal group by R10.669 million.
The assets of disposal group at a carrying amount of R10.669 million was reversed to property, plant and equipment.

Adjustment on retained earnings

Decrease in retained earnings of R4.8 million.
The decrease is due to restatement of depreciation for the period, property, plant and equipment was classified as assets of disposal group and not depreciated.

Group level restatements as a result of aggregation of immaterial items

a. Finance lease receivables have been included in trade and other receivables.
b. The following items have been included in trade and other payables:
  - Unearned finance income; and
  - Operating lease liability current portion.
c. Loans from group companies have been included in other financial liabilities.
d. The following items have been included in other non-current liabilities:
  - Operating lease liability non-current portion; and
  - Deferred income.

Reconciliation of profit or loss for 2016: Effects in the Statement of Profit/Loss

Figures in Rand thousands	Adjustments
Other income	276 781
Operating expenses	(282 322)
Finance costs	2 702
Net loss	**(2 839)**

Explanations

Effects on consolidation

Operating expenses and other income

Net profit/loss on exchange differences of R276 million was reclassified from operating expenses to other income. This resulted in an increase in operating expenditure and increase in other income.

Effects on individual companies

SFF NPC

1. Adjustments on revaluation reserve operating expenses

Certain components of property, plant and equipment were revalued during the 2015 financial year, as part of the transition from GAAP to IFRS. The revaluation was based on the net book values of the assets as at 31 March 2015, whilst the revaluation report was to be implemented with effect from 1 April 2014. Depreciation expense was increased by R1.6 million.

2. Adjustment as a result of demutualisation of Sanlam

It was discovered during the 2017 financial year that SFF NPC is the registered owner of 2 164 shares in Sanlam Limited.

Operating expenses

Increase in operating expenditure as a result of an adjustment of R0.022 million as a result of restatement of the investment (change in fair value of shares).

3. Reclassification of interest cost relating to post-retirement obligation fund

Interest expense of R2.7 million relating to post-retirement obligation fund was reclassified from finance costs to employee costs. This resulted in a decrease in finance costs and increase in operating expenditure.

OPC NPC

1. Reversal of assets of disposal group in terms of IFRS 5

The Minister of Energy's approval in terms of Section 54(2) of the Public Finance Management Act to dispose of the OPC NPC was received on 26 October 2012. The Minister approved the CEF SOC Ltd Board's request to dispose of the business of OPC NPC and to donate the assets to SFF NPC. Legal ownership has not yet transferred to SFF NPC and is still owned by OPC NPC to date.

The fixed assets and intangible assets were reclassified as non-current assets held-for-sale in the 2013 financial year, as well as subsequent financial years.

It was concluded in the 2017 financial year end that these assets do not meet the criteria to be classified as such.

Operating expense

Operating expenses increased by R1.2 million, which is depreciation on property, plant and equipment previously classified as assets of disposal group.

41. 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	Gannet Trust
	PetroSA Development Trust Upstream Training Trust
Under common control	Equalisation Fund
	South African National Energy Institute (SANEDI)
Members of key management	Refer to note 43

Related party balances

Figures in Rand thousand	2017	2016
Loan accounts – Owing (to)/by related parties		
Baniettor (Pty) Ltd	16 646	23 933
Darling Wind Power (Pty) Ltd	–	502
Ener-G Systems (Pty) Ltd	32 828	22 903
GTL.F1 AG	190 292	213 159
Amounts included in trade receivable (trade payable) regarding related parties		
PAMDC (Pty) Ltd	2 867	1 997
Department of Energy	559	–
SANEDI	662	1 176
Equalisation Fund	762	465
ROMPCO (Pty) Ltd	56	7
Upstream Training Trust	5	–
Cash on call held on behalf of others		
Upstream Training Trust	34 602	(31 432)
Darling Wind Power (Pty) Ltd	–	(429)
Related party transactions		
Interest paid to/(received from) related parties		
Darling Wind Power (Pty) Ltd	–	24
Ener-G Systems (Pty) Ltd	(3 095)	(1 502)
Upstream Training Trust	2 432	1 704
Rent paid to/(received from) related parties		
ROMPCO (Pty) Ltd	(62)	(58)
SANEDI	(380)	(714)
PAMDC (Pty) Ltd	(174)	(163)
Administration fees paid to/(received from) related parties		
Upstream Training Trust	(48)	–
Equalisation Fund	(2 218)	(2 411)
SANEDI	(838)	(1 923)
PAMDC (Pty) Ltd	(1 220)	(753)

Recoveries paid to/(received from) related parties		
SANEDI	(155)	(239)
PAMDC (Pty) Ltd	(214)	(172)
ROMPCO (Pty) Ltd	(12)	(6)
Equalisation Fund	(1 135)	(1 037)
Department of Energy	(559)	–
Provisions balances relating to related parties		
Baniettor (Pty) Ltd–Loan and investment	(16 744)	(24 031)
DWP (Pty) Ltd	–	(502)

Refer to the contingencies disclosure note 39 for contingencies to related parties.

42. 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 (UTT) was established to receive irrevocable and unconditional contributions and grants from any persons or entities for the purpose of applying these funds for education and educational development, research, the provision of funding, assets, services and other resources to Public Benefit Organisations. Petroleum Agency SA nominates and serves as a Trustee on the board of Trustees of UTT.

PASA is responsible for the administration of UTT but is not able to control it as all decisions have to be made by a majority vote of the Trustees, which may be a minimum of three and a maximum of seven (PASA only has one vote).

PASA receives no administration fees from UTT and makes no contribution to UTT. At 31 March PASA had a loan receivable from UTT of R nil (2016: R nil). Terms and conditions of the loan are that they are due and receivable 30 days from date of invoice receipt by UTT. PASA maximum exposure to loss from UTT is R nil (2016: R nil).

43. Directors' emoluments

Executive management

2017

Figures in Rand thousand	Emoluments	Bonus paid	Total
Mr M Moagi (CEF Group)*	3 187	–	3 187
Mr S Madondo (AEMFC SOC Ltd)	3 476	1 630	5 106
Mr S Mthethwa(CEF Group)**	2 349	959	3 308
Mr K Zono (PetroSA Group)***	2 605	–	2 605
Ms M Modipa (PetroSA Group)****	2 677	–	2 677
Dr M De Pontes (iGAS SOC Ltd)	3 067	–	3 067
Mr S Gamede (SFF NPC)*****	606	–	606
Ms L Mekwe (PASA SOC Ltd)	2 466	350	2 816
	20 433	**2 939**	**23 372**

2016

Mr S Mthethwa (CEF Group)	3 025	598	3 623
Mr S Madondo (AEMFC SOC Ltd)	3 206	1 468	4 674
Ms M Modipa (PetroSA Group)	2 796	–	2 796
Dr M De Pontes (iGAS SOC Ltd)	2 511	–	2 511
Mr S Gamede (SFF NPC)	1 993	307	2 300
Amb. B Gila (SFF NPC)******	702	–	702
Ms L Mekwe (PASA SOC Ltd)	2 160	365	2 525
	16 393	**2 738**	**19 131**

Key management personnel for the Group have been identified to be Chief Executive Officers for operating subsidiaries and the holding company.

In the prior year, CEF SOC Ltd executive management was disclosed as key management personnel for the entity, however for the current year we have disclosed Chief Executive Officers of holding company and the subsidiaries as it is considered to be most suitable and relevant at Group level. Refer to CEF SOC Ltd Annual Financial Statement for prior year disclosure.

* Mr G Moagi was appointed in June 2016 as SFF Interim CEO and CEF Interim CEO. The full salary is paid by CEF, 50% is recovered from SFF and only 50% is recorded at CEF.

** Mr S Mthethwa was seconded to provide services at PetroSA from June 2016, however the salary remained to be paid by CEF.
Mr Mthethwa resigned from CEF in November 2016.The remuneration relating to the period at PetroSA amounted to R1.6 million.

*** Mr K Zono was appointed as interim CEO in December 2016.

**** Ms M Modipa resigned from PetroSA in July 2016.

***** Mr S Gamede resigned in June 2016.

****** Amb. B Gila resigned during the 2016 financial year.

43. Directors' emoluments (continued)

Non-executive

2017

Figures in Rand thousand	Directors' fees	Other expenses	Directors' fees for services as Directors' of subsidiaries	Total
Mr L Makasi (Chairperson)*	432	–	–	432
Dr X Mkhwanazi (Former Chairperson)**	465	7	–	472
Adv. L Mtunzi	666	1	–	667
Ms M Molope	347	–	–	347
Mr R Jawoodeen**	129	1	259	389
Mr M Moagi^	178	42	58	278
Mr T Maqubela**#	–	–	–	–
Mr G Bezuidenhoudt**#	–	–	–	–
Mr T Sethosa (Alternate)**#	–	–	–	–
Mr D Hlatshwayo**^^	40	–	–	40
Mr N Mompati*	140	–	68	208
Mr O Besnaar*	117	10	–	127
	2 514	61	385	2 960

Figures in Rand thousand	Directors' fees	Other expenses	Directors' fees for services as Directors' of subsidiaries	Total
2016				
Dr S Mthembi-Mahanyele (Former Chairperson)	332	1	171	504
Mr R Boqo	185	–	–	185
Dr X Mkhwanazi (Chairperson)	279	–	–	279
Mr D Hlatshwayo	131	–	–	131
Ms M Molope	124		–	–
Mr R Jawoodeen	472		3	85
Mr M Moagi	168		–	–
Mr T Maqubela#	–		–	–
Mr G Bezuidenhoudt#	–		–	–
Adv. L Mtunzi	124		–	–
Mr T Sethosa (Alternate)#	–		–	–
	1 815		4	256

\# Directors are not remunerated in their personal capacity as they are representing the shareholder (DoE).
^ Mr Moagi was appointed at CEF and SFF Interim CEO in June 2016.
* The directors were appointed in December 2016.
** Mr Hlatshwayo – services were terminated in August 2016.
Dr Mkhwanazi-services were terminated in September 2016.
Mr Jawodeen – services were terminated in July 2016.
Mr Bezuidenhoudt – services were terminated in May 2016.
Mr Maqubela–services were terminated in December 2016.
Mr Sethosa – services were terminated in December 2016.
^^ Mr D Hlatshwayo was a BARC member and not a board member.

43. Categories of financial instruments

Figures in Rand thousand	Note(s)	Financial assets at fair value through profit or loss
Categories of financial instruments – 2017		
Assets		
Non-current Assets		
Property, plant and equipment	3	–
Intangible assets	4	–
Investments in associates	7	–
Loans to Group companies	8	–
Other financial assets	9	146
Deferred tax	12	–
Prepayments	13	–
Strategic inventory	14	–
		146
Current Assets		
Inventories	15	–
Current tax receivable		–
Trade and other receivables	16	–
Prepayments	13	–
Cash and cash equivalents	17	–
		–
Non-current assets held-for-sale and assets of disposal groups	18	–
Total Assets		**146**

Debt instruments at amortised cost	Equity instruments at cost less impairment	Financial liabilities at amortised cost	Leases	Equity and non-financial assets and liabilities	Total
–	–	–	–	9 050 665	9 050 665
–	–	–	–	1 644 394	1 644 394
–	–	–	–	909 106	909 106
32 829	–	–	–	–	32 829
181 951	1 475	–	–	–	183 572
–	–	–	–	334 771	334 771
–	–	–	–	830	830
–	–	–	–	1 123 998	1 123 998
214 780	**1 475**	**–**	**–**	**13 063 764**	**13 280 165**
–	–	–	–	1 880 923	1 880 923
–	–	–	–	14 931	14 931
1 904 533	–	–	–	192 870	2 097 403
–	–	–	–	103 820	103 820
15 694 839	–	–	–	–	15 694 839
17 599 372	**–**	**–**	**–**	**2 192 544**	**19 791 916**
–	–	–	–	88 639	88 639
17 814 152	**1 475**	**–**	**–**	**15 344 947**	**33 160 720**

44. Categories of financial instruments (continued)

	Note(s)	Financial assets at fair value through profit or loss
Categories of financial instruments – 2017		
Equity and Liabilities		
Equity		
Equity attributable to equity holders of parent: Reserves	19	–
Retained income	19	–
		–
Non-controlling interest		–
Total Equity		**–**
Liabilities		
Non-current Liabilities		
Other financial liabilities	23	–
Retirement benefit obligation	11	–
Deferred tax	12	–
Provisions	24	–
Other non current liabilities	25	–
		–
Current Liabilities		
Other financial liabilities	23	–
Trade and other payables	26	–
Provisions	24	–
		–
Liabilities of disposal groups	18	–
Total Liabilities	**–**	**–**
Total Equity and Liabilities		**–**

Debt instruments at amortised cost	Equity instruments at cost less impairment	Financial liabilities at amortised cost	Leases	Equity and non-financial assets and liabilities	Total
–	–	–	–	1 845 841	1 845 841
–	–	–	–	12 413 560	12 413 560
–	**–**	**–**	**–**	**14 259 401**	**14 259 401**
–	–	–	–	(1 024)	(1 024)
–	**–**	**–**	**–**	**14 258 377**	**14 258 377**
–	–	866 846	–	–	866 846
–	–	–	–	136 274	136 274
–	–	–	–	1 888 793	1 888 793
–	–	–	–	10 157 761	10 157 761
–	–	–	–	79 863	79 863
–	**–**	**866 846**	**–**	**12 262 691**	**13 129 537**
–	–	88 943	–	–	88 943
–	–	3 929 640	215	1 597 964	5 527 819
–	–	–	–	137 130	137 130
–	**–**	**4 018 583**	**215**	**1 735 094**	**5 753 892**
–	–	–	–	18 915	18 915
–	**4 885 429**	**215**	**14 016 700**	**–**	**18 902 344**
–	**–**	**4 885 429**	**215**	**28 275 077**	**33 160 721**

44. Categories of financial instruments (continued)

	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	148
Deferred tax	12	–
Finance lease receivables		–
Prepayments	13	–
Strategic inventory	14	–
		148
Current Assets		
Inventories	15	–
Current tax receivable		–
Trade and other receivables	16	–
Prepayments	13	–
Cash and cash equivalents	17	–
		–
Non-current assets held-for-sale and assets of disposal groups	18	–
Total Assets		**148**

	Debt instruments at amortised cost	Equity instruments at cost less impairment	Financial liabilities at amortised cost	Leases	Equity and non-financial assets and liabilities	Total
	–	–	–	–	10 583 070	10 583 070
	–	–	–	–	1 911 297	1 911 297
	–	–	–	–	670 988	670 988
	236 062	–	–	–	–	236 062
	343 362	1 475	–	–	–	344 985
	–	–	–	–	386 601	386 601
	–	–	–	556	–	556
	–	–	–	–	933	933
	–	–	–	–	971 895	971 895
	579 424	**1 475**	**–**	**556**	**14 524 784**	**15 106 387**
	–	–	–	–	1 992 402	1 992 402
	–	–	–	–	5 557	5 557
	1 772 814	–	–	–	382 844	2 155 658
	–	–	–	–	351 464	351 464
	16 153 551	–	–	–	–	16 153 551
	17 926 365	**–**	**–**	**–**	**2 732 267**	**20 658 632**
	–	–	–	–	50 000	50 000
	18 505 789	**1 475**	**–**	**556**	**17 307 051**	**35 815 019**

44. Categories of financial instruments (continued)

	Note(s)	Financial assets at fair value through profit or loss
Categories of financial instruments – 2016		
Equity and Liabilities		
Equity		
Equity attributable to equity holders of parent: Reserves	19	–
Retained income	19	–
		–
Non-controlling interest		–
Total Equity		**–**
Liabilities		
Non-current Liabilities		
Other financial liabilities	23	–
Retirement benefit obligation	11	–
Deferred tax	12	–
Provisions	24	–
Other non current liabilities	25	–
		–
Current Liabilities		
Other financial liabilities	23	–
Current tax payable		–
Trade and other payables	26	–
Provisions	24	–
Bank overdraft	17	–
		–
Total Liabilities	**–**	**–**
Total Equity and Liabilities		**–**

Debt instruments at amortised cost	Equity instruments at cost less impairment	Financial liabilities at amortised cost	Leases	Equity and non-financial assets and liabilities	Total
–	–	–	–	2 071 868	2 071 868
–	–	–	–	12 950 318	12 950 318
–	**–**	**–**	**–**	**15 022 186**	**15 022 186**
–	–	–	–	(904)	(904)
–	**–**	**–**	**–**	**15 021 282**	**15 021 282**
–	–	1 201 666	–	–	1 201 666
–	–	–	–	121 172	121 172
–	–	–	–	1 768 004	1 768 004
–	–	–	–	11 605 388	11 605 388
–	–	–	–	15 741	15 741
–	**–**	**1 201 666**	**–**	**13 510 305**	**14 711 971**
–	–	56 202	–	–	56 202
–	–	–	–	6 607	6 607
–	–	4 080 719	1 465	1 381 174	5 463 358
–	–	–	–	138 396	138 396
–	–	417 209	–	–	417 209
–	**–**	**4 554 130**	**1 465**	**1 526 177**	**6 081 772**
–	**5 755 796**	**1 465**	**15 036 482**	**–**	**20 793 743**
–	**–**	**5 755 796**	**1 465**	**30 057 764**	**35 815 025**

45. 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 its shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the group consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes 8 & 23 cash and cash equivalents disclosed in note 17, 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 its shareholder, return capital to its shareholder, or sell assets to reduce debt.

Consistent with others in the industry, the group monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including as shown in the Statement of Financial Position) less cash and cash equivalents. Total capital is calculated as 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 programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. The group uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (CEF Group treasury) under policies approved by the Board of Directors. CEF Group treasury identifies, evaluates and hedges financial risks in close co-operation with the group's operating units. The Board of Directors. provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Liquidity risk
The group's risk to liquidity is as a result of the funds available to cover future commitments. The Group manages liquidity risk through an ongoing review of future commitments and credit facilities.

Interest rate risk
The group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Goup to fair value interest rate risk. During 2017 and 2016, the group's borrowings at variable rate were denominated in Rand and 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 yield for the year in South Africa was 7.8% (2016: 7.09%).

A 10% change in interest rates for the group resulted in R77.462 million, R1.201 billion and R0.600 million (2016: R 79.095 million, R1.201 billion and R0.600 million) for the Jibar, Libor and Euribor instruments respectively.

45. Risk management Capital risk management (continued)

At the reporting date, the interest rate profile of the group's interest-bearing financial instruments was:

Figures in Rand thousand	2017	2016
Variable rate instruments (Carrying values)		
Bank balance	11 818 535	13 106 245
Ring fenced funds	3 876 304	3 047 306
GNPC loan	139 845	126 645
GTL.F1 AG loan	–	213 159
Lurgi loan	169 651	198 400
Ener-G Systems (Pty) Ltd loan	32 829	22 903
Reserve based lending	(866 846)	(1 201 245)
Bank overdraft	–	(417 202)
	15 170 318	**15 096 211**

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 counterparty.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash. Credit guarantee insurance is purchased when deemed appropriate.

The maturity profile of the contractual cashflows of financial instruments at 31 March were as follows:

Figures in Rand thousand	Within one year	One to five years	More than five years	Total
Maturity Profiles 2017				
Cash and cash equivalents	11 818 535	–	–	11 818 535
Loans to Group companies	32 829	–	–	32 829
Trade and other receivables	2 031 318	–	–	2 031 318
Other financial assets	8 528 084	332 194	171 126	9 031 404
Other financial liabilities	(991 107)	–	–	(991 107)
Forward exchange contract	(4)	–	–	(4)
Trade and other payables	(2 516 822)	–	–	(2 516 822)
	18 902 833	**332 194**	**171 126**	**19 406 153**
2016				
Cash and cash equivalents				
Within one year	13 106 245	–	–	13 106 245
Loans to Group companies	236 062	–	–	236 062
Trade and other receivables	2 068 681	–	–	2 068 681
Other financial assets	6 732 233	339 804	199 875	7 271 912
Forward exchange contract	72 260	–	–	72 260
Other financial liabilities	(1 201 244)	–	–	(1 201 244)
Trade and other payables	(2 047 075)	–	–	(2 047 075)
Bank overdraft	(417 202)	–	–	(417 202)
	18 549 960	**339 804**	**199 875**	**19 089 639**

45. Risk management Capital 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 exchange contracts, transacted with the CEF 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	2017	2016
Foreign currency exposure at the end of the reporting period		
Non-current assets		
GNPC loan (USD denominated)	139 845	126 645
LurgilLoan (USD denominated	169 651	198 400
GTL.F1 AG (USD denominated)	192 349	213 159
Current assets		
Cash and cash equivalents (USD denominated)	2 786 566	4 152 568
Liabilities		
Trade and other payables (USD denominated)	213 181	112 786
Reserve-based lending loan	866 846	1 201 245
Exchange rates used for conversion of foreign items were:		
USD	13.3562	14.7853
Euro	14.2876	16.7842
Average rate:		
USD	14.0573	13.7835
Euro	15.4475	15.2119

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 at year-end, for which there is currency risk. The expected effect on the Statement of Profit or Loss and equity is calculated based on the net Statement of Financial Position 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 in R54 million (2016: R66.5 million) and R67.6 million (2016: R67.6 million) for financial assets and liabilities respectively.

45. 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 dailyforward exchange 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.

Figures in Rand thousand	Contract foreign currency amount	Contract amount in rand equivalent	Average exchange rate	Fair value gains and (losses)
2016				
FEC's Transactions including commitments which have been contracted for				
Import goods and services				
USD	7 096	94 852	13	3 203
2016				
FEC's transactions including commitments which have not been contracted for				
Import goods and services				
USD	16 691	247 028	15	10 778
Export goods and services	–	–	–	–
USD	65 923	106 027	16	–
	82 614	**353 055**	**31**	**10 778**

The maturity profile of contract amounts of forward exchange contracts at 31 March were as follows:

	Contract amount	Within one year
2017	–	–
Import goods and services	–	–
USD	94 852	94 852
2016	–	–
Import goods and services	–	–
USD	247 028	247 028
	341 880	**341 880**

46. 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 3

Figures in Rand thousand	**2017**	**2016**
Non-recurring fair value measurements		
Assets held-for-sale and disposal groups in accordance with IFRS 5		
Property, plant and equipment	50 000	50 000
PASA assets and liabilities	17 208	–
Total assets held-for-sale and disposal groups in accordance with IFRS 5	**67 208**	**50 000**
Total	**67 208**	**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 with reference to to the selling price as per the sale agreement.

No changes have been made to the valuation technique. The fair value amount was determined through negotiation for the sale of the assets.

Valuation processes applied by the Group
The fair value of 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 and Risk Committee in accordance with the Group's reporting policies

Highest and best use

Non-current assets held-for-sale
The Group assets under this category are a ship and plant components. 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 pollution services by the Group. These are the highest and best use of the assets under this category.

Non-current asset held for distribution
The Group assets and liabilities under this category are the PASA assets and liabilities.

47. Going concern

We draw attention to the fact that at 31 March 2017, the group had retained income of R12.414 billion and that the group's total assets exceeded its liabilities by R14.258 billion.

The Consolidated Annual Financial Statement 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 Directors continue to explore the options available to ensure compliance with the Financial Provision Regulation for the settlement of the rehabilitation provision related to PetroSA.

48. Events after the reporting period

PASA SOC Ltd
The Section 54 (2) approval for transfer of PASA through declaration of a dividend in specie was received from the Minister of Energy subsequent to year-end, with conditions yet to be fulfilled.

The Directors are not aware of any other matters or circumstances arising since the end of the financial year, not otherwise dealt with in the Annual Financial Statements, which significantly affect the financial position of the group or the results of its operations.

49. Fruitless and Wasteful expenditure

Figures in Rand thousand	2017	2016
Fruitless and wasteful expenditure (R'000)		
Opening balance	16 150	5 659
Expenditure relating to the current year	16 549	5 373
Discovered during the current year but relating to the prior year	561	5 682
Less: Amounts recovered	(94)	(23)
Less: Amounts condoned	(18 815)	(541)
	14 351	**16 150**

Fruitless and wasteful expenditure was condoned by the relevant authorities in the individual Group companies.

Details of fruitless and wasteful expenditure relating to the current year		
Advertisement for cancellation of tenders	52	–
Coal write-off	–	839
Contract cancellation fee	234	21
Damages to company and rented vehicles	–	39
Interest on late payment of suppliers	178	3 095
Items individually < R50 000	2	11
Consulting fees incurred in vain	95	–
Penalty and interest to SARS	5 027	7 042
Traffic violations	1	8
Wrongful dismissal	11 521	–
	17 110	**11 055**

49. Fruitless and wasteful expenditure (continued)

2017:

Advertisement for cancellation of tenders

Early cancellation of an contract of R0.052 million (AEMFC).

Contract cancellation fee

Construction contract cancelled (AEMFC). This amounted to R0.2 million. Flight, car rental and accommodation booked for late cancellation of trips by employees and directors (CEF). This amounted to R0.034 million.

Interest on late payment to suppliers

Interest paid of R0.177 million on late payment of accounts (AEMFC).

Penalty and interest to SARS

Interest and penalties on income tax as a result of the VDP conducted in the prior financial year (CEF) of R0.527 million. SARS performed an integrated tax audit for the period 2005–2009. The investigation highlighted employee travel and other reimbursive allowances that were untaxed. PetroSA settled with SARS for the amount of R4.5 million.

Wrongful dismissal

PetroSA has settled a wrongful dismissal suit to the value of R11.5 million.

2016:

Inventory write-off

Coal write-off relates to coal that did not meet customer quality specifications that was delivered to the 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 customer's 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 R0.095 million 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.

Contract cancellation fee (SFF)

Employees not showing up at hotels where accommodation has been arranged: R0.003 million. Corrective action has been taken and the monies are being recovered.

Travel expenses incurred on trips that were cancelled/postponed: R0.018 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.

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.

50. Irregular expenditure

Figures in Rand thousand	2017	2016
Irregular expenditure		
Opening balance	2 607 960	2 526 209
Expenditure relating to current year	20 814	82 505
Discovered during the current year but relating to the prior year	-	152
Less: Amounts condoned	(7 050)	(906)
	2 621 724	**2 607 960**

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	14 434	1 724
Contravention of procurement regulations	5 080	80 933
Irregular bursary payments	1 300	–
	20 814	**82 657**

Contravention of company policy and procurement regulations

2017:

AEMFC
Non-compliance with applicable laws and regulations in evaluating a supplier. This amounted to R7.262 million. Training will be provided to employees

CCE
Certain components of the plant were in storage, however, the company that kept the components was liquidated and the components moved to another site and therefore rent was payable on the new site, however, no rental contract was in place. This amounted to R0.015 million.

CEF
Accommodation and car rental was not approved. Training is being provided to employees and Directors. This amounted to R0.052 million.

PetroSA
PetroSA sold product without a Receiver of Goods certificate. As a result, Duty at Source (DAS) duties cannot currently be claimed. An investigation was initiated to identify and prevent further irregular expenditure incurred in contravention of company policy. Irregular bursary payments were effected to bursary recipients. The case is the subject of a criminal investigation. The total amount of expenditure incurred as a result of contravention to company policy and procurement regulations is R6.313 million.

SFF
Procurement process was not followed for six suppliers. This amounted to R0.619 million. Corrective action pending.

PASA
PASA incurred R6.553 million of irregular expenditure as a result of contravention to procurement policies and regulations.

50. Irregular expenditure (continued)

2016:

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: R0.273 million. Corrective action has been taken and system weakness has been addressed.

Non-adherence to procurement policy where less than three quotations were obtained: R0.163 million. Corrective action has been taken and system weakness has been addressed.

PetroSA
Training, together with travel and accommodation costs of R0.511 million were incurred outside of the company policy. An investigation was initiated to identify and prevent further irregularexpenditure being incurred in contravention of company policy.

CEF
Expenditure of R1.025 million was incurred in contravention of the company policy and laws and regulations. System weaknesses are being addressed.

iGAS
Expenditure of R0.188 million was incurred in contravention of the company policy and laws and regulations. System weaknesses are being addressed.

AEMFC
The contravention is as result of non-compliance with applicable laws and regulations in evaluating a supplier. The amount incurred is R0.497 million. An investigation was initiated to prevent further expenditure being incurred incurred in contravention of the applicable laws and regulations.

Non-adherence to PFMA

Figures in Rand thousand	2017	2016
Value of irregular stock rotated	198 883	198 883

Strategic stock sold
SFF was approached by a service provider who currently has a contract to salvage crude residues in the Ogies Mines. The service provider claimed that they discovered substantial crude oil volumes (about 5 million barrels) and were prepared to provide SFF with a lien on 0.6 Mbbls (until the quality is ascertained and found to match the 0.3 Mbbls that SFF would have provided) and also 30% value of crude oil on condition that SFF loan to them 0.3 Mbbls of the strategic crude oil stock. The company carried out the above without complying with the provisions of the PFMA Section 51(1)(iii) which calls for: An appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective.

The value has been determined by applying the oil price and exchange currency rate of Dollar to Rand on the date they should have returned barrels to the volume of 0.3 Mbbls.

FIELDS IN PRODUCTION AND UNDER DEVELOPMENT

1. Movement in net remaining proved and probable reserves

	Crude oil/ condensate Mbbl 2017	Gas Bscf 2017	Crude oil/ condensate Mbbl 2016	Gas Bscf 2016
At the beginning of year	17.49	75.80	18.10	97.60
Revisions of previous estimates	0.29	42.92	(0.06)	23.00
Production	(1.53)	(24.75)	(1.67)	(44.80)
Additions	0.40	3.60	1.12	–
	16.65	**97.57**	**17.49**	**75.80**
2. Proved and probable by type of field				
Fields in production	16.65	97.57	9.09	69.30
Fields under development	–	–	8.40	6.50
	16.65	**97.57**	**17.49**	**75.80**
3. Reserves by category				
Proved	10.97	53.78	0.90	38.40
Proved and probable	16.65	97.57	17.49	75.80
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 F-O 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 F-A and F-A Satellites, E-M and E-M 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 five-well campaign to a three-well campaign as well as lower than expected production volumes.

The supplementary information presented does not form part of the Consolidated Annual Financial Statementand is unaudited.

NOTES

CEF Group of Companies

Tel: 010 201 4700
Fax: 010 201 4820

Physical Address
CEF House, Block C,
Upper Grayston Office Park
152 Ann Crescent, Strathavon,
Sandton, 2031
Johannesburg
South Africa

Postal Address
PO Box 786141
Sandton
2146

RP318/2017

9 780621 458640 >