

annual 2006 *report*



growth

2006

progress

The background of the entire page is an abstract composition of vibrant red and orange light rays emanating from the top, creating a sense of depth and energy. In the lower half, a large, glowing sphere with a yellow-orange rim and a textured, greenish-yellow interior is partially visible. A dark, semi-transparent horizontal band spans the middle of the page, serving as a backdrop for the title and page number.

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Company information

Company Information

Country of incorporation

South Africa

Directors

Dr P

Ms N Mazwai

Ms O Mans

Mr K Nassiep

Mr A Mjekula

Ms B Mabuza

Dr Z Rustonjee

Mr S Levin

Mr A Nkuhlu (alternate director)

Registered office

158 Jan Smuts Avenue

1st Floor

Rosebank

Johannesburg

2196

Business address

158 Jan Smuts Avenue

1st Floor

Rosebank

Johannesburg

2196

Postal address

P O Box 786141

Sandton

2146

Auditors

Auditor-General

Secretary

Mr A Haffejee

Company registration

1976/001441/07

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The reports and statements set out below comprise the company and group annual financial statements presented to the shareholder:

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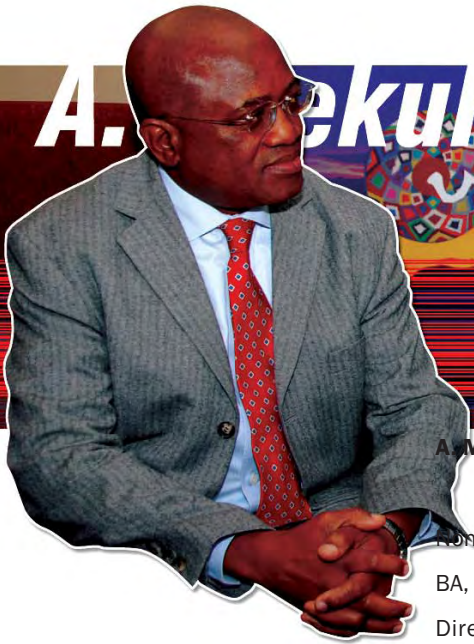
The following supplementary schedules does not form part of the financial statements, and is unaudited:

Unaudited supplementary disclosure of reserves	125 - 126
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Key to Abbreviations

ASGISA	Accelerated shared growth initiative of South Africa
bbl	barrel (equals 159 litres)
bbls	barrels
bpd	barrel per day
Bscf	Billion standard cubic feet
CEF	CEF (Proprietary) Limited
CEF Act	Central Energy Fund Act (Act No. 38 of 1977) as amended
DME	Department of Minerals and Energy
EDC	Energy Development Corporation (a division of CEF (Pty) Ltd)
Enerkom	Enerkom (Proprietary) Limited
GTL	Gas to Liquids
iGas	The South Africa Gas Development Company (Proprietary) Limited
IPP	Independent Power Producer
LNG	Liquefied Natural Gas
MPRDA	Mineral and Petroleum Resources Development Act, 2002 (Act 28 of 2002)
MT	metric ton
OPCSA	Oil Pollution Control South Africa (Association incorporated under Section 21)
Petroleum Agency SA	South African Agency for Promotion of Petroleum Exploration and Exploitation (Proprietary) Limited
PetroSA	The Petroleum Oil and Gas Corporation of South Africa (Proprietary) Limited
PFMA	Public Finance Management Act (Act No. 1 of 1999) as amended
SFF	SFF Association (Association incorporated under Section 21) (Strategic Fuel Fund)
UTT	Upstream Training Trust
Minister	The Minister of Minerals and Energy
SANS	South African National Standards
SANERI	South African National Energy Research Institute
SCGDP	South Coast Gas Development Project
WPC	World Petroleum Congress

CEF Board



A. Mjekula

Non-executive chairman

BA, MBA

Director, Public Sector Banking and Social Strategy
at Standard Bank.



N. Mazwai

Non-executive director

B Soc Science and Humanities, MBA

CEO - Motjoli Resources



O. Mans

Executive director

CA (SA), B Compt (Hon),

BSc (Agricultural Economics)

General Manager: Finance, CEF (Pty) Ltd



B. Mabuza

Non executive director

BA, MBA, Investment Management Certificate

Director - Ethos Private Equity Fund



Dr P. Molefe

Non executive director

Honorary doctorate, University of the North West, diplomas in leadership from Pennsylvania and Harvard Universities, CEO of Lereko Investments (Pty) Ltd; Chancellor of the North West University



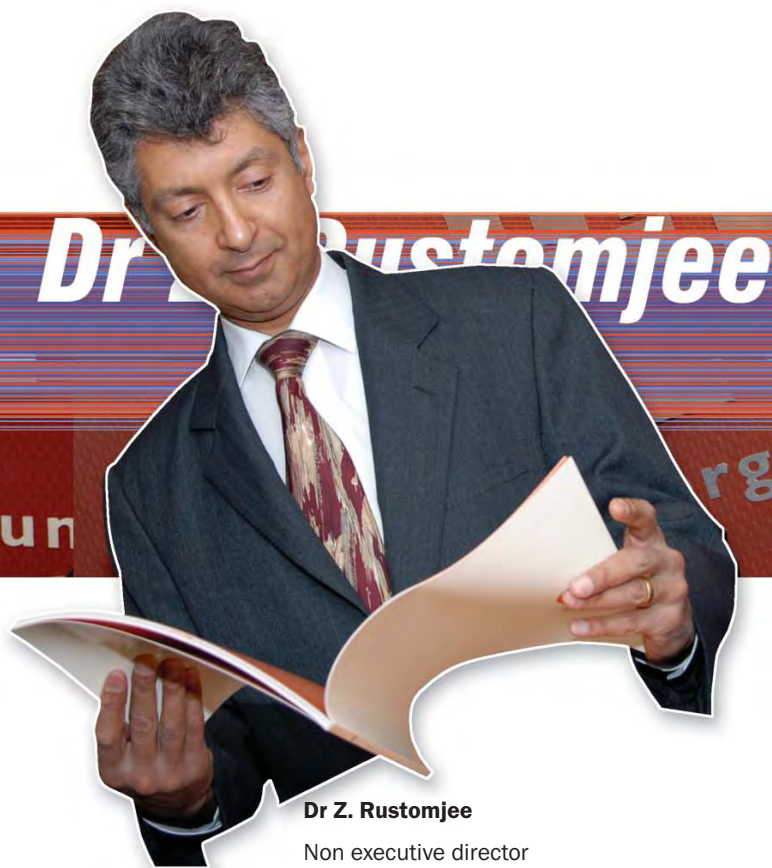
K. Nassiep

Non executive director

BSc Energy (Hon), Energy (Mast),

MBA

CEO: SANERI



Dr Z. Rustomjee

Non executive director

PhD Economics

Consultant in Energy Sector

CEF Executive Committee



A. Haffejee

M. Joubert

S. Mkhize

M. Singh

M. de Pontes

O. Mans

M.B. Damane

Chairperson's overview

01



I hereby present the Minister of Minerals and Energy with the CEF group annual financial statements for the year ended 31 March 2006.

From the desk of the Chairperson

Business and trading environment

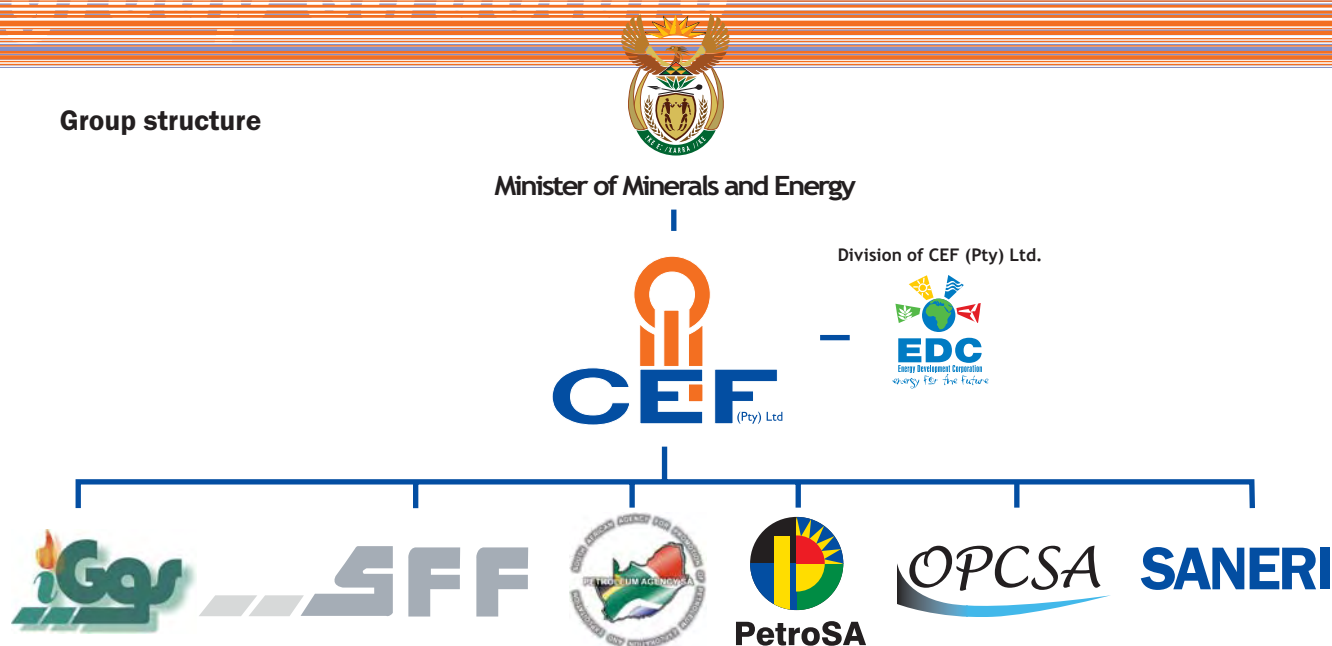
Profit after taxation was R2 908 million (2005: R1 948 million) for the CEF Group.

Group performance has improved significantly from the prior year due mainly to improved results from PetroSA which were positively affected by the high crude oil prices.

This overview covers the highlights and main activities of the companies within the group between 1 April 2005 and 31 March 2006. Further information on the companies, both dormant and active, within the group, is given in the attached financial statements.

The average crude oil price for the year was \$58.62/bbl against an average of \$42.1/bbl in the previous year. This led to a significant increase in group revenues. Despite the rand having weakened during the financial year, the favourable R/\$ exchange rate benefited operating costs and had a positive impact on imported condensate and the cost of drilling projects, but had a negative impact on group revenue which is predominantly US Dollar based. The average R/\$ exchange for the year was R6.38/USD compared to R6.28/USD in 2005.

Group structure



CEF, incorporated in terms of the CEF Act, is mandated by the South African government to engage in the acquisition, exploration, generation, marketing and distribution of any energy form and to engage in research relating to the energy sector.

The companies in the CEF group focus on a number of areas:

- Exploration and production
- Petroleum products and services
- Promoting and marketing offshore and onshore exploration
- Oil trading and tank terminal management
- Renewable energy
- Energy efficiency
- Low-smoke fuels
- Energy research and development
- Gas infrastructure development
- Oil pollution prevention and control

CEF's activities are housed within CEF (Proprietary) Limited itself and its six active subsidiaries:

- The Petroleum Oil and Gas Corporation of South Africa (Pty) Ltd (PetroSA),
- South African Agency for Promotion of Petroleum Exploration and Exploitation (Pty) Ltd (Petroleum Agency SA),
- The South African Gas Development Company (Pty) Ltd (iGas),
- Oil Pollution Control South Africa (Association incorporated under Section 21) (OPCSA),
- South African National Energy Research Institute (Pty) Ltd (SANERI) and
- SFF Association (Association incorporated under Section 21) (SFF).

The current mandate for the CEF group is in terms of a Ministerial Directive which was issued to CEF by the Minister of Minerals and Energy in December 2003.

CEF is controlled by the Minister of Minerals and Energy. All shares are held by the State and are not transferable.

refinery



PetroSA

PetroSA's main activities are:

- the exploration and production of crude oil and natural gas off the coast of South Africa and other African countries and participation in the acquisition of international upstream petroleum ventures
- the production and marketing of synthetic fuels produced from offshore gas and condensate at the GTL plant at Mossel Bay to the local market and high-value chemicals internationally
- the management of the strategic crude oil stock and storage facilities on behalf of the State.

PetroSA experienced a good year in many ways, not only from an operational perspective, but also from the impact of external factors such as the higher international oil prices, which resulted in a significant improvement in sales performance. PetroSA experienced a 10% increase in gross revenue from R6 085 million in 2005 to R6 722 million in 2006.

PetroSA's results incorporate the earnings of Brass Exploration Unlimited, their Nigerian subsidiary, and this increased revenues by R786 million (2005 : R361 million).

Cost containment remained a significant focal area for PetroSA during the financial year and this had a significant impact on financial performance. Overall operating costs however increased by 11% on the previous year as a result of an increase in the cost of feedstock purchases as a result of the higher crude oil prices experienced during the year and an increase in exploration and appraisal costs.

This was offset by a decrease in the abandonment provision and depreciation which resulted from the additional reserves that the South Coast gas project will provide. The strong rand had a favourable impact on the cost of drilling projects and imported condensate, while having

a negative impact on operating performance, as revenue generated is predominantly US dollar based.

The PetroSA group recorded a pre tax profit of R2 854 million, which is a 54% improvement on the prior year profit of R1 852 million. After taxation of R89 million relating to the operations of Brass Exploration Unlimited in Nigeria the income statement reflects a profit after tax of R2 765 million (2005 : R1 737 million). The contribution made by Brass amounts to R114 million, and this is expected to continue if oil prices remain high.

A dividend of R500 million was paid during the financial year.

Major capital expenditure was incurred during the year on the South Coast Gas project – R 171 million. Capital expenditure incurred by the Nigerian operations related to four exploration wells – R 149 million.

During the financial year, PetroSA underwent a major organisational restructuring to facilitate and bring about centres of excellence within the company. This was brought about by the need to urgently address cash flow needs in the near future in the light of declining reserve and production profiles in both feedstock supply to the Mossel Bay refinery and also non-feedstock reserves. The result of the exercise was to allow for the focal areas to concentrate their energies on expanding the business and in optimising the existing portfolio. The activities across the value chain in upstream and downstream business development have been unified into a single entity.

PetroSA continues to make inroads into world markets for its products and technology. PetroSA USA has been established to maximize shareholder value in the USA markets.

Commercialisation of the GTL technology received a significant boost during the year when PetroSA were invited by the Algerian Government to bid for the Tinrhert Integrated GTL Project.

Work is underway on the \$400 million South Coast Gas development which will provide an interim feedstock solution for the Mossel Bay operations until 2013.

The Oribi / Oryx field was expected to stop producing in November 2005, but went on to produce an additional 546 891 bbls of crude, and one more shipment is expected in 2006/7.

The flagship foreign operation of Brass Exploration Unlimited in the Abana oil fields in Nigeria produced 2 317 000 bbls of crude at a profit of \$19 881 million despite the prevailing high tax rates in that country.

PetroSA very successfully participated in the 18th World Petroleum Congress in September 2005 with co-sponsors, the oil companies of Nigeria, Libya, Angola and Algeria.



iGas

The South African Gas Development Company (Pty) Ltd (iGas) is mandated to act as the official State agency for the development of the hydrocarbon gas industry in Southern Africa. iGas specifically promotes the diversification of energy usage into hydrocarbon gas and may assist in ventures which facilitate the usage of hydrocarbon gas.

As of 1 July 2005 iGas took up a 25% shareholding in the Republic of Mozambique Pipeline Investments Company (Pty) Ltd (Rompco). The balance of the shares are held by SASOL. Rompco owns a natural gas pipeline from the Temane / Pande gas fields in Mozambique to Secunda in South Africa. Rompco continues to operate as planned and is currently supplying approximately 90 million gigajoules of gas per year from Mozambique to South Africa as well as delivering approximately 1 million gigajoules of gas per year to users in Mozambique. By 2008 it is planned that the pipeline will be flowing at 100%

of its capacity and will supply 120 million gigajoules of gas per year. Funding for this investment came through a combination of equity funding, debt funding. During the financial period between July 2005 and March 2006, Rompco generated revenues of R435 million and profits of R117 million.

iGas, together with joint venture partners has progressed the discussions, planning, engineering studies, commercial studies and furthered the feasibility study for a liquefied natural gas (LNG) terminal in the Eastern Cape area. The project will supply electricity into the national grid. The necessary governance and commercial issues have been addressed adequately and the project will soon move into the full development stage.

The company's loss before interest for the year amounted to R5.5 million (2005: R3.2 million). Dividends are expected from the Rompco investment in the 2006/7 financial year.



natural gas pipeline



Petroleum Agency SA

In terms of the Mineral and Petroleum Resources Development Act, 2002 (Act 28 of 2002), the South African government has, through the Minister of Minerals and Energy designated Petroleum Agency SA as the official agency to be responsible for the promotion and regulation of the country's petroleum resources, effective from 18 June 2004.

Significant highlight for the Petroleum Agency SA was the Del Cano Rise survey undertaken by French and South African Geo-Scientists. The survey looked at the areas around the South African Prince Edward Islands and the French Crozet and Kerguelen Islands. The six week survey which was conducted on the French vessel, Marion Dufresne, was done for the purposes of the Extended Continental Shelf Claim Project. This project was entrusted to Petroleum Agency SA via a Ministerial Directive from the Minister of Minerals and Energy and is due for completion early in 2009.

The year saw significant progress in the transformation of the management of the organisation. The transformation was made possible by a significant increase in the staff of the Petroleum Agency SA which was required in order to meet the challenges given to them in terms of their designation in terms of the MPRDA.

Most of the increase in staff was in the Regulations Division as there was an urgent need to strengthen the licensing and regulatory arm of the Agency.

During the year the former CEO resigned and was replaced by Mr M Xiphu with effect from 1 October 2005.

Other highlights for the year included the following:

- commercial development of the Forest/PetroSA Ibhubesi gas field off the West Coast is one step closer with the submission by the operator of a full field

development plan in February 2006. An application for a Production right is expected in April 2006. First gas production is planned for January 2009.

- the viability of the Paddavissie basin floor fan oil prospect located in the Southern Outeniqua Basin offshore South Coast, has received additional technical support. The licencees' interpretation of the 2005 infill 2D seismic survey has added confidence and risk will be further reduced by the results of an electromagnetic survey which ended in March 2006. Plans are that an exploration well will be drilled in 2006/7.
- PetroSA and Pioneer commenced a 6-month drilling campaign in Block 9 in February 2006 as part of the South Coast Gas Development Project (SCGDP). The SCGDP aims to prove up gas reserves sufficient to extend the life of the FA platform and the PetroSA synfuels refinery in Mossel Bay until 2013. An application for a Production Right is expected in the first quarter of 2006/07.
- preparations are under way to hold South Africa's 3rd Licensing Round towards the end of the 2006/7 financial year, conditional upon release by government of the applicable fiscal terms.
- a large number of applications have been received to explore for oil, gas and coalbed methane in the onshore Karoo Basins.

Petroleum Agency SA reported a net after tax profit of R43.7 million (2005: R40.9 million).

Outside of its core mandate, the Agency continued to administer or play a pivotal role in the following projects:

- Upstream Training Trust
- Extended Continental Shelf Claim Project
- 18th World Petroleum Congress



flare boom on offshore oil rig

SFF

SFF activities during the financial year included:

- sales of crude oil
- crude oil storage
- management of strategic state oil reserves in accordance with ministerial directives
- management of environmental liability
- mineral right exploitation

Ogies

The Ogies facility is managed by OPCSA in terms of a management agreement. The activities are focused on pollution prevention and control and to look at methods of monetising the mineral rights held by SFF.

SFF has made application for prospecting licences for all its mineral rights in terms of the requirements of the MPRDA.

Saldanha Bay

Strategic crude oil stocks are stored at the Saldanha Bay terminal. One of the tanks is leased to a third party on a long-term basis, and the terminal has been approved as an export port for PetroSA's Sable crude. The volatility of crude oil prices during the financial year led to a big increase in demand for storage space by speculators. This had a positive impact on the performance of SFF during the year.

The costs of maintaining the strategic stocks are not covered by income generated from storage. This continues to be a focus area until the matter is solved.

Milnerton

Consultants were appointed to recommend ways of closing this terminal down as it was being used only for storage of PetroSA's Oribi/Oryx crude. PetroSA have given notice that this storage is no longer required. Alternative uses and other options are under consideration.

SFF's gross revenue amounted to R100.6 million (2005: R60.7 million). The main contributing factors to the increased gross revenue are the increased demand for storage and a once-off sale of crude from a pipeline in Ogies.



oil pollution control

A large yellow oil containment boom is shown floating in dark blue water. The boom is curved, and a thick layer of dark, viscous oil is being collected inside it. The water surface is rippled, and the boom appears to be part of a larger containment system.

OPCSA

OPCSA manages oil pollution prevention and control activities in Saldanha Bay, Cape Town and Ogies and provides clean-up services in the event of an oil pollution incident. Significant progress has been made during the financial year to expand the operations of OPCSA to the other harbours in South Africa.

The pollution prevention and control units of OPCSA are well equipped with the latest technologies which are operated by highly skilled staff. The equipment includes oil skimming and recovery vessels and boom coupling boats, oil encampment floating booms (for use in harbours and on the open sea), large capacity skimmers for use in oil spills, floating oil containers and beach cleaning equipment. A recent market survey placed OPCSA as the leading oil pollution prevention and control company in South Africa. The strength of the company includes, not only, its skilled and experienced staff and well maintained equipment and facilities, but also the ability to respond quickly due to its close proximity to the danger areas, a fifteen year proven track record and an in-depth knowledge of local conditions.

The South African coastline is hazardous and along this coastline, there are a number of ecologically sensitive areas. As a result of these factors, the country is extremely vulnerable to major offshore oil spills. It is important to build internal capabilities to deal with both a major oil spill, as well as to put in place preventative measures

which will minimise the chance of such an event occurring. OPCSA has positioned itself to provide exactly such services.

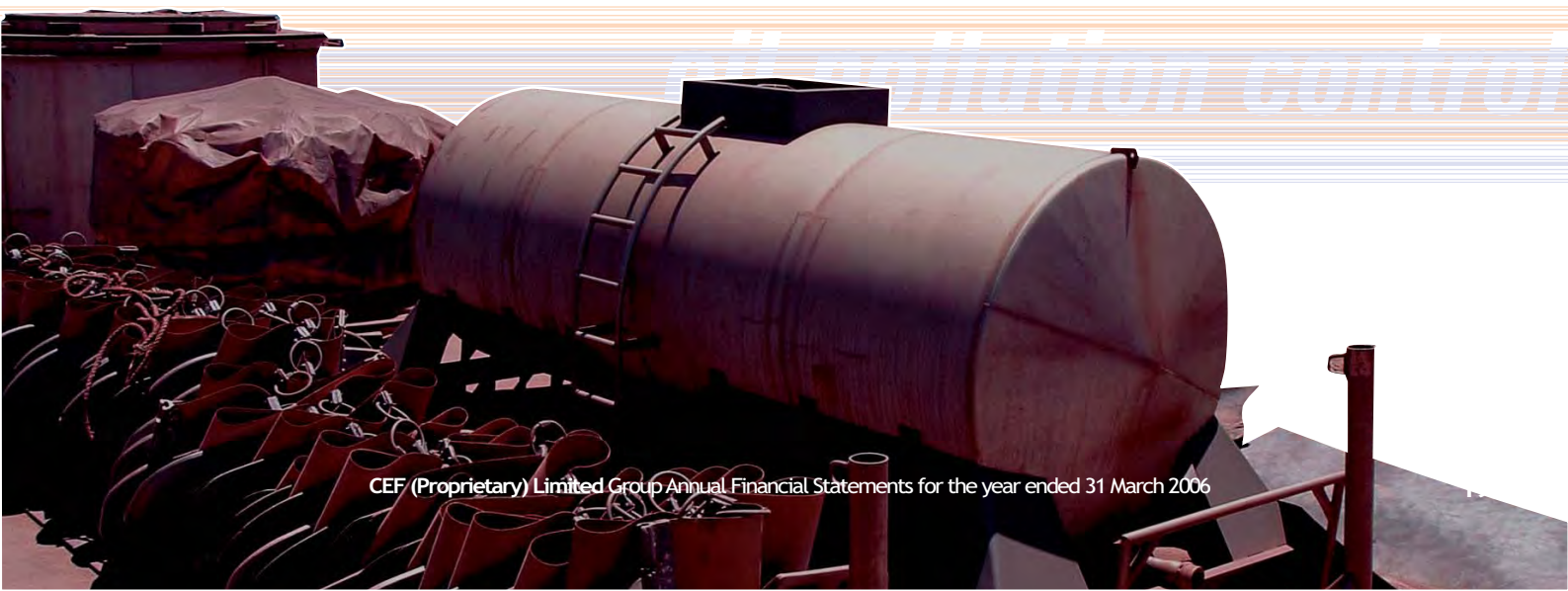
During 2005/6, there were a number of pollution incidents reported in and around South African ports. These included an estimated 80 tons of bunker fuel spilled in the Durban harbour, some oil spilled by the BBC China vessel that was grounded on the East Coast, a diesel spill in Mossel Bay and a bunker fuel oil spill in the Port Elizabeth harbour. OPCSA is able to cope with such incidents, as well as with much larger oil spills, both on the open sea and on land in the event that clean-up on the sea is not possible.

Currently, the services offered by OPCSA, are delivered mainly to the ecologically sensitive area of Saldanha Bay.

The high crude oil prices experienced during the current financial year have led to a marked increase in the demand for crude oil storage. This has positively impacted on OPCSA's operations in Saldanha Bay

Currently the operations of OPCSA are funded via an interest-free subordinated loan from CEF. The CEF Board approves the OPCSA budget annually.

The company's operating loss for the year amounted to R6.5 million (2005: R8.4 million).



wind energy

EDC

EDC is a division within CEF that is focused on renewable and cleaner energy sources. It is now in its third year of operation and I am pleased to report that notable progress has been made over the last financial year.

Low Smoke Fuels

Firstly, the Low Smoke Fuel project, although delayed due to the non-issue of the requisite prospecting licenses has progressed significantly. The separation and retorting technologies have been contractually secured and technology tests are scheduled for May and June 2006. The results from the technical and financial models, completed as part of the pre feasibility work, indicate that this project has significant potential for the CEF group.

Processing of the torbanite will produce syncrude which will potentially displace 1% (5 000 bpd) of the current crude oil imports of the country. As a by-product of this process, low-smoke briquettes (up to 800 000 tons per annum) can be produced to replace, at a competitive price, current grade D coal which is being used in our townships. Health costs for respiratory diseases that are associated with smoke inhalation, have been estimated by the Department of Minerals and Energy to cost the South African Government about R1.2 billion per annum. There is also good potential for gas recovery.

The Minister of Minerals and Energy has recently directed that government's Basa Njengo Magogo program be adopted to enhance the clean coal use and management initiatives.

Bio diesel

The joint venture project between Sasol and CEF has been progressed to the point of pre feasibility. The shareholding structure has been adjusted to increase the CEF equity

stake to 49%. A public announcement was made in February 2006 resulting in the formation and commissioning of a project steering committee. The rationale for EDC participation is as follows:

- soya feedstock is a renewable source of energy
- significant environmental benefits
- diesel is a more efficient transport fuel than petrol
- large potential for job creation and retention
- potential to reduce crude oil imports
- enhancement of energy security
- 40% tax concession on fuel levies for bio diesel.

The estimated capital cost of the project is R527 million and the oilcake by-product of the process makes the project more feasible as South Africa is a net importer of this basic animal feed. The project will produce 113 million litres of bio diesel per annum to be used as a blend component. The project will also qualify for CO₂ emission credits and will help contribute to government's achievement of its 2013 renewable energy target.

Bethlehem Hydro Project

The board approved the Bethlehem Hydro Project in 2005 and all necessary implementation agreements, with the exception of the power purchase agreement, have been concluded. The project will operate as an independent power producer (IPP) with a strong BEE partner.

The project is expected to generate 3.9MW of hydro power. The annual power production is 28.6 GWh which is equivalent to R4.5 million worth of electricity which will be purchased from the Bethlehem Hydro IPP per annum.

By 2013, the project would have contributed about 2.3% towards the 10 000 GWh government renewable energy target. The contracting engineers have been appointed and construction is scheduled to commence during the next financial year.

Darling Wind Farm Project

The national demonstration wind farm project has again been delayed as the power purchase agreements needed to be re-negotiated. A final decision is expected in May 2006. Notwithstanding this, the 5.2MW project will serve as a wind demonstration model that is intended to encourage other private sector investments. CEF will be investing R19.3M in this important renewable energy option and we are optimistic that this demonstration farm will stimulate the wind energy industry in South Africa.

SOLCO

This solar cooking project was concluded in the previous financial year. The findings conclusively demonstrated that if this product is to be used more extensively, then there must be significant changes to the current cooking habits of most South Africans. The project has resulted in over 3 000 solar cookers being sold and has led to the creation of small manufacturing industries in Johannesburg, Cape Town and Durban. An industry association has been set up and is functioning well.

Solar Water Heaters

The project is a partially UNDP funded project and has made good progress to date. The project has resulted in the development of standards agreed to by the industry, the purchase of a test rig to be stationed at the South African National Standards (SANS) for testing solar water heaters. A study on the establishment of financial mechanisms to increase the uptake of solar water heaters in South Africa was also completed during the year. The most significant milestone remaining is the placing of pilot solar water heaters on a national basis to test the efficiency and savings. Much excitement and anticipation has been generated due to the thorough process being applied to ensure that a sustainable industry emerges for our country.

Ethanol

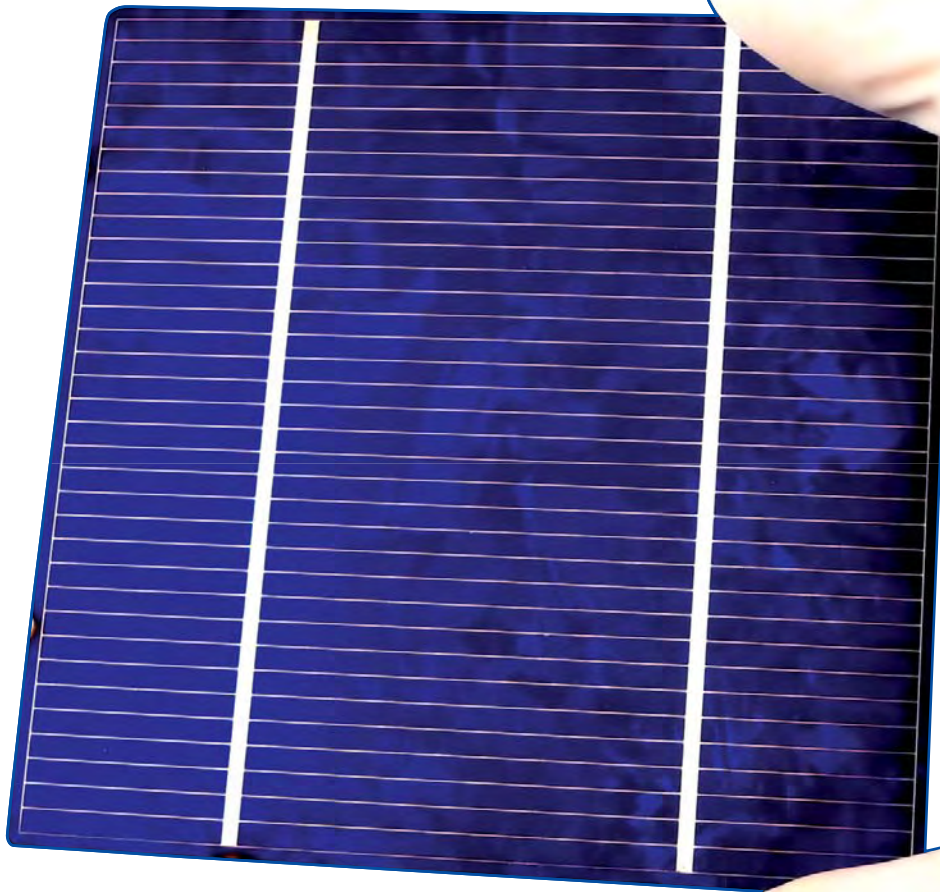
The EDC is evaluating the feasibility of introducing ethanol as an octane enhancer and fuel extender. This involves extensive research and collaboration. A collaboration agreement was signed with the Industrial Development Corporation to jointly investigate this important intervention. The strategy has been focused on a multi-feedstock approach that would include sugar cane, sweet sorghum, sugar beet, cassava and maize. A macro study, focusing on technical, marketing, logistical, regulatory and environmental considerations will be commissioned in May 2006 to fill the gaps of knowledge that exist and the findings will inform a Government national strategy regarding bio fuels. A number of prospective ethanol projects initiatives have been identified and are being progressed parallel to the macro study.

Gas Extraction for electricity generation

This project was approved in the financial year under review and involves the use of waste gas that is currently being flared at the PetroSA refinery in Mosselbay. The project has been qualified for CDM. The project will commence construction by the 3rd quarter of 2006 and the annual power production is estimated at between 32 and 33 GWH.

Johanna Solar

A team linked to the University of Johannesburg has developed a production plant that produces PV panels at a quarter of the cost of the current technology. A complete system, which is to generate electricity from sunlight could be in production in the next three years. The team developed an industrial method of producing copper-indium(gallium)-diselenide (CIGS) panels as opposed to the silicon based technologies that are used currently. EDC has made a strategic investment into this sector and construction of the plant in Germany is scheduled to commence by June 2006.



Currently there is a great demand for crystalline solar modules that currently cannot be met due to the existing oligopoly in the manufacture of raw silicon. This is resulting in an extremely high purchase price, which is growing at a rapid rate. The PV industry growth for solar cells from mid 2004 to late 2005 rose by approximately 25% due to this growing demand. Although a certain portion of this growth is because of governmental subsidies, the industry continues to develop new and more efficient technologies for PV cells.

Other EDC activities

- A number of strategic initiatives have been completed during the financial year:
- plans to convene a bio fuels round table (completed successfully in April 2006)
- forming of strategic alliances with NVE, a Norwegian institution with a similar mandate to EDC
- formalising collaborations with a number of donor

agencies including GTZ and UNDP.

In the development area, EDC has completed the following initiatives:

- moved closer to proposing a safer alternate to paraffin in its current form
- the methodology for more efficient globes, proposed by EDC joint venture partners have been approved by the methodology panel at the UNFCCC
- a renewable energy model house will be exhibited at the Sci Bono Science Centre to increase awareness of renewable energy technologies.

The focus in 2006/2007 will be on completing the bio fuel research, implementing the SWH pilot phase, construction of the Bethlehem Hydro and Darling Wind Farms, exploiting land fill gas opportunities and seeking a balance in approach with the new institutions of the Energy Efficiency Agency and the South African National Energy Research Institute.

bio fuel



World Petroleum Congress

The WPC was a very prestigious event which took place at the Sandton Convention Centre from 25 – 29 September 2005. It was the first time that this event had taken place in Africa. PetroSA were the main sponsors of the event and the Petroleum Agency SA played a significant role in the event. CEF, OPCS, PetroSA and Petroleum Agency SA all had exhibition stands. Networking from the event has opened many doors and created many leads and/or opportunities for entities within the group to follow-up on.

Social responsibility

All entities within the group have programmes which focus on initiatives which are sustainable, create employment opportunities and alleviate poverty.

CEF made a number of donations of computer equipment to schools during the year.



Enerkom and Enerkom Products

All outstanding matters in Enerkom were finalised during the year. Both companies are now in the process of being deregistered.

SANERI

SANERI was incorporated as a subsidiary of CEF. Delays in appointing the Board and management of the company have led to limited activity during the financial year. The Board has now been constituted and its inaugural meeting has been held. The CEO will be appointed shortly.

Associates

CEF has 49% interest in Baniettor Mining (Pty) Ltd, a company which has significant coal and torbanite reserves. CEF will be utilising these reserves in its low smoke fuel project.

CEF also has a 30% interest in Süd-Chemie Zeolites (Pty) Ltd, which is a company that manufactures the catalysts utilised by PetroSA in its gas-to-liquids plant. During the 2005/6 financial year, Cabinet approval was obtained for the transfer of these shares to PetroSA. This transaction is anticipated during the first half of the 2006/7 financial year.

Central Energy Fund

There have not been any transactions in this fund during this financial year.

Conclusion

My thanks are once again extended to the Minister, board members and directors of the subsidiaries for their invaluable input during the year. In addition, my gratitude is also extended to management and staff for their commitment.

I believe we have a group of companies that is in a position to add significant value to the Accelerated Shared Growth Initiative of South Africa (ASGISA) and to the South African government's growth target of 6%. I thank all staff in advance for your positive contributions during the coming year.



A W Mjekula

Chairperson

Approval and Statement of Responsibility

02

The directors are responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and related information. The external auditors are responsible for reporting on the fair presentation of the financial statements.

The company and group annual financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practice and the Companies Act, 1973. These annual financial statements are based on appropriate accounting policies, supported by reasonable and prudent judgments and estimates.

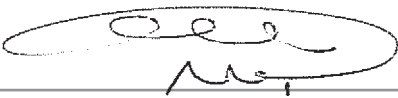
The directors are also responsible for CEF's system of internal control. These controls are designed to provide reasonable, but not absolute, assurance as to the reliability of the group annual financial statements and to adequately

safeguard, verify and maintain accountability of assets and to prevent and detect misstatements and losses.

Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The company and group annual financial statements have been prepared on the going concern basis since the directors have every reason to believe that the group has adequate resources in place to continue in operation for the foreseeable future.

The company and group annual financial statements which appear on pages 40 to 124 were approved by the board of directors on 26 July 2006 and signed on their behalf by:



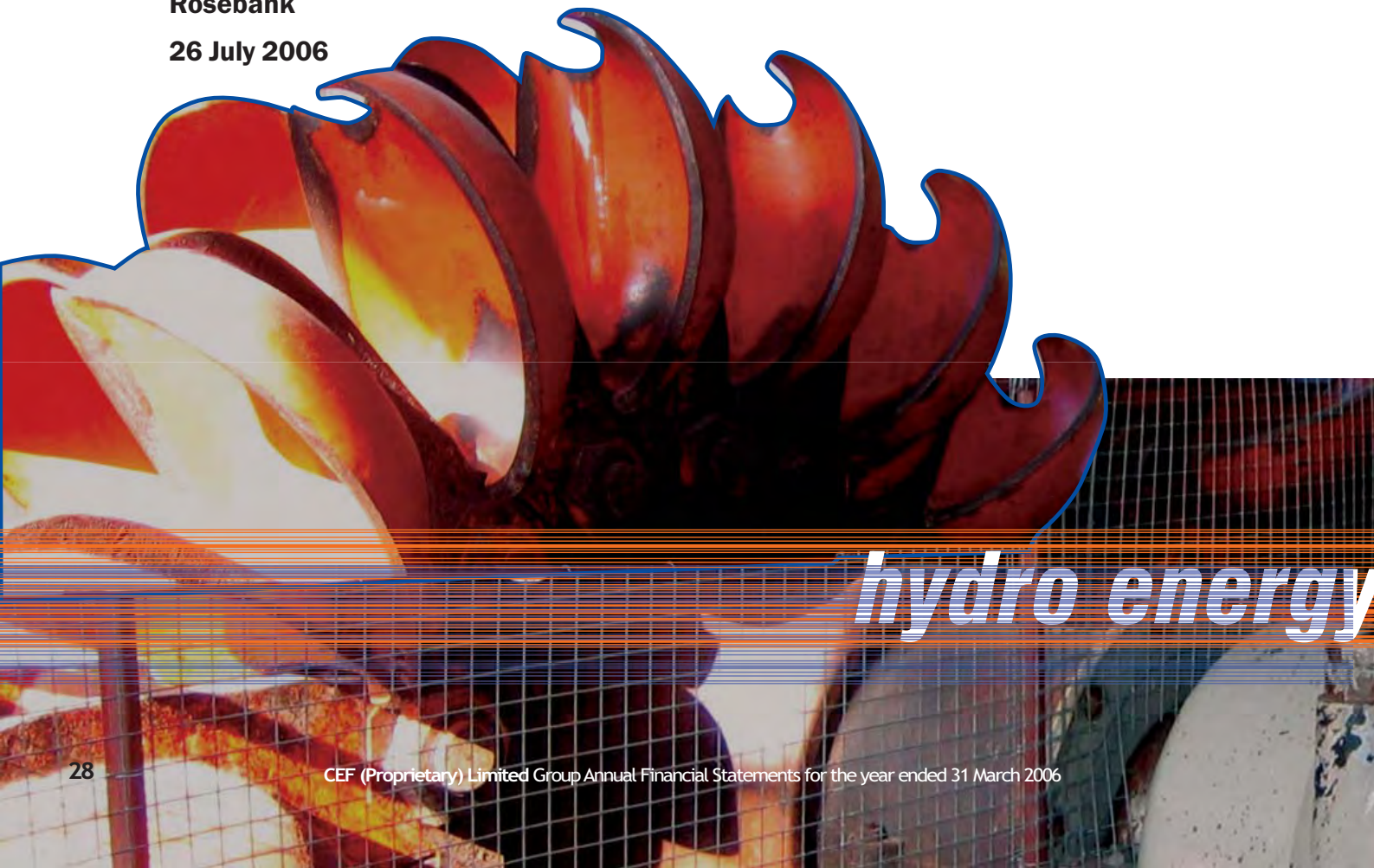
Director

Rosebank

26 July 2006



Director



Statement on Corporate Governance

03

1. Compliance

The board of directors believe that companies within the group endorse the principles as set out in the Protocol on Corporate Governance, and where applicable, the King Report on Corporate Governance for South Africa 2002 (King II) and have endeavoured to comply with the principles incorporated in the Code of Corporate Practices and Conduct. The group has a formalised system of corporate governance as set out below.

2. Governing bodies

2.1. Boards of directors

Separate boards of directors for the holding company and each of the operating subsidiaries are appointed. The board of directors of CEF consists of seven non-executive directors and one executive director. At least four board meetings are held during a year. The framework for the payment of directors' remuneration is approved by the Minister of Minerals and Energy.

The boards of directors of the holding company and the operating subsidiaries have appointed, amongst others at least the following two sub-committees to assist in carrying out their responsibilities:

2.2. Board committees

Board audit and risk management committees:

The board audit and risk management committees consist of non-executive directors and in some instances independent members. Each committee has an agreed terms of reference as approved by its board of directors. The report of the CEF board audit and risk

management committee is included in the group annual financial statements, which report sets out the responsibilities covered by this committee.

Board human resources committees

These committees consist of non-executive directors and in some instances independent members and are chaired by a non-executive director appointed by the respective board of directors.

The committees review and recommend annual staff remuneration increases, terms and conditions of employment, the payment of incentives and bonuses, general fringe benefits, remuneration policies and the appointment of senior staff.

2.3. Chief executive officer

The Chief Executive Officer of the holding company and those of the operating subsidiaries are appointed by the board of directors of each company. They are held accountable for implementing the strategies of the board of directors and managing the business of the respective companies in accordance with the approved corporate plan and budget. Terms of reference for each chief executive officer are approved by the appropriate board of directors.

3. Materiality and significant framework

A materiality and significant framework is in place. Its purpose is to regulate disclosure of material facts to the Minister of Minerals and Energy, disclosure in the group annual financial statements and approval from the Minister of Minerals and Energy for participation in certain transactions.

4. Internal audit

The internal audit departments, headed by internal audit managers, are accountable to each of the board audit and risk management committees. The internal audit department functions in terms of an internal audit charter that is approved by the board of directors.

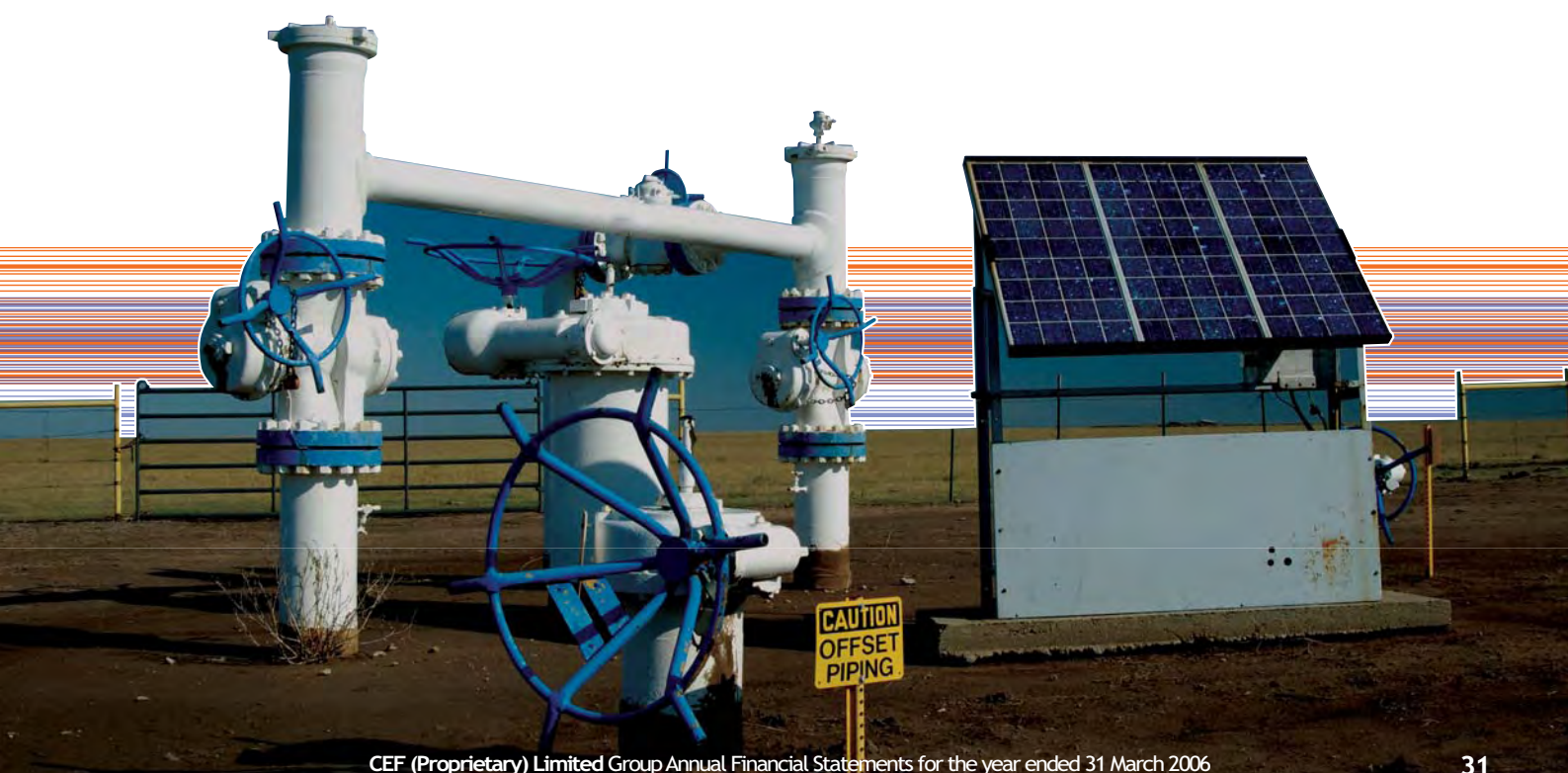
The internal audit charter defines the purpose, authority and responsibility of the internal audit function. The internal audit function carries out its work in terms of an approved internal audit work plan based on the risk framework of the company. The head of the internal audit department has full access to the chairpersons of the boards of directors and the chairpersons of the board audit and risk management committees.

5. Management reporting

Comprehensive management reporting disciplines are in place, which include the preparation of an annual corporate plan and budget approved by the board of directors. Monthly and quarterly results are reported against the approved budget to the executive committees and the boards of directors respectively for review.

6. Ethics

Entities within the group have codes of ethics which require employees to observe the highest ethical standards thereby ensuring that business practices are conducted in a manner which is beyond reproach.



7. Non Financial Information

7.1. Black economic empowerment

The CEF group is committed to ensuring that it meets the objectives of the Government's broad-based black economic empowerment strategy. Group companies have policies and procedures on preferential procurement to support black economic empowerment which have been approved by their boards of directors and management.

7.2. Corporate social investment

The group's corporate social investment programme covers the group's involvement in the community through the support, financial or in kind, of deserving causes, organisations, institutions or projects. The programmes are designed to support socially constructive

projects giving preference to those on which it will have a long-term multiplier effect. Increasing participation by employees from all sectors of the group in meaningful community activities will contribute towards improving the standard of living of all South Africans.

7.3. Worker participation

All group companies have participative structures at various levels for handling issues which affect employees directly and materially. These structures, which have been set up in consultation with employee representatives, are designed to achieve good employer/employee relations and uphold company values through effective sharing of relevant information, consultation and the identification and resolution of conflict.

shelf claim



Report of the Auditor-General to Parliament

04

1. Audit assignment

The financial statements as set out on pages 40 to 124, for the year ended 31 March 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996, read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 1E(3) of the Central Energy Fund Act, 1977 (Act No. 38 of 1977). These financial statements are the responsibility of the accounting authority. My responsibility is to express an opinion on these financial statements, based on the audit.

2. Scope

The audit was conducted in accordance with International Standards on Auditing, read with *General Notice 544 of 2006*, issued in *Government Gazette no. 28723* of 10 April 2006, and *General Notice 808 of 2006*, issued in *Government Gazette no. 28954* of 23 June 2006. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- assessing the accounting principles used and significant estimates made by management
- evaluating the overall financial statement presentation

I believe that the audit provides a reasonable basis for my opinion.

3. Audit opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of CEF (Pty) Ltd and the Group at 31 March 2006 and the results of its operations and its cash flows for the year then ended, in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) and the Companies Act of South Africa, 1973 (Act No. 61 of 1973).

4. Emphasis of matter

Without qualifying the audit opinion, attention is drawn to the following matters:

4.1. Compliance with ministerial directive

During November 2004 the Minister of Minerals and Energy directed that all previous directives and instructions were withdrawn and revoked with immediate effect.

However, insofar as the provisions of section 1(2)(A) of the Central Energy Fund Act, 1977 (Act No. 38 of 1977) as amended, may be applicable, the following shall apply:

Phase 1 of the policy in respect of strategic crude oil and petroleum stocks, as approved by Cabinet on 22 November 2000, shall come into effect, and states that a crude oil equivalent of 14,57 million barrels should be held at the Saldanha Bay storage facilities, insofar as the resources of the subsidiary SFF Association allow.

With reference to my previous report (paragraph 4.2), due to the unfavourable

market conditions based on the direct influence of the high crude oil prices the subsidiary SFF Association was not able to fully comply with the directive concerning the approved strategic crude oil and petroleum stock policy as approved by Cabinet.

4.2. Non-compliance with the Public Finance Management Act (PFMA)

The financial year-end of Energy Africa Rehabilitation (Association incorporated under section 21), a wholly-owned subsidiary of PetroSA, does not fall on the last day of March each year as required by the PFMA. Furthermore, the annual financial statements ended 31 December 2004 and 2005 were not submitted to the Auditor-General and the

National Treasury within two months after the end of the financial year, as required by section 55(c) of the PFMA.

5. Appreciation

The assistance rendered by the staff of CEF (Pty) Ltd during the audit is sincerely appreciated.

Shauket Fakie

Auditor-General

Pretoria

31 July 2006



A U D I T O R - G E N E R A L

05

Performance against Objectives

A summary of the CEF's business performance against objectives is contained in the table below.

	Target	Actual
1. Ensure long term profitability of CEF (Pty) Ltd	50.0%	42.3%
1.1. Bankable report for Low Smoke Fuel project	25.0%	18.0%
1.1.1. Complete pre-feasibility study by February 2006	5.4%	4.1%
1.1.2. Engage prospective partners in the project	5.1%	5.1%
1.1.3. Secure prospecting permits	4.2%	2.5%
1.1.4. Pilot mine to test technologies and confirm reserves	5.0%	1.3%
1.1.5. Prepare bankable document by March 2006	5.4%	5.3%
Comments		
The project progress was hampered by the delay in the issuing of prospecting permits. A number of prospective partners were identified. Significant progress was made on identifying and testing the necessary technologies for the project. The reserves will be confirmed upon issue of the prospecting permits. Thereafter, the bankable report will follow.		
1.2. Bio diesel project	10.0%	9.0%
1.2.1. Complete modeling and due diligence	3.5%	2.6%
1.2.2. Finalise shareholders agreement	3.3%	3.2%
1.2.3. Obtain Board approval by March 2006	3.3%	3.3%
Comments		
Significant progress was made in this project. A memorandum of understanding has been signed with SASOL. The Board has approved the project subject to final due diligence and investment decision criteria.		
1.3. R1 million in donor funds	5.0%	5.0%
1.3.1 Achieve by March 2006	5.0%	5.0%
Comments		
Funding of R1.8m was obtained.		
1.4. Obtain CDM credits for two projects	5.0%	5.0%
1.4.1. Achieve by March 2006.	2.5%	2.5%
1.4.2. Build internal CDM expertise	2.5%	2.5%
Comments		
CDM applications for Biotherm and Bethlehem Hydro were finalised. Two key individuals received relevant training.		
1.5. Invest cash to earn JIBAR	5.0%	5.0%
1.5.1. Returns on cash are at least equal to JIBAR	5.0%	5.0%
Comments		
Achieved		

Objectives = Red
Targets = Green
Strategy = Blue

	Target	Actual
2. Contribute 9.1 MW towards the SA Renewable Energy Target	5.0%	5.0%
2.1. Establish Bethlehem Hydro	2.5%	2.5%
2.1.1. Obtain generating licence	0.7%	0.7%
2.1.2. Obtain water use clearance	0.7%	0.7%
2.1.3. Finalise BEE participation	0.7%	0.7%
2.1.4. Finalise shareholders agreement by February 2006	0.3%	0.3%
Comments		
<i>All Targets achieved. Construction to begin once PPA is finalised.</i>		
2.2. Establish Darling Windfarm Demonstration project	2.5%	2.5%
2.2.1. Obtain EIA Clearance	0.6%	0.6%
2.2.2. Resolve BEE share warehousing	0.6%	0.6%
2.2.3. Finalise DBSA agreement	0.7%	0.7%
2.2.4. Finalise shareholders agreement by September 2005	0.8%	0.8%
Comments		
<i>All Targets achieved. Construction to begin once PPA is finalised.</i>		
3. Invest in alternative and cleaner energy technologies	20.0%	20.0%
3.1. Finalise 2 Developmental projects	5.0%	5.0%
3.1.1. From projects presented to CEF, select at least 2, and progress to investment decision status by March 2006	5.0%	5.0%
Comments		
<i>Board approved the investment in Johanna Solar. 3 other projects were progressed to investment decision phase and a decision taken not to continue.</i>		
3.2. Finalise 1 additional commercial project	6.0%	6.0%
3.2.1. From projects presented to CEF, select at least 1, and progress to investment decision status by March 2006.	6.0%	6.0%
Comments		
<i>Board approved the investment in Biotherm. Four other projects were progressed. One was discontinued and the other three may still result in an investment decision.</i>		
3.3. Facilitate completion of Solar cooker project	3.0%	3.0%
3.3.1. Handover to be completed by February 2006.	3.0%	3.0%
Comments		
<i>Achieved.</i>		
3.4. Facilitate completion of Solar Water Heater project	3.0%	3.0%
3.4.1. Complete Market Survey	1.0%	1.0%
3.4.2. Finalise SABS standards	0.5%	0.5%
3.4.3. Purchase test rig	0.5%	0.5%
3.4.4. Develop financial mechanism for purchase of SWH	1.0%	1.0%
Comments		
<i>Achieved.</i>		
3.5. Establish SANERI	3.0%	3.0%
3.5.1. Establish SANERI	3.0%	3.0%
Comments		
<i>Achieved.</i>		

	Target	Actual
4. Manage investment in subsidiaries to ensure good governance and sustainability	25.0%	25.0%
4.1. Monitor performance	4.1%	4.1%
4.1.1. Quarterly subsidiary Board meetings	4.1%	4.1%
Comments		
Achieved.		
4.2. Review and approve long term plans	4.2%	4.2%
4.2.1. Signed shareholder compacts by February 2006	4.2%	4.2%
Comments		
Achieved.		
4.3. Activities to support underlying business of CEF	16.7%	16.7%
4.3.1. Provide high quality support services	16.7%	16.7%
Comments		
Achieved.		
TOTAL	100.0%	91.1%

06

Report of the Directors

1. Introduction

The directors present their annual report that forms part of the audited financial statements for the group for the year ended 31 March 2006. CEF is governed by the CEF Act and is listed as a public entity in schedule 2 of the PFMA. The board of directors acts as the accounting authority in terms of the PFMA.

2. Directors

The directors of the CEF during the accounting period were as follows:

Mr A Mjekula	Non-executive Chairperson	
Dr RD Crompton	Non-executive	Resigned 30 September 2005
Mr S Levin	Non-executive	Appointed 09 November 2005
Ms B Mabuza	Non-executive	
Ms N Mazwai	Non-executive	
Dr P Molefe	Non-executive	
Mr K Nassiep	Non-executive	
Dr Z Rustomjee	Non-executive	
Ms O Mans	Executive	
Mr A Nkuhlu (alternate director)	Non-executive	Appointed 28 July 2005

Attendance at meetings

Name	2005/05/25	2005/05/30	2005/07/27	2005/07/28	2005/11/29	2005/11/30	2006/02/14	2006/02/21	2006/02/22
Mr A Mjekula	Y	Y	Y	Y	Y	Y	Y	Y	Y
Dr RD Crompton	Y	Y	Y	Y	N/A	N/A	N/A	N/A	N/A
Mr S Levin	N/A	N/A	N/A	N/A	Y	Y	Y	Y	Y
Ms B Mabuza	Y	Y	Y	N	Y	Y	Y	N	Y
Ms N Mazwai	N	Y	Y	Y	Y	Y	Y	Y	Y
Dr P Molefe	N	N	Y	A	N	Y	N	Y	Y
Mr K Nassiep	Y	Y	Y	Y	Y	Y	Y	Y	Y
Dr Z Rustomjee	Y	Y	Y	Y	N	N	Y	Y	Y
Ms O Mans	Y	Y	Y	Y	Y	Y	Y	Y	Y

Y	=	Attended meeting
N	=	Did not attend meeting
A	=	Alternate attended meeting
N/A	=	Not a member at the date of meeting

2.1. Board audit and risk management committee

The sub-committee consists of the following members:

Ms B Mabuza	(Chairperson)	resigned 20 February 2006
Ms N Mazwai		
Ms K Mthimunye		appointed 1 April 2005

Attendance at meetings

Name	2005/05/26	2005/07/26	2005/11/17	2006/02/16
Ms B Mabuza	Y	Y	Y	Y
Ms N Mazwai	N	Y	Y	Y
Ms K Mthimunye	Y	Y	Y	Y

Y = Attended meeting
 N = Did not attend meeting
 N/A = Not a member at the date of meeting

All of these members are non-executive directors or are independent.

This committee meets on a minimum of two occasions per annum. The head of the internal audit department, 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 company which is delegated to it by the board of directors. In order to meet its requirements it reviews the findings of both internal and external auditors. In addition it reviews important accounting issues, material pending litigation if applicable, company insurance, risk management and disclosure requirements in the annual financial statements.

The responsibilities of this sub-committee of the board of directors are set out in the report

of the board audit and risk management committee which forms part of these annual financial statements.

2.2. Board human resources committee

This committee of the board of directors comprised the following members:

Mr A Mjekula
 Mr M Leshabane, appointed 1 May 2006
 Mr I Soules, appointed 1 May 2006
 Ms B Mabuza, resigned 20 February 2006

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

3. Secretary

The secretary of CEF is Mr A Haffejee and his business and postal addresses are as follows:

Business address

158 Jan Smuts Avenue
1st Floor
Rosebank
Johannesburg
2196

Postal address

P.O. Box 786 141
Sandton
2146

4. Organisational structure

During January 2006, the General Manager: Corporate Services at CEF was suspended pending an investigation. In April 2006, the incumbent resigned.

PetroSA finalised a major restructuring exercise during the year.

The previous CEO of Petroleum Agency SA went on early retirement and was replaced in October 2005 by Mr M Xiphu. The Petroleum Agency embarked on a significant recruitment drive to position itself to take up its responsibilities as Agent in terms of the MPRDA.

5. Corporate strategy

CEF has continued with the development of its strategy in terms of the mandate issued to it in the form of a ministerial directive dated December 2003. The company focuses on the development of renewable and alternative energy technologies. These activities

are largely driven through the EDC division of CEF which has a split commercial and developmental focus.

All entities in the group review their corporate strategy on an annual basis and enter into shareholders compacts with their holding company. Performance against these compacts is monitored throughout the year. In terms of a ministerial directive received during the 2004/5 financial year, SANERI was incorporated during the 2005/6 financial year as a wholly owned subsidiary of CEF. During the 2005/6 financial year, CEF received a ministerial directive to form the Energy Efficiency Agency as a division of CEF. This Agency is to become operational on 1 April 2006.

6. General review

CEF's business and operations and the results thereof are clearly reflected in the attached financial statements. No material fact or circumstance other than what is disclosed elsewhere in these financial statements has occurred between the accounting date and the date of this report.

There was no major change in the nature of the business.

6.1. Share capital

There were no changes in the authorised and issued share capital of the CEF during the accounting period under review.

6.2. Significant changes in assets/ investments

Major capital expenditure was incurred by the South Coast Gas project to the value of R171 million and by Brass Exploration Unlimited for R149 million in respect of four exploration wells that were drilled in this financial year.

During the financial year iGas took up a 25% equity stake in Rompco (R600 million). EDC projects within CEF incurred capital expenditures of R7.8 million (2005: R2.6 million).

7. Principal activities of the company

The principal activity of CEF in terms of the CEF Act, is to give effect to objectives of the Central Energy Fund which, to quote the Act, are to finance and promote:

- the acquisition of coal, the exploitation of coal deposits, the manufacture of liquid fuel, oil and other products from coal, the marketing of the said

products and any matter connected with the said acquisition, exploitation, manufacture and marketing;

- the acquisition, generation, manufacture, marketing or distribution of any other forms of energy and research connected therewith;
- any other object for which the fund may be applied, and which has been designated or approved by the said Minister with the concurrence of the Minister of Finance.

8. Operating results

The results of the CEF group and the state of its affairs are set out in the attached group annual financial statements and do not, in our opinion, require further comment.

8.1. Revenue

		Group			Company	
	% Change	2006 R'000	2005 R'000	% Change	2006 R'000	2005 R'000
Crude oil sales and fuel production	17%	7 553 189	6 460 219	- %	-	-
Tank rentals	23%	51 968	42 382	- %	-	-
Royalties	(22)%	5 715	7 368	- %	-	-
Other	(53)%	10 900	23 207	- %	-	-
Gross Revenue	17%	7 621 772	6 533 176	- %	-	-

The increase in revenues is due to a combination of factors, including external factors such as the higher international oil prices, which resulted in a significant improvement in sales performance. The average crude oil price for the year was \$58.62/bbl against an average of \$42.1/bbl in the previous year.

Due to volatile crude oil prices, demand for crude oil storage was high. This boosted tank rental revenues and the revenues of OPCSA due to increased demand for pollution control activities in Saldanha Bay.

8.2. Profit before taxation

	% Change	Group		% Change	Company	
		2006 R'000	2005 R'000		2006 R'000	2005 R'000
Net income before taxation	45%	3 000 596	2 072 195	(51)%	8 791	18 011
Taxation	25%	(92 801)	(123 973)	34 %	(4 026)	(6 103)

The profit of the group after taxation was R2 907 million (2005 : R1 948 million) and of the company, R4.8 million (2005 : R11.9 million).

The large increase in group profits can be largely attributed to the increased revenue earned by the group - refer to Note 8.1. PetroSA has consolidated its subsidiary, Brass

Exploration Unlimited into these results.

The decrease in the profits of the company can be attributed to lower interest rates and smaller cash balances due to the investment by iGas in Rompco as well as an increase in monies lent to companies in their start-up phase. These loans are fully provided for in the income statement.

9. Review of Operations

Summaries of the operating activities of CEF and its subsidiaries are given below as the full details are covered in the Chairperson's overview. In addition, information on special circumstances, financial matters and events are covered in this section and in the remainder of the directors' report.

9.1. EDC

During the financial year, the EDC division of CEF continued to assess renewable and alternative energy projects to identify a portfolio of such projects in which the company would like to invest.

Significant progress was made during the year on the following projects:

- Low smoke fuels
- Bethlehem Hydro
- Darling National Windfarm demonstration project
- Biodiesel
- Solar Water Heaters
- Ethanol
- Biotherm
- Johanna Solar
- Gellification of paraffin
- Landfill gas

9.2. PetroSA

PetroSA's main activities during the year were as follows:

- the exploration and production of crude oil and natural gas off the south-eastern coast of South Africa and Nigeria and participation in the acquisition of international upstream petroleum ventures;
- the production and marketing of synthetic fuels produced from the offshore gas and

condensate at the gas-to-liquids (GTL) plant at Mossel Bay to the local market and high value chemicals internationally; and

- the management of strategic crude oil stock and storage facilities on behalf of SFF.

The PetroSA group recorded a pre tax profit of R2 854 million, which is a substantial improvement on the prior year profit of R1 852 million. After taxation of R89 million relating mainly to the operations of Brass in Nigeria the income statement reflects a profit after tax of R2 765 million compared to R1 737 million in 2005. Brass has contributed about R114 million to the group results for the current year, and is expected to generate good returns in future years if oil prices remain in the upper reaches of their current trading range.

The cost containment drive at PetroSA had a positive impact on the financial performance for the year and remains a focal area. Overall group operating costs (R5 452 million) increased by 11% on the previous year (R4 917million). This was mainly due to the increased cost of feedstock purchases due to the high oil price and the increase in exploration and appraisal costs.

This was offset by the decrease in the abandonment expense and depreciation which resulted from the additional reserves that the South Coast gas project will provide. The strong rand had a favourable impact on the cost of drilling projects and imported condensate, while having a negative impact on operating performance, as revenue generated is predominantly US dollar based.

A dividend of R500million was declared and paid by PetroSA during the financial year (2005:Rnil).

9.3. SFF

The SFF group comprises of the following companies:

- SFF
- Klippoortje Koolmyne (Pty) Ltd
- African Exploration Mining and Finance Corporation (Pty) Ltd
- Mahne's Areas (Pty) Ltd

The activities carried out by SFF during the year were:

- sale of crude oil
- provision of storage facilities
- management of strategic oil reserves in accordance with ministerial directives
- management of environmental liability
- commercialisation of mineral rights

PetroSA manages the South African strategic inventory of crude oil and is involved in the procurement and sale thereof on behalf of the State in terms of the Sub-Agency agreement between SFF and PetroSA. With effect from 1 April 2006, the Sub-Agency agreement will be terminated and a management agreement will be entered into between PetroSA and SFF.

OPCSA manages the Ogies facility and commercialisation of mineral rights on behalf of SFF in terms of a management agreement.

Ogies

At Ogies, all activities are related to pollution prevention and control and to the management

and commercialisation of mineral rights held by SFF and its subsidiaries.

Saldanha Bay

The strategic crude oil stocks are stored at the Saldanha Bay terminal. One of the tanks at the terminal is leased to a third party on a long-term basis. Saldanha Bay was approved as an export port for PetroSA's Sable crude. High volatility in the crude oil prices during the year led to an increased demand for storage space.

Milnerton

Storage facilities at Milnerton have been used, in recent times only, for the storage of PetroSA's Oribi/Oryx crude. PetroSA has given notice that this storage is no longer required. Management is currently evaluating various options of how this terminal can be used.

9.4. iGas

A ministerial directive mandates iGas to act as the official agency for the development of the hydrocarbon gas industry.

The main business of iGas is to promote the diversification of energy usage into hydrocarbon gas and enter into ventures which will facilitate the use of hydrocarbon gas in South Africa.

The company's loss for the year amounted to R22.4 million (2005 : R3.2 million). The significant increase in the loss is due to the interest payable on the funding for the Rompco investment.

During the year, iGas took up a 25% stake in Rompco. This investment will begin to generate dividends in the 2006/7 financial year.

9.5. Petroleum Agency SA

Petroleum Agency SA acts as the designated agent of the State in terms of the MPRDA and is responsible for promoting exploration for and exploitation of natural oil and gas, both onshore and offshore. The company maintains and analyses geological data relating to natural oil and gas, thus building up a national database of such information, as well as administering the Upstream Training Trust and the Continental Shelf Claim project. Petroleum Agency SA is the designated Agent of the State in terms of the MPRDA.

The company's profit from ordinary activities after taxation amounted to R43.7 million (2005 : R40.9 million).

9.6. Enerkom and Enerkom Products

All outstanding issues in Enerkom were resolved during the financial year, and both companies are now in the process of being deregistered.

9.7. OPCSA

OPCSA is an oil pollution prevention and control company which currently operates in Saldanha Bay, Cape Town and Ogies.

During the financial year OPCSA made an operating loss of R6.5 million (2005:R8.4 million).

9.8. SANERI

SANERI is a company that is involved with energy research. The company was incorporated during the year.

9.9. Other subsidiaries of CEF

9.9.1. Cotec Patrade (Pty) Ltd (Cotec Patrade)

The main business of Cotec Patrade is to be the holder of patents, trademarks and consumer rights. The company was dormant during the year.

9.9.2. Cotec Development(Pty) Ltd (Cotec Development)

The main business of Cotec Development is the development of chemical processes and patents. The company has sold all but one of its patents to CEF. The company was dormant during the year.

9.9.3. Subsidiaries in liquidation

Mosshold (Pty) Ltd and Soekor E & P (Pty) Ltd are in the process of being liquidated.

10. Associate companies

10.1. Süd-Chemie Zeolites (Pty) Ltd

CEF has a 30% interest in Süd-Chemie Zeolites (Pty) Ltd. The investment is equity accounted in the consolidated financial statements. During the year under review, Cabinet approved that these shares be transferred to PetroSA. The transfer will happen during 2006/7.

10.2. Baniettor Mining (Pty) Ltd

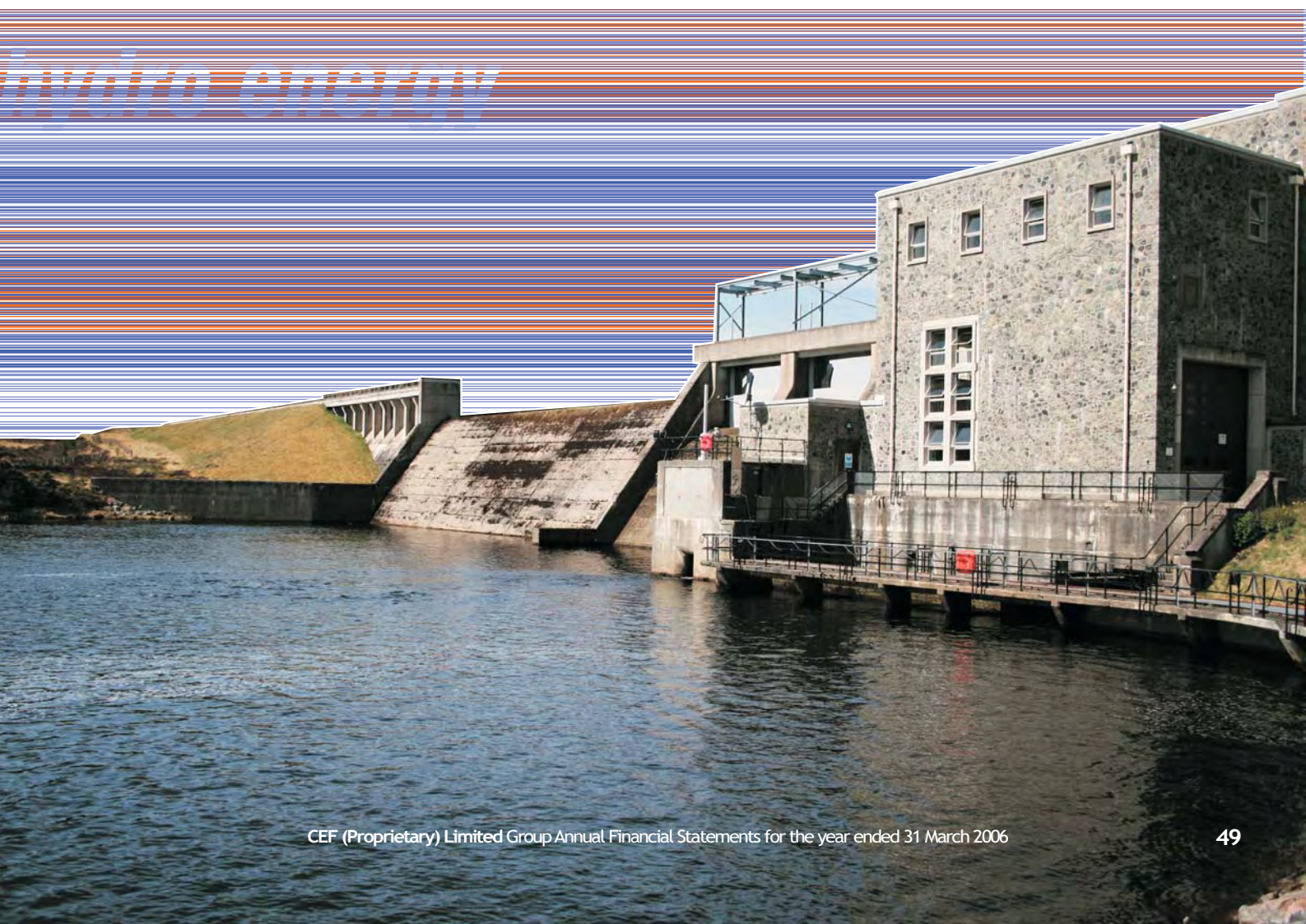
CEF has a 49% interest in Baniettor Mining (Pty) Ltd. This associated company owns certain mineral rights which it has not commenced exploiting. The value of these rights cannot be determined and the company's interest, therefore, has been written down to nil.

10.3. Rompco

CEF has a 25% interest in unlisted shares of Rompco. Rompco owns the natural gas pipeline from the Temane/Pande gas fields in Mozambique to Secunda in South Africa.

11. Transfer to State

No transfer to the State was made in respect of the year ended 31 March 2006 (2005: Nil).



12. Materiality and significant framework

The criteria for materiality and significant framework for the CEF group of companies is contained in the table below:

PFMA REFERENCE	CEF (Pty) Ltd	PetroSA	Petroleum Agency SA	iGas	OPCSA	SFF
Section 50(1)	<u>Disclose material facts to the Minister of Minerals and Energy</u> Facts that may influence the decisions or actions of the Stakeholders of the Public Entity or the group of companies.					
Section 55(2) Loss due to Criminal Conduct	<u>Disclosure of material losses in the Annual Report and Financial Statements</u> All expenditure.					
Loss due to Irregular expenditure Fruitless and Wasteful expenditure	All expenditure.					
Section 54(b) & (c) & (d)	Approval from the executive authority on participation in certain transactions such as: <ul style="list-style-type: none"> • Significant partnership, trust, unincorporated joint venture or similar arrangement • Acquisition or disposal of a significant shareholding in a company • Acquisition or disposal of a significant asset 					
Approval from the Executive Authority	>R300 million (Based on 2% of group Assets)	>R300 million (Based on 2% of group Assets)				
Approval level of the CEF Board in terms of subsidiary companies			>R5 million and < R300 million	>R10 million and < R300 million	>R 300 000 and < R300 million	>R10 million and < R300 million
Section 54(e) & (f)	Approval from the executive authority on participation in certain transactions such as: <ul style="list-style-type: none"> • Commencement or cessation of a significant business activity • Significant change in the nature or extent of its interest in a significant partnership, trust, unincorporated joint venture or similar arrangement 					
Approval from the Executive Authority	Significant resulting in a change/deviation from the Mandate/directive from the Executive Authority					

13. Post balance sheet events

The directors are aware of the following matter or circumstance arising since the end of the financial year:

Global Offshore Oil Exploration (SA) (Pty) Ltd v. Petroleum Agency SA

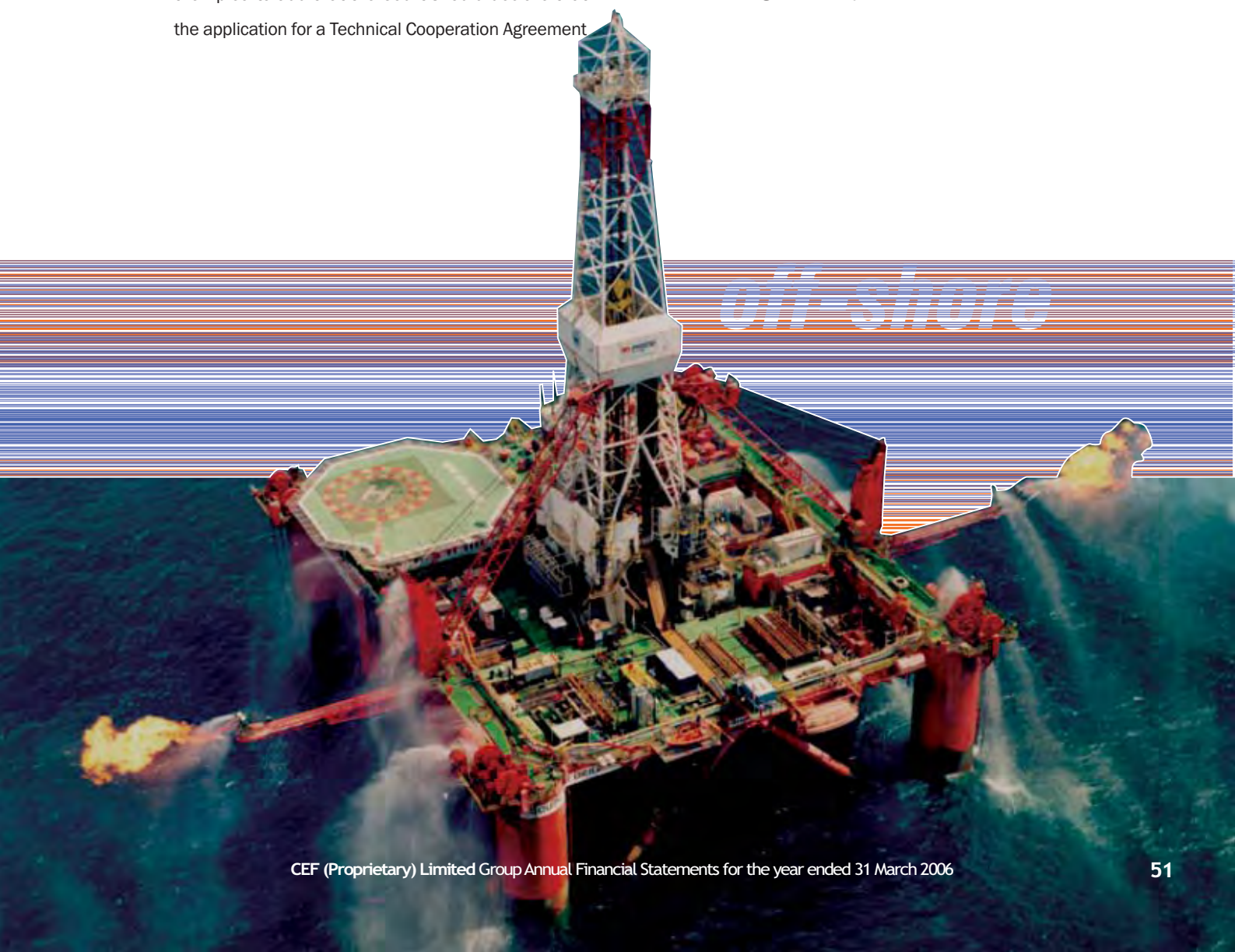
On 4 and 5 April 2006 Global approached the Cape High Court for an order which would set aside the decision of the Board of Petroleum Agency SA which stopped the processing of Global's application for a Technical Cooperation Agreement on 13 August 2003, and further compel the Board to approve the recommendation made to it by Management on 13 August 2003, and refer it to the Minister and Director General for approval. Global sought to amend their plea to add that the Court should declare that the application for a Technical Cooperation Agreement

of April 2003 might be treated as an application under section 76 of the MPRDA (Act 28 of 2004).

The judgment of the Cape High Court dismissed both the main and subsidiary applications with costs in favour of the Agency. An application for leave to appeal lodged by Global on 30 May 2006 was also dismissed by the same court on 19 June 2006. On 27 June 2006 our Attorneys advised us that Global has indicated its intention to take the matter to the Supreme Court.

Adverse implications for the Agency arising here from are the costs of litigation, and the unlikely directive by the Supreme Court for the Agency to endorse Global's 2003 application for the Minister's final approval.

The contingent liability is estimated at R188 792.



14. Other activities administered by CEF

14.1. Equalisation Fund

This statutory fund is regulated by Ministerial Directives issued by the Minister of Minerals and Energy in concurrence with the Minister of Finance as laid down by the CEF Act. The company provides administrative and accounting services to the Fund.

14.2. Mine Health and Safety Council

CEF manages some of the cash resources of the Council.

14.3. Road Accident Fund

CEF carries out the administration of the Road Accident Fund (RAF) levies payable by the oil companies in terms of the CEF Act. New legislation has been passed and during

2006/7, Road Accident Fund levies will be collected by SARS. CEF will then stop administering the levies.

14.4. The South African Petroleum Sector

Policy Research and Capacity

Development Phase II Fund (Norad Fund)

CEF manages the surplus cash and carries out the administration and accounting function of the Fund.

15. Shareholder

The company is controlled by the Minister of Minerals and Energy. All shares are held by the State and are not transferable. This shareholding is in terms of the CEF Act.

Report of the Board Audit and Risk Management Committee

07

The board audit and risk management committee has adopted appropriate formal terms of reference, which have been confirmed by the board, and has performed its responsibilities as set out in the terms of reference.

Responsibilities

In performing its responsibilities the board audit and risk management committee has reviewed the following:

- the effectiveness of the internal control systems;
- the effectiveness of the internal audit function;
- the risk areas of the group's 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;
- the group's 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;
- the independence and objectivity of the external auditors;
- the scope and results of the external audit function, its cost-effectiveness, as well as independence and objectivity of the external auditors;
- the adequacy of insurance cover.

The board audit and risk management committee is also responsible for:

- reporting to the Minister of Minerals and Energy and the Auditor-General where a report implicates any member(s) of the accounting authority in fraud, corruption or gross negligence;
- communicating any concerns it deems necessary to the Minister of Minerals and Energy and the Auditor-General;

- confirmation and approval of the internal audit department's charter and internal audit work plan;
- encouraging communication between members of the board, senior executive management, the internal audit department and the Auditor-General;
- conducting investigations within its terms of reference;
- concurring with the appointment and dismissal of the head of the internal audit department.

Internal control system

The board audit and risk management committee is satisfied that internal controls and systems have been put in place and that these controls have functioned effectively during the period under review. The board audit and risk management committee considers the group's internal controls and systems appropriate in all material respects to:

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

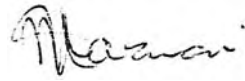
Financial statements

The board audit and risk management committee is of the opinion based on the information and explanations given by management and the internal audit department and discussions with the independent external auditors on the result of their audits, that the internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the financial statements, and accountability for assets and liabilities is maintained.

Nothing significant has come to the attention of the board audit and risk management committee to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the period under review.

The board audit and risk management committee has evaluated the annual financial statements of CEF (Pty) Ltd for the period ended 31 March 2006 and, based on the information provided to the board audit and risk management committee, considers that they comply, in all material respects, with the requirements of the Companies Act, 61 of 1973, as amended, and the Public Finance Management Act, 1 of 1999, as amended, and South African Statements of Generally Accepted Accounting Practice. The board audit and risk management committee

has therefore, at their meeting held on 26 July 2006, recommended the adoption of the financial statements by the board of directors.



Ms N Mazwai

Chairperson

26 July 2006

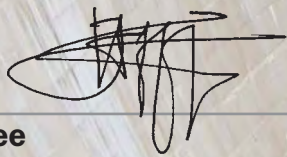
Ms N Mazwai

Ms K Mthimunya

08

Company Secretary's Certificate

In my capacity as company secretary, I hereby confirm, except where otherwise mentioned in the financial statements, that for the year ended 31 March 2006, the company has lodged with the Registrar of Companies all such returns as are required of a company in terms of this act and that all such returns are to the best of my knowledge and belief, correct and up to date.



Mr A Haffejee

26 July 2006

The background image shows an industrial facility with large, cylindrical storage tanks and a network of pipes. In the foreground, there are green plants with small white daisies. A semi-transparent blue horizontal band is overlaid across the middle of the image.

Balance Sheet

09

Balance sheet

AS AT 31 MARCH 2006

		Group		Company	
		2006	2005	2006	2005
		R'000	R'000	R'000	R'000
notes			Restated		Restated
ASSETS					
NON-CURRENT ASSETS					
		6 420 675	6 445 327	4 512 463	3 335 686
Property, plant and equipment	2	3 522 038	3,622 009	5 743	6 992
Intangible assets	3	84 792	15 190	12 794	15 190
Deferred tax asset	4	1 328	1 198	1 328	1 198
Investments in subsidiaries	5	-	-	4 474 523	3 302 060
Investments in associate companies	6	655 384	7 680	7 633	7 633
Strategic inventory	12	2 028 056	2 028 514	-	-
Assets pending determination	7	54 793	180 656	-	-
Loans receivable	13	62 304	50 671	-	-
Other investments	14	11 980	2 613	10 442	2 613
Deferred expenditure	8	-	536 796	-	-
CURRENT ASSETS					
		14 221 834	10 861 269	2 329 455	2 862 279
Inventories	9	839 534	691 717	-	-
Trade and other receivables	10	1 155 100	945 137	22 752	19 193
Current portion of long-term loans receivable	13	-	2 022	91 582	115 289
Forward exchange contracts	22	75	14 379	75	14 379
Taxation	28	-	28 303	-	6 833
Cash and cash equivalents	11	12 227 125	9 179 711	2 215 046	2 706 585
TOTAL ASSETS					
		20 642 509	17 306 596	6 841 918	6 197 965
EQUITY AND LIABILITIES					
CAPITAL AND RESERVES					
		15 906 587	13 003 414	6 072 608	5 567 843
Share capital	15	-	-	-	-
Non-distributable reserve	16	32 802	37 424	150 755	150 755
Retained earnings		15 873 785	12 965 990	5 921 853	5 417 088
NON-CURRENT LIABILITIES					
		3 379 869	3 377 754	600 190	428 860
Interest bearing borrowings	17	597 670	426 382	597 670	426 382
Deferred tax liability	4	90 469	147 257	-	-
Provisions	18	2 691 730	2 804 115	2 520	2 478
CURRENT LIABILITIES					
		1 356 053	925 428	169 120	201 262
SARS for income tax	28	179 732	110 125	79	-
Trade and other payables	20	1,008 683	647 308	31 840	37 871
Current portion of interest bearing borrowings	17	136 914	160 999	136 914	160 999
Deferred income	21	23 518	-	-	-
Forward exchange contracts	22	-	-	287	2 392
Current provisions	18	7 206	6 996	-	-
TOTAL EQUITY AND LIABILITIES					
		20 642 509	17 306 596	6 841 918	6 197 965



Income Statement

10

Income statement

FOR THE YEAR ENDED 31 MARCH 2006

		Group		Company	
		2006	2005	2006	2005
	notes	R'000	R'000 Restated	R'000	R'000 Restated
Revenue	23	7 621 772	6 533 176	-	-
Cost of sales		4 345 671	3 775 527	-	-
Gross profit		3 276 101	2 757 649	-	-
Interest received	24	820 629	547 287	204 888	294 479
Other income		125 230	171 572	5 759	4 043
Operating costs		(1 118 342)	(1 312 795)	(59 129)	(64 113)
Operating profit	25	3 103 618	2 163 713	151 518	234 409
Finance costs	26	(133 060)	(91 518)	(133 081)	(213 954)
Equity earnings of associate		28 926	-	-	-
Impairment of investments	27	1 112	-	(9 646)	(2 444)
Profit before taxation		3 000 596	2 072 195	8 791	18 011
Taxation	28	92 801	123 973	4 026	6 103
Profit after taxation		2 907 795	1 948 222	4 765	11 908
Dividends received		-	-	500 000	-
Retained earnings for the year		2 907 795	1 948 222	504 765	11 908



Statement of Changes in Equity

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Statement of changes in equity

FOR THE YEAR ENDED 31 MARCH 2006

Group	notes	Share capital R'000	Members' contributions R'000	Revaluation reserve R'000	Hedging reserve R'000	Accumulated profit R'000	Total R'000
Balance at 01 April 2004		-	-	45 714	-	11 015 975	11 061 689
Net profit for the year						1 926 752	1 926 752
Foreign currency translation reserve				(6 497)			(6 497)
Balance at 01 April 2005		-	-	39 217	-	12 942 727	12 981 944
Correction of prior period error	36			(1 793)		23 263	21 470
Restated balance				37 424		12 965 990	13 003 414
Net profit for the year						2 907 795	2 907 795
Foreign currency translation reserve				(4 622)			(4 622)
Balance at 31 March 2006		-	-	32 802	-	15 873 785	15 906 587

Company	notes	Share capital R'000	Members' contributions R'000	Revaluation reserve R'000	Hedging reserve R'000	Accumulated profit R'000	Total R'000
Balance at 01 April 2004		-	-	150 755	-	7 580 139	7 730 894
Change in accounting policy	35					(2 174 959)	(2 174 959)
Restated balance				150 755		5 405 180	5 555 935
Net profit for the year						11 908	11 908
Balance at 01 April 2005		-	-	150 755	-	5 417 088	5 567 843
Retained earnings for the year						504 765	504 765
Balance at 31 March 2006		-	-	150 755	-	5 921 853	6 072 608

A photograph of an industrial facility, likely a refinery or chemical plant, featuring a complex network of pipes, valves, and structural steel. Two workers in white hard hats and dark clothing are visible on a platform on the left side of the image. The scene is illuminated by warm, orange-toned lights, possibly from the facility itself or the setting sun. The overall atmosphere is industrial and busy.

Cash Flow Statement

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Cash flow statement

FOR THE YEAR ENDED 31 MARCH 2006

		Group	2005	Company	
	notes	2006 R'000	2005 R'000 Restated	2006 R'000	2005 R'000
Operating activities		4,757 936	4 266 014	525 310	80 739
Cash receipts from customers	29.1	7 537 021	7 413 143	2 264	20 619
Cash paid to suppliers and employees	29.2	(3 413 695)	(3 512 416)	(51 518)	(13 413)
Cash generated by operations	29.3	4 123 326	3 900 727	(49 254)	7 206
Interest received	24	820 629	547 287	204 888	294 479
Interest paid	26	(133 060)	(91 518)	(133 081)	(213 954)
Dividends received		-	-	500 000	-
Taxation paid	28.3	(52 959)	(90 482)	2 757	(6 992)
Investing activities		(1 160 990)	(462 859)	(1 166 371)	761 378
Property, plant and equipment acquired		(434 031)	(460 357)	(1 602)	(6 902)
Intangible assets acquired		(71 998)	-	-	-
Proceeds on disposals of property, plant and equipment		998	50 782	305	185
<i>Expenditure for expansion</i>					
Subsidiaries acquired	29.4	-	-	(1 157 245)	770 708
Investment in associates	29.4	1 112	-	-	-
Investments		(647 704)	(50 671)	-	-
Other investments		(9 367)	(2 613)	(7 829)	(2 613)
Financing activities		135 965	(775 051)	145 576	(773 029)
Loans repaid		145 576	(777 422)	145 576	(777 422)
Payment received on loans		(9 611)	2 371	-	4 393
Increase in cash and cash equivalents		3 732 911	3 028 104	(495 485)	69 088
Effects of exchange rate changes		(685 497)	(152 152)	3 946	(67 340)
Cash and cash equivalents at beginning of the year		9 179 711	6 303 759	2 706 585	2 704 837
Cash and cash equivalents at end of the year	29.5	12 227 125	9 179 711	2 215 046	2 706 585



Notes to the Financial Statements

13

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

1. Accounting policies

1.1. Principal accounting policies

The group annual financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice and the Companies Act.

Basis of preparation

The financial statements are prepared on the historical cost convention except as modified by the revaluation or impairment of certain assets.

The following are the principal accounting policies used by the group which are consistent in all material respects with those of the previous year, except as otherwise stated.

These financial statements are presented in South African Rands Thousands since that is the currency in which majority of the company's transactions are denominated.

1.2. Basis of consolidation

The group annual financial statements present the consolidated financial position and operating results of the holding company and of its subsidiaries. Control is achieved where the entity has power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

The results of the consolidated subsidiaries are included from the dates effective control was acquired and up to the dates effective control ceased. Intra-group transactions are eliminated fully on consolidation.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the holding company.

1.3. Property, plant and equipment

1.3.1. Carrying amount

All property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

1.3.2. Cost

Cost includes all costs directly attributable to bringing the assets to working condition for their intended use. Improvements are capitalised. Minor items of machinery, plant and equipment are expensed directly against income. Maintenance, repairs and renewals which neither materially add to the value of assets nor appreciably prolong their useful lives are charged against income.

Finance costs directly associated with the construction or acquisition of major assets are capitalised at interest rates relating to loans specifically raised for that purpose, or at the average borrowing rate where the general pool of borrowings are utilised.

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

1.3.3. Revaluation

Increases in the carrying amount arising on revaluation are credited to revaluation reserves in shareholder's equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve. The difference between the depreciation calculated on the revalued amount and the depreciation on the original cost is transferred from revaluation reserve to retained earnings.

1.3.4. Impairment

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If such indication exists and where the carrying amount exceeds the estimated recoverable amount, the assets are written down to their recoverable amount. Impairment losses are recognised in profit and loss.

The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. 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.

For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

1.3.5. Disposals

Gains or losses on disposal of property, plant and equipment are determined by reference to their carrying amount. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

1.3.6. Depreciation

All property, plant and equipment are depreciated except freehold land, investment properties and mineral rights.

Depreciation is calculated on the straight-line method to write off the cost of each asset, or the revalued amounts, to their residual values over their estimated useful lives as follows:

Buildings and tank farms	5 - 40 years
Exploration equipment	3 - 8 years
Production assets	Units of production
Furniture, fittings and communication equipment	2 - 10 years
Computer equipment	3 years
Computer software	2 years
Motor vehicles	4 - 5 years

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

Office equipment	6 - 10 years
Drilling rig	13 years
Plant and equipment	3 - 8 years
Fire fighting, security and operating equipment	5 - 10 years
Laboratory and pharmaceutical equipment	5 years
Oil pollution equipment	5-20 years

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

1.3.7. Production assets (Oil and gas fields)

Under the recognition principle the group recognises, in the carrying amount of an item of property, plant and equipment, the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions.

Production assets that represent the capitalised share of total expenditure on the exploration, appraisal and development of oil and gas fields are depreciable at rates appropriate to their expected useful life. This applies from the date production commences, on a unit of production basis, using the proved and probable developed reserves recoverable from these fields.

The carrying amounts in respect of each field (reservoir) is reviewed for impairment at each balance sheet date. For evaluated fields, the net capitalised costs are compared to the estimated net revenues to be derived from the related proved and probable reserves of oil and gas within that field. Evaluated fields and other assets for which carrying amounts are not expected to be fully recovered are written down to their recoverable value.

1.4. Exploration and development of oil and gas wells

The "successful efforts" method of accounting is used for oil and gas exploration and development activities.

1.4.1. Exploration and appraisal costs

Costs of exploratory wells are initially capitalised and reflected as intangible assets, but should the efforts be determined to be unsuccessful, they are then charged against profit and loss. Should prospects be deemed to be commercially viable, then these costs are transferred to tangible assets. All other exploration and appraisal costs are charged to profit and loss as incurred.

1.4.2. Development costs

Costs of development wells, including dry holes, platforms, well equipment and attendant production facilities are capitalised. The cost of production facilities capitalised includes incurred finance costs until the production facility is completed and ready for the start of the production phase as well as a share of direct overhead costs incurred.

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

1.5. Intangible assets

1.5.1. Patents and trademarks

Patents and trademarks are initially recognised at cost if acquired separately or internally generated, or at fair value if acquired as part of a business combination. If assessed as having an indefinite useful life, they are not amortised but are tested for impairment annually and impaired if necessary. If assessed as having a finite useful life, they are amortised over their useful lives using a straight line basis and tested for impairment if there is an indication that they may be impaired.

Research costs are expensed in the year in which they are incurred.

Development costs are capitalised only when and if they meet the criteria for capitalisation. Otherwise they are expensed.

The directors assess the carrying amount of each intangible asset annually and, where there are significant changes, revisions are made.

1.5.2. Internally generated intangible assets (Research and development costs)

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. Internally generated intangible assets are amortised on a straight-line basis over their useful lives, which is usually no more than five years.

The carrying value of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

1.6. Investment in subsidiaries

Investment in subsidiaries in the separate financial statements are recognised at cost.

1.7. Investments in associated companies

An associate is an entity over which the company has the ability to exercise significant influence, but not control. The investment in an associate is accounted for in the company annual financial statements at fair value and equity accounted for group reporting.

1.8. Deferred expenditure: abandonment cost of oil and gas wells

Estimated decommissioning and restoration costs are based on current requirements, technology and price levels. Provision is made for all net estimated abandonment costs as soon as a legal obligation to rehabilitate the area exists based on the present value of the future estimated costs. These costs are deferred and are depreciated over the useful life of the assets to which they relate using the unit of production method based on the same reserve quantities as are used for the calculation of depletion of oil and gas production assets.

An additional abandonment provision charge will be made to income annually, based on the risk free rate of return. Changes in estimates of reserve quantities and abandonment costs are recognised prospectively.

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

1.9. Joint ventures

A joint venture is a contractual agreement between two or more parties to undertake an economic activity, which is under joint control.

Company

Interests in joint ventures are stated at cost, except where there is a permanent decline in value in which case they are written down to fair value.

Group

Investments in jointly controlled entities are accounted for by way of the proportionate consolidation method whereby the group's proportionate share of assets, liabilities, revenues and expenses of the joint venture are combined, on a line-by-line basis, with similar items in the financial statements of the group. The results of joint ventures are included from the effective dates of their acquisition up to the effective dates of their disposal.

Where the group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the group's interest in the joint venture, except where unrealised losses provide evidence of an impairment of the asset transferred.

1.10. Leases

Classification

Leases are classified as finance leases or operating leases at the inception of the lease.

In the capacity of a lessor

Amounts due from a lessee under a finance lease are recognised as receivables at the amount of the net investment in the leases, which includes initial direct costs. Where assets are leased by a manufacturer or dealer, the initial direct costs are recognised in profit or loss. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease or another basis if more representative of the time pattern of the user's benefit.

Contingent rentals are recognised in profit or loss as they accrue.

In the capacity of a lessee

Finance leases are recognised as assets and liabilities at the lower of the fair value of the asset and the present value of the minimum lease payments at the date of acquisition. Finance costs represent the difference between the total leasing commitments and the fair value of the assets acquired. Finance costs are charged to profit or loss over the term of the lease and at interest rates applicable to the lease on the remaining balance of the obligations.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease or another basis if more representative of the time pattern of the user's benefit.

Contingent rentals are recognised in profit or loss as they accrue.

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

1.11. Inventories

1.11.1. Strategic inventory

Strategic crude oil is measured at the lower of cost and net realisable value. Cost is determined on a weighted average basis and includes transport and handling costs. Provision is made against the unpumpable crude oil remaining in the Ogies mine. Provision is made against the crude oil sludge formed at the bottom of the tanks in Saldanha Bay which cannot be removed if the tanks are used for storage and not trading.

Provision is made in arriving at the net realisable value. The provision is made in respect of unsaleable sludge that forms at the bottom of the tanks.

1.11.2. Trading inventory

Finished and intermediate inventory is valued at the lower of cost and net realisable value according to the weighted average method. Cost includes production expenditure, depreciation and a proportion of triennial turnaround expenses and replacement of catalysts, as well as transport and handling costs. No account has been taken of the value of raw materials and work in progress prior to it reaching intermediate storage tanks. In arriving at net realisable value, provision is made for obsolete, slow moving and defective inventories.

1.11.3. Spares, catalysts and chemicals

These inventories are measured at the lower of cost, using the weighted average basis less appropriate provision for obsolescence.

1.12. Taxation

The charge for current tax is based on the results for the year as adjusted for income that is exempt and expenses that are not deductible using tax rates that are applicable to the taxable income.

Deferred tax is recognised for all temporary differences, unless specifically exempt, at the tax rates that have been enacted or substantially enacted at the balance sheet date.

1.12.2. Deferred Tax Assets

A deferred tax asset is only recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised, unless specifically exempt. It is measured at the tax rates that have been enacted or substantially enacted at balance sheet date.

1.12.3. Deferred Tax Liability

A deferred tax liability is recognised for taxable temporary differences, unless specifically exempt, at the tax rates that have been enacted or substantially enacted at the balance sheet date.

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

Deferred tax arising on investments in subsidiaries, associates and joint ventures is recognised except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Some of the income of the group is earned from the State and is exempt from tax.

1.13. Foreign currency

The functional currency of each entity is determined based on the currency of the primary economic environment in which it operates. Transactions in currencies other than CEF (Pty) Ltd's currency are recognised at the exchange rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the exchange rates ruling at the balance sheet date.

Gains and losses arising on exchange differences are recognised in profit or loss.

The financial statements of entities whose functional currencies are different to the group's presentation currency are translated as follows:

- Assets, including goodwill, and liabilities at the closing exchange rates at the balance sheet date.
- Income and expense items at the exchange rates at the dates of the transactions, or suitable averages.
- Equity items at the exchange rates ruling when they arose.

Resulting exchange differences are classified as a foreign currency translation reserve and recognised directly in equity. On disposal of a foreign operation the related amount in equity is recognised in profit or loss.

1.14. Financial instruments

1.14.1. Recognition

Financial assets and financial liabilities are recognised on the group's balance sheet when the group becomes party to the contractual provisions of the instrument.

Derivatives are entered into for the primary purpose of reducing exposure to fluctuations in foreign exchange rates and to manage the group's exposure to changes in commodity prices.

Financial instruments recognised on the balance sheet include cash and cash equivalents, trade receivables, investments, trade payables, borrowings and derivatives.

Financial assets

Financial assets are initially measured at fair value plus transaction costs. However, transaction costs in respect of financial assets classified as at fair value through profit or loss are expensed.

Investments classified as held-to-maturity financial assets are measured at amortised cost less any impairment losses recognised to reflect irrecoverable amounts.

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

Held for trading investments are classified as financial assets at fair value through profit or loss and are carried at fair value with any gains or losses being recognised in profit or loss. Fair value, for this purpose, is market value if listed or a value arrived at by using appropriate valuation models if unlisted.

Trade and other receivables are classified as loans and receivables and are measured at amortised cost less provision for doubtful debts. Write-downs of these assets are expensed in profit or loss.

Other investments are classified as available-for-sale financial assets. These investments are carried at fair value with any gains or losses being recognised directly in equity. Fair value, for this purpose, is market value if listed or a value arrived at by using appropriate valuation models if unlisted. Impairment losses are recognised in profit or loss. Any reversal of impairment losses is recognised directly in equity.

Derivatives that are assets are measured at fair value with changes in fair value being included in net profit or loss other than derivatives designated as cash flows hedges.

Cash and cash equivalents are measured at fair value, with changes in fair value being included in profit or loss.

Financial liabilities

Financial liabilities are initially measured at fair value plus transaction costs. However, transaction costs in respect of financial liabilities classified as at fair value through profit or loss are expensed.

Financial liabilities that are not designated on initial recognition as financial liabilities at fair values through profit or loss are measured at amortised cost.

Financial liabilities that are designated on initial recognition as financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being included in net profit or loss.

Derivatives that are liabilities are measured at fair value, with changes in fair value being included in net profit or loss other than derivatives designated as cash flow hedges.

1.14.2. Gains and losses on subsequent measurement

Gains and losses arising from the cash flow hedges are recognised in profit or loss. Gains and losses arising from the re-measurement to fair value of financial assets held for trading are recognised in net profit or loss.

Gains and losses arising from a change in the fair value of financial instruments that are not part of a hedging relationship, other than available-for-sale financial assets, are included in profit or loss in the period in which they arise. Gains and losses arising from a change in the fair value of available-for-sale financial assets are recognised in equity, until the investment is disposed of or is determined to be impaired, at which time the net profit or loss is included in the profit or loss for the period.

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

1.14.3. Derecognition

Financial assets or a part thereof are derecognised when the contractual rights to receive cash flows have been transferred or have expired or if substantially all the risks and rewards of ownership have passed. Where all the risks and rewards of ownership have not been transferred or retained, the financial assets are derecognised if they are no longer controlled. However, if control in this situation is retained, the financial assets are recognised only to the extent of the continuing involvement in those assets.

All other assets are derecognised on disposal or when no future economic benefits are expected from their use or on disposal.

Financial liabilities are derecognised when the relevant obligation has either been discharged or cancelled, or has expired.

1.14.4. Fair value considerations

The fair values at which financial instruments are carried at the balance sheet date have been determined using available market values. Where market values are not available, fair values have been calculated by discounting expected future cash flows at prevailing interest rates. The fair values have been estimated using available market information and appropriate valuation methodologies. The carrying amounts of financial assets and financial liabilities with a maturity of less than one year are assumed to approximate their fair values due to the short-term trading cycle of these items.

1.15. Post-employment benefit costs

1.15.1. Defined contribution costs

The group contributions to a defined contribution plan in respect of service in a particular period are recognised as an expense in that period. The group contributes to a number of defined contribution benefit plans for its staff. The majority of staff are provided for under at least one of these plans. Previously the group provided a defined benefit plan to all staff. Those staff not provided for under the defined contribution plan are those who elected to remain on the old plan.

1.15.2. Defined benefit costs

Current service costs in respect of defined benefit plans are recognised as an expense in the current period.

Past service costs, experience adjustments, the effects of changes in actuarial assumptions and the effects of plan amendments in respect of existing employees in a defined benefit plan are recognised in profit and loss systematically over the expected remaining work lives of those employees (except in the case of shorter plan amendments where the use of a shorter time period is necessary to reflect the economic benefits by the entity).

The effects of plan amendments in respect of retired employees in a benefit plan are measured as the present value of the effect of the amended benefits, and are recognised as an expense or as income in the period in which the plan amendment is made.

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

The cost of providing retirement benefits under a defined benefit plan is determined using a projected unit credit valuation method.

A portion of actuarial gains and losses is recognised as income or expense if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceed the greater of:

- 10% of the present value of the defined benefit obligation at the date before deducting plan assets, or
- 10% of the fair value of any plan assets at that date.

The portion of actual gains and losses to be recognised is the excess referred to above, divided by the expected average remaining working lives of the employees participating in the plan.

The portion relating to retired employees are recognised in profit and loss immediately.

1.15.3. Post-retirement medical benefits

Some group companies provide post-retirement health care benefits to retirees. The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using a project amount credit method similar to that for defined benefit pension plans. Valuations of these obligations are carried out by independent qualified actuaries.

1.16. Provisions

Provisions are recognised when the group has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made for the amount of the obligation.

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.

1.17. Environmental liabilities

The group is responsible for environmental expenditure and rehabilitation relating to its operations, as well as for assets it manages on behalf of the State. Provision for the cost of environmental and other remedial work such as reclamation costs, close down, restoration costs and pollution control is made when such expenditure is probable and the cost can be estimated within a reasonable range of possible outcomes.

1.18. Revenue recognition

Revenue is measured at the amount received or receivable. VAT, cash discounts and rebates are excluded from revenue.

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

Revenue from the rendering of services is measured using the stage of completion method based on the services performed to date as a percentage of the total services to be performed.

Revenue from construction contracts is recognised by reference to the stage of completion of the contract activity.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been 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.

Revenue from the rendering of services is recognised when the amount of the revenue, the related costs and the stage of completion can be measured reliably and when it is probable that the debtor will pay for the services.

Revenue from royalties is recognised on the accrual basis in accordance with the substance of the relevant agreements.

Revenue from licence fees are recognised on an accrual basis in accordance with the substance of the relevant agreement.

Dividend income from investments is recognised when the shareholders right to receive payment has been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and the interest rate applicable.

1.19. Finance costs

Interest costs incurred on financing of major projects are capitalised until the project is substantially completed or ready for its intended use.

Other finance costs are recognised as an expense when incurred.

1.20. Prior period errors

Where necessary, comparative figures have been restated to conform with the changes in the presentation in the current year and in the event of a change in accounting policy or prior period error.

1.21. Irregular and 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, or
- Any provisional legislation providing for procurement procedures in that provincial government.

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

All irregular and fruitless and wasteful expenditure is charged against income in the period in which it is incurred.

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

1.22. Government grants

When the conditions attaching to government grants have been met and have been received, they are recognised in profit or loss on a systematic basis over the periods necessary to match them with the related costs. When they are for expenses or losses already incurred, they are recognised in profit or loss immediately. The unrecognised portion at the balance sheet date is presented as deferred income. No value is recognised for government assistance.

1.23. Discontinued operations

The results of discontinued operations are presented separately in the income statement and the assets associated with these operations are included with non-current assets held for sale in the balance sheet.

1.24. Changes in accounting policy

The annual financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards:

- IAS1 Presentation of financial statements
- IAS2 Inventories
- IAS10 Events after the balance sheet date
- IAS17 Leases
- IAS21 The Effects of changes in foreign exchange rates
- IAS24 Related party disclosures
- IAS27 Consolidated and separate financial statements
- IAS28 Investments in Associates
- IAS32 Financial instruments: Disclosure and presentation
- IAS38 Intangible assets
- IAS39 Financial instruments: Recognition and measurement
- IAS40 Investment property

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

2. Property, plant and equipment

2.1. Group

	Cost/ valuation R'000	2006 Accumulated depreciation R'000	Impairments R'000	Carrying amounts R'000	Cost / valuation R'000	2005 Accumulated depreciation R'000	Impairments R'000	Carrying amounts R'000
Land and buildings	20 209	4 117	-	16 092	20 092	3 741	188	16 163
Plants, platforms & equipment	17 352 244	14 570 042	-	2 782 202	15 858 408	13 015 372	448	2 842 588
Motor vehicles	41 825	39 098	-	2 727	42 368	38 465	-	3 903
Furniture & fittings & Office Equipment	134 725	108 451	-	26 274	128 052	97 978	547	29 527
Abandonment expenditure	944 471	837 192	-	107 279	1 374 626	837 830	-	536 796
Leasehold improvements	2 247	701	-	1 546	2 247	252	-	1 995
Computer equipment	48 090	16 118	-	31 972	43 363	28 923	11	14 429
Computer Software	7 223	4 879	-	2 344	5 492	3 468	-	2 024
Assets under development	555 429	3 827	-	551 602	178 411	3 827	-	174 584
	19 106 463	15 584 425	-	3 522 038	17 653 059	14 029 856	1 194	3 622 009

The carrying amounts of property, plant and equipment can be reconciled as follows:

2005	Carrying amount at beginning of year R'000	Additions & borrowing costs R'000	Transfers R'000	Disposals/ amounts written off R'000	Impairments R'000	Depreciation R'000	Carrying amount at end of year R'000
Land and buildings	16 094	42	816	(84)	(188)	(517)	16 163
Plants, platforms & equipment	3 236 230	443 689	31 454	(6 811)	(448)	(851 071)	2 853 043
Motor vehicles	6 314	-	(90)	-	-	(2 321)	3 903
Furniture & fittings & Office Equipment	26 644	13 547	(163)	(365)	(547)	(9 589)	29 527
Abandonment expenditure	801 846	-	-	(5 897)	-	(269 608)	526 341
Leasehold improvements	-	2 247	-	-	-	(252)	1 995
Computer equipment	18 126	7 382	96	(48)	(11)	(11 116)	14 429
Computer Software	483	1 957	151	-	-	(567)	2 024
Assets under development	179 281	20 106	(24 803)	-	-	-	174 584
	4 285 018	488 970	7 461	(13 205)	(1 194)	(1 145 041)	3 622 009

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

2. Property, plant and equipment continued

2006	Carrying amount at beginning of year R'000	Additions & borrowing costs R'000	Transfers R'000	Disposals/ amounts written off R'000	Impairments R'000	Depreciation R'000	Carrying amount at end of year R'000
Land and buildings	16 163	-	-	120	-	(191)	16 092
Plants, platforms & equipment	2 842 588	148 883	1 106	513 933	(63)	(724 245)	2782 202
Motor vehicles	3 903	752	-	-	(44)	(1 884)	2 727
Furniture & fittings & Office Equipment	29 527	12 238	(494)	(4 548)	(581)	(9 868)	26 274
Abandonment expenditure	536 796	-	-	(429 517)	-	-	107 279
Leasehold improvements	1 995	117	-	(117)	-	(449)	1 546
Computer equipment	14 429	743	-	27 624	(78)	(10 746)	31 972
Computer Software	2 024	1 946	-	(8)	(214)	(1 404)	2 344
Assets under development	174 584	268 740	-	108 278	-	-	551 602
	3 622 009	433 419	612	215 765	(980)	(748 787)	3 522 038

2.2. Company

2.2.

Company

		2006			2005		
	Cost / valuation R'000	Accumulated depreciation R'000	Carrying amounts R'000		Cost / valuation R'000	Accumulated depreciation R'000	Carrying amounts R'000
Plants, platforms							
& equipment	220	70	150	220	33	187	
Motor vehicles	321	61	260	66	26	40	
Furniture & fittings							
& Office Equipment	2 262	549	1 713	2 193	213	1 980	
Leasehold							
improvements	2 247	701	1 546	2 247	252	1 995	
Computer equipment	1 825	1 129	696	1 988	977	1 011	
Computer Software	2 973	1 595	1 378	2 273	494	1 779	
	9 848	4 105	5 743	8 987	1 995	6 992	

The carrying amounts of property, plant and equipment can be reconciled as follows:

2005	Carrying amount at beginning of year R'000	Additions & borrowing costs R'000	Transfers R'000	Disposals/ amounts written off R'000	Depreciation R'000	Carrying amount at end of year R'000
Plants, platforms & equipment	65	142	-	-	(20)	187
Motor vehicles	53	-	-	-	(13)	40
Furniture & fittings & Office Equipment	291	2 123	(254)	(39)	(141)	1 980
Leasehold improvements	-	2 247	-	-	(252)	1 995
Computer equipment	549	809	103	(48)	(402)	1 011
Computer Software	315	1 581	151	-	(268)	1 779
	1 273	6 902	-	(87)	(1 096)	6 992

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

2. Property, plant and equipment continued

2006	Carrying amount at beginning of year R'000	Additions & borrowing costs R'000	Transfers R'000	Disposals/ amounts written off R'000	Impairments R'000	Depreciation R'000	Carrying amount at end of year R'000
Plants, platforms & equipment	187	-	-	-	-	(37)	150
Motor vehicles	40	321	-	(36)	-	(65)	260
Furniture & fittings							
& Office Equipment	1 980	119	-	(50)	-	(336)	1 713
Leasehold improvements	1 995	-	-	-	-	(449)	1 546
Computer equipment	1 011	248	-	(69)	-	(494)	696
Computer Software	1 779	914	-	(214)	-	(1 101)	1 378
	6 992	1 602	-	(369)	-	(2 482)	5 743

Abandonment expenditure relates to the provision for abandonment costs and is amortised on a units-of-production basis over the expected useful life of the reserves. The Minerals Act of 1991 requires that amounts for abandonment be set aside as prescribed in the Act. The abandonment fund requirement has been met through the issue of a guarantee of R180 million by CEF (Proprietary) Limited.

Registers of land and buildings are available at the registered offices of those subsidiaries that own land and buildings. The register for SFF is unable to be completed in full as required by the Companies Act No. 26 of 1973. The cost price of the individual properties cannot be ascertained due to a lack of historical information. In addition all the land paid for by SFF, and reflected in these accounts is registered in the name of the State. SFF merely manages these properties on behalf of the State.

Carrying amount of assets before impairments and revaluation

	Group		Company	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
Land & buildings	16 280	16 351	-	-
Plant, platforms & equipment	2 782 650	3 379 872	150	187
Motor vehicles	2 727	3 903	260	40
Furniture, fittings & office equipment	26 821	30 074	1 713	1 980
Abandonment expenditure	107 279	-	-	-
Leasehold improvements	1 546	1 995	1 546	1 995
Computer equipment	31 983	14 440	696	1 011
Computer software	2 344	2 024	1 378	1 779
Assets under development	551 602	174 584	-	-
	3 523 232	3 623 243	5 743	6 992

The last valuation of the assets of SFF Association was performed as at February 2005 for Milnerton. All other assets have been valued at 31 March 2002. The valuations were performed by Kantey and Templer (Pty) Ltd, a firm of consulting engineers. The valuations were based on the value between a willing buyer and a willing seller. The assets of Milnerton, Saldanha Bay and Ogies have been impaired in line with these sites' forecast sustainability.

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

2. Property, plant and equipment continued

2.3. Operating and exploration equipment

	Group		Company	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
Managed storage facilities	197 020	197 021	-	-
Owned production assets at cost	16 082 957	16 081 553	-	-
Other	1 072 267	954 460	-	-
	17 352 244	17 233 034	-	-

Managed storage facilities are crude oil storage facilities owned by the State but managed within the group on behalf of the State. These assets are paid for and maintained by the group but are not owned by the group.

Production assets include the Orca production facility. Initially the company had entered into an agreement with a third party to construct and operate this facility for an initial period of four years and a maximum period of ten years. Effective from 28 August 2002, the agreement changed, whereby Pride Foramer SAS, were contracted to operate the Orca facility, and Schlumberger Logelco Inc the production system for a period not exceeding 29 May 2007.

The original option for Schlumberger to purchase the production facilities (essentially the production platform, Orca and the CALM buoy) was largely negated. Under the new agreement Schlumberger retained the call option only with regards to the CALM buoy.

2.4. Investment properties

Balance at beginning of year	-	28 613	-	-
Transfer to land and buildings	-	(28 613)	-	-

The property comprising land and office buildings is situated at 151 Frans Conradie Drive, Parow, Cape Town. The Parow building has been valued by K Nilsen, independent sworn appraisers and valuers to a market value of R28.7 million at 31 March 2003. PetroSA has occupied the building from the 2005/6 financial year.

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

3. Intangible assets

Group	2006				2005		
	Cost / Valuation R'000	Accumulated amortisation R'000	Impairments R'000	Carrying amount R'000	Cost / Valuation R'000	Accumulated amortisation R'000	Carrying amount R'000
Goodwill, patents and trademarks	50 490	(37 696)	-	12 794	50 490	(35 300)	15 190
Equatorial Guinea license fees	71 998	-	-	71 998	-	-	-
	122 488	(37 696)	-	84 792	50 490	(35 300)	15 190

The carrying amounts of intangible assets can be reconciled as follows:

2005	Cost / valuation R'000	Accumulated depreciation R'000	Carrying amounts R'000	Cost / valuation R'000	Accumulated depreciation R'000	Carrying amounts R'000
Goodwill, patents and trademarks	15 190	-	-	-	-	15 190
2006						
Goodwill, patents and trademarks	15 190	-	-	-	(2 396)	12 794
Equatorial Guinea license fees	-	71 998	-	-	-	71 998
	15 190	71 998	-	-	(2 396)	84 792

Company	2006			2005			
	Cost / Valuation R'000	Accumulated amortisation R'000	Carrying amount R'000	Cost / Valuation R'000	Accumulated amortisation R'000	Impairments R'000	Carrying amount R'000
Goodwill, patents and trademarks	50 490	(37 696)	12 794	50 490	(35 300)	-	15 190

The carrying amounts of intangible assets can be reconciled as follows:

2005	Carrying amount at beginning of year R'000	Additions R'000	Transfers R'000	Disposals R'000	Impairments R'000	Amortisation R'000	Carrying amount at end of year R'000
Goodwill, patents and trademarks	15 190	-	-	-	-	-	15 190
2006							
Goodwill, patents and trademarks	15 190	-	-	-	-	(2 396)	12 794

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

4. Deferred tax

	Group		Company	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
4.1. Deferred tax assets				
Balance at beginning of year	1 198	1 997	1 198	1 126
Movements during year attributable to:				
Charged to profit and loss	130	(799)	130	72
Balance at end of year	1 328	1 198	1 328	1 198
The balance comprises:				
Provisions	1 328	1 198	1 328	1 198

4.2. Deferred tax liabilities

Balance at beginning of year	147 257	-	-	-
Movements during year attributable to:				
Charged to the income statement	(58 068)	47 452	-	-
Acquisition of subsidiary	1 280	99 805	-	-
Balance at end of year	90 469	147 257	-	-

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

5. Investments in subsidiaries

5.1. Summary of carrying amounts

	Group		Company	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
Cotec Patrade (Pty) Ltd	-	-	-	-
Shares	-	-	-	-
Loan	-	-	3 733	3 733
Provisions	-	-	(3 733)	(3 733)
Cotec Development (Pty) Ltd	-	-	-	-
Shares	-	-	-	-
Enerkom	-	-	-	-
Shares	-	-	-	-
Loan	-	-	-	523
Provisions	-	-	-	(523)
Enerkom Products (Pty) Ltd	-	-	1	1
Shares	-	-	1	1
SANERI	-	-	(23 732)	-
Surplus Funds	-	-	(23 732)	-
iGas	-	-	613 995	-
Shares	-	-	-	-
Loan	-	-	637 931	19 873
Provisions	-	-	(23 936)	(19 873)
Mosshold (Pty) Ltd	-	-	-	-
Shares	-	-	196 107	196 107
Loan	-	-	1 986 742	1 986 742
Provisions	-	-	(2 182 849)	(2 182 849)
OPCSA	-	-	-	-
Loan	-	-	18 482	11 745
Provisions	-	-	(18 482)	(11 745)
Petroleum Agency SA	-	-	(132 459)	(91 716)
Surplus funds	-	-	(132 459)	(91 716)
PetroSA	-	-	4 016 680	3 393 471
Shares	-	-	4 674 241	4 674 241
Loan	-	-	219 157	313 230
Surplus funds	-	-	(876 718)	(1 594 000)
SFF	-	-	36	302
Shares	-	-	1	1
Loan	-	-	35	301
Soekor E & P (Pty) Ltd	-	-	2	2
Shares	-	-	2	2
Total	-	-	4 474 523	3 302 060
Shares	-	-	4 870 352	4 870 352
Loans	-	-	2 866 080	2 336 147
Provisions for impairment	-	-	(2 229 000)	(2 218 723)
Surplus funds	-	-	(1 032 909)	(1 685 716)

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

5.2. Analysis of movement in carrying amounts

	Group		Company	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
Soekor E & P (Pty) Ltd				
Shares:				
Balance at the beginning of the year	-	-	2	2
Carrying amount of investment	-	-	2	2
Mosshold (Pty) Ltd				
Loans:				
Balance at the beginning of the year	-	-	1 986 742	1 986 742
Balance at the end of the year	-	-	1 986 742	1 986 742
Less: Impairment provision	-	-	(1 986 742)	(1 986 742)
Shares - Balance at the beginning of the year	-	-	48	48
Share premium - Balance at the beginning of the year	-	-	196 059	196 059
Less: Impairment provision: shares	-	-	(196 107)	(196 107)
Carrying amount of investment	-	-	-	-
PetroSA				
Loans:				
Balance at the beginning of the year	-	-	(1 165 481)	(407 224)
Advances/ (repayments) during the year	-	-	691 084	(642 968)
Balance at the end of the year	-	-	(474 397)	(1 050 192)
Less: proportion repayable in less than 1 year transferred to current assets	-	-	(91 582)	(115 289)
Carrying amount of loan	-	-	(565 979)	(1 165 481)
Shares	-	-	2	2
Balance at the beginning of the year	-	-	2	2
Share premium	-	-	2 755 934	2 755 934
Balance at the beginning of the year	-	-	2 755 934	2 755 934
Share of Equity Earnings	-	-	-	-
Surplus on restructuring	-	-	1 977 751	1 977 751
Loans	-	-	(718 216)	(1 341 339)
Other	-	-	1 210	1 123
Carrying amount of investment	-	-	4 016 681	3 393 471
Current portion of long term loan	-	-	91 582	115 289
Foreign loan	-	-	217 947	312 107
Cash balance on deposit	-	-	(876 718)	(1 594 000)
Other	-	-	1 210	1 123
Total	-	-	(565 979)	(1 165 481)

Included in these loans are amounts reflected under note 17, which reflect amounts borrowed by CEF on behalf of PetroSA.

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

5.2. Analysis of movement in carrying amounts continued

	Group		Company	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
Cotec Patrade (Pty) Ltd				
Loans:				
Balance at the beginning of the year	-	-	3 733	3 938
Advances/ (repayments) during the year	-	-	-	(205)
Balance at the end of the year	-	-	3,733	3,733
Less: Impairment provision	-	-	(3 733)	(3 733)
Carrying amount of investment	-	-	-	-
Enerkom				
Loans:				
Balance at the beginning of the year	-	-	523	1 589
Advances/ repayments during the year	-	-	(523)	(1 066)
Balance at the end of the year	-	-	-	523
Less: Impairment provision	-	-	-	(523)
Carrying value of investment	-	-	-	-
Petroleum Agency SA				
Loans:				
Balance at the beginning of the year	-	-	(91 716)	(47 753)
(Additional deposits)/withdrawals during the year	-	-	(40 743)	(43 963)
Balance at the end of the year	-	-	(132 459)	(91 716)
Carrying amount of loan	-	-	(132 459)	(91 716)
Balance at the end of the year	-	-	(132 459)	(91 716)
Share of Equity Earnings	-	-	-	-
Carrying amount of investment	-	-	(132 459)	(91 716)
iGas				
Loans:				
Balance at the beginning of the year	-	-	19 873	16 747
Advances during the year	-	-	4 063	3 126
Shareholders loan	-	-	613 995	-
Balance at the end of the year	-	-	637 931	19 873
Less: Impairment provision	-	-	(23 936)	(19 873)
Carrying value of loan	-	-	613 995	-
Balance at the end of the year	-	-	613 995	-
Carrying amount of investment	-	-	613 995	-

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FOR THE YEAR ENDED 31 MARCH 2006

5.2. Analysis of movement in carrying amounts continued

	Group		Company	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
OPCSA				
Loans:				
Balance at the beginning of the year	-	-	11 745	11 157
Advances during the year	-	-	6 737	588
Balance at the end of the year	-	-	18 482	11 745
Less: Impairment provision	-	-	(18 482)	(11 745)
Carrying amount of investment	-	-	-	-

CEF has issued a subordination agreement in favour of the creditors of OPCS.

SANERI

Balance at the beginning of the year	-	-	-	-
Surplus funds	-	-	(23 732)	-
Carrying amount of investment	-	-	(23 732)	-

SFF

Loans:				
Balance at the beginning of the year	-	-	301	12
Advances/ repayments during the year	-	-	(266)	289
Balance at the end of the year	-	-	35	301
Shares - Balance at the beginning of the year	-	-	1	1
Carrying amount of investment	-	-	36	302

Notes to the annual financial statements

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5.3. Detail of subsidiary companies

Name and nature of business	Issued capital R'000	% held 2006	2005	Voting power % 2006	2005	Net income after tax 2006 R'000	2005 R'000
Direct subsidiaries							
SANERI							
To undertake research and technology development in order to exploit and utilise the energy resources of the Republic and Southern Africa	-	100	-	100	-	207	-
OPCSA							
Containing and countering oil pollution	-	100	100	100	100	(6 494)	25 483
Cotec Development (Pty) Ltd							
Dormant	-	100	100	100	100	-	-
Cotec Patrade (Pty) Ltd							
Dormant	-	100	100	100	100	-	-
Enerkom							
To be deregistered	-	100	100	100	100	483	1 380
Enerkom Products (Pty) Ltd							
To be deregistered	1	100	100	100	100	-	-
Mosshold (Pty) Ltd							
In liquidation	48	100	100	100	100	-	-
Soekor E & P (Pty) Ltd							
Dormant	2	100	100	100	100	-	-
Petroleum Agency SA							
Acting as an Agent for the State in promoting for and exploration of natural oil and gas in the Republic	-	100	100	100	100	43 744	40 861
iGas							
To promote the diversification of energy usage into hydrocarbon gas and enter into ventures which will facilitate the use of hydrocarbon gas in South Africa	-	100	100	100	100	(22 367)	(3 174)
SFF							
Management of strategic stocks of crude oil in accordance with ministerial directives	1	100	100	100	100	82 631	91 598
PetroSA							
Exploration for and production of oil and gas, refining operations converting gas and gas condensate to liquid fuels, and the production of petrochemicals	2	100	100	100	100	2 765 348	1 736 711

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

5.3. Detail of subsidiary companies continued

Name and nature of business	Issued capital R'000	% held		Voting power %		Net income after tax	
		2006	2005	2006	2005	2006 R'000	2005 R'000
Indirect subsidiaries							
African Exploration Mining and Finance Corporation (Pty) Ltd							
Owns servitude rights	4	100	100	100	100	-	-
Klippoortje Koolmyne (Pty) Ltd							
Owns property and mineral rights	1 300	100	100	100	100	-	-
Mahnes Areas (Pty) Ltd							
Owns property and mineral rights	-	100	100	100	100	-	-
PetroSA Europe BV							
Management of PetroSA product stock sales in Europe	166	100	100	100	100	-	509
PetroSA Brass (Pty) Ltd							
Management of investments in Nigeria	-	100	-	100	-	-	(145)
PetroSA Gryphon							
Marin Permit (Pty) Ltd							
Managed PetroSA hydrocarbon interests	-	100	-	100	-	-	-
PetroSA Iris (Pty) Ltd							
Managed PetroSA hydrocarbon interests	-	100	-	100	-	-	-
PetroSA Nigeria Limited							
Investment holdings in companies having interests in petroleum prospecting, explorations and production	1 235	100	100	100	100	-	90
PetroSA Themis (Pty) Ltd							
Managed PetroSA hydrocarbon interests	-	100	-	100	-	-	-
PetroSA Synfuel International (Pty) Ltd							
Management Gas-to-liquids project	501	100	100	100	100	-	-
PetroSA Equatorial Guinea (Pty) Ltd							
Managed PetroSA hydrocarbon interests	-	100	-	100	-	-	-
PetroSA Sudan (Pty) Ltd							
	-	100	-	100	-	-	-
PetroSA (Namibia) (Pty) Ltd							
	-	100	-	100	-	-	-
						2 863 552	1 893 313

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

6. Investments in associate companies

	Group		Company	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
Baniettor Mining (Pty) Ltd	-	-	-	-
Sud-Chemie Zoelites (Pty) Ltd	7 384	7 633	7 633	7 633
PetroWorld Limited	48	48	-	-
Rompco	624 462	-	-	-
GTL.F1 AG	23 490	-	-	-
	655 384	7 680	7 633	7 633

6.1. Carrying amount of investment in Baniettor Mining (Pty) Ltd

49 000 Shares at cost (49% holding)	98	98	98	98
Loans to associate	23 936	25 048	23 936	25 048
Total investment in associate company	24 034	25 146	24 034	25 146
Less: Provision for impairment	(24 034)	(25 146)	(24 034)	(25 146)
	-	-	-	-

Summary financial information of Baniettor Mining (Pty) Ltd:

Assets	June 2005 R'000	June 2004 R'000
Non current	2 200	2 200
Current	1 729	1 493
	3 929	3 693
Equity and liabilities		
Equity and reserves	(45 495)	(45 544)
Non current liabilities	48 844	48 844
Current liabilities	580	393
	3 929	3 693
Revenue	115	108
Profit	49	173

The directors' valuation of the investment in the company is Nil.

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

	Group		Company	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
6.2. Carrying amount of investment in Sud-Chemie Zeolites (Pty) Ltd				
30% interest in unlisted shares of Sud-Chemie Zeolites (Pty) Ltd, a company involved in the production of catalysts.				
Shares at cost	7 633	7 633	7 633	7 633
Equity earnings	(249)	-	-	-
	7 384	7 633	7 633	7 633

The assets, liabilities and results of operations of the company are summarised as follows:

Assets	Dec 2005 R'000	Dec 2004 R'000
Non current	25 878	15 751
Current	15 563	17 897
	41 441	33 648
Equity and liabilities		
Equity and reserves	35 550	29 644
Non current liabilities	3 942	1 655
Current liabilities	1 949	2 349
	41 441	33 648
Revenue	20 824	23 494
Profit	(945)	4 271

The director's valuation of the investment in the company is R7.6 million (2005:R7.6 million)

	Group		Company	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
6.3. Carrying amount of investment in PetroWorld Limited				
Shares at cost	48	48	-	-

PetroSA has a 50% interest in the unlisted shares of PetroWorld Limited, a joint venture formed with Transworld Exploration Limited.

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

	Group		Company	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000

6.4. Carrying amount of investment in Rompco

25% interest in unlisted shares of Rompco. Rompco owns the natural gas pipeline from the Temane/Pande gas fields in Mozambique to Secunda in South Africa.

Carrying value of investment:

Shares at cost	595 287	-	-	-
Equity earnings	29 175	-	-	-
	624 462	-	-	-

Summary financial information of Rompco

Assets

Non current	3 273 396	-	-	-
Current	506 196	-	-	-
	3 779 592	-	-	-

Equity and liabilities

Equity and reserves	153 325	-	-	-
Non current liabilities	3 309 245	-	-	-
Current liabilities	317 022	-	-	-
	3 779 592	-	-	-

Revenue	435 466	-	-	-
Net Profit	116 701	-	-	-

The financial year end of the associate is 30 June 2006

6.5. Carrying amount of investment in GTL.F1 AG

37% interest in unlisted shares of GTL.F1 AG, a company incorporated in Switzerland.

Carrying value of investment:

Shares at cost	23 490	-	-	-
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Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

	Group		Company	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
7. Assets pending determination				
Balance at the beginning of the year	180 656	158 810	-	-
Expenditure	37 153	21 261	-	-
Exchange difference capitalised	-	585	-	-
Transfer to fixed assets	(163 016)	-	-	-
Balance at end of the year	54 793	180 656	-	-

Assets pending determination at 31 March 2006, consist of expenditure in respect of exploration activities, which has been initially capitalised pending a determination of the economic reserves.

Statements of recommended practice (SORP) recommend that intangible assets of this nature should be recognised or written off as production assets after a period of 3 years.

8. Deferred expenditure

8.1. Deferred abandonment costs

Balance at beginning of year	536 796	801 846	-	-
Change in estimate of reserve quantities	-	(5 897)	-	-
Additional abandonment costs	-	13 080	-	-
Transfer to property, plant and equipment	(536 796)	(272 233)	-	-
Balance at end of year	-	536 796	-	-

Deferred expenditure relates to the provision for abandonment costs and is amortised on a unit of production basis over the expected useful life of the reserves. The Minerals Act of 1991 requires that amounts for abandonment be set aside as prescribed in the Act. The abandonment fund requirement has been met through the issue of a guarantee in favour of the Department of Minerals and Energy.

9. Inventories

The amounts attributable to the different categories are as follows:

Trading inventory	460 999	265 974	-	-
Consumable stores, spares and catalysts	516 135	511 858	-	-
Less: Provision for write-off	(215 862)	(159 242)	-	-
Commercial crude oil	78 262	73 127	-	-
	839 534	691 717	-	-

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

	Group		Company	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
10. Trade and other receivables				
Trade receivables	787 128	771 427	1 246	3 889
Sundry receivables	263 487	49 680	20 707	14 934
Deposits	717	744	282	282
VAT	4 012	25 056	-	-
Prepayments	99 756	98 230	517	88
	1 155 100	945 137	22 752	19 193

11. 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 balance sheet comprise the following:

Short-term investments in money

market and cash on hand	11 813 156	8 836 670	1 170 612	1 001 829
PetroSA Surplus Funds	-	-	876 718	1 594 000
SANERI	-	-	23 798	1 709
Road Accident Fund*	-	-	5	5
Upstream Training Trust*	-	-	11 112	13 829
MEETI*	-	-	342	734
Solar Cooker Project*	-	-	-	12
Solar Water Heaters Project*	-	-	-	2 761
Petroleum Agency SA	-	-	132 459	91 706
SFF Accounts (US\$)	413 969	343 041	-	-
Balance at end of year	12 227 125	9 179 711	2 215 046	2 706 585

Cash invested on behalf of third parties.

12. Strategic inventory

Crude oil at cost	2 051 869	2 052 327	-	-
Provision for unpumpable inventory	(23 813)	(23 813)	-	-
	2 028 056	2 028 514	-	-

Strategic crude oil on hand is 10 535 million barrels (2005: 10,323 million barrels), excluding unpumpable stock.

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

	Group		Company	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
13. Loans receivable				
Forest Oil Gryphon Marine	1 603	1 603	-	-
Lurgi	60 701	51 090	-	-
Transfer to current assets	-	(2 022)	(91 582)	(115 289)
	62 304	50 671	(91 582)	(115 289)

The loan to Forest Oil Gryphon Marine is interest free.

The amount owing by Lurgi is 2006: R 121 million (2005: R51 million), which is in respect of a purchase of 12.5% share in the PetroSA Statoil Joint Venture. The loan accrues interest at EUROBOR + 3%.

14. Other Investments

Balance at beginning of year	2 613	-	2 613	-
Movement during the year:				
Torbanite/Low smoke Fuel project	7 829	2 613	7 829	2 613
Coega Integrated Project	1 538	-	-	-
Balance at end of year	11 980	2 613	10 442	2 613

15. Issued capital

Authorised				
100 Ordinary shares of R1 each	-	-	-	-
Issued				
1 Ordinary share of R1	-	-	-	-

16. Non-distributable reserve

Revaluation reserve	32 802	37 424	150 755	150 755
	32 802	37 424	150 755	150 755
Balance at beginning of year	39 217	45 714	150 755	150 755
Movement during year:				
Transfers back to net profit	(6 415)	(8 290)	-	-
Balance at end of year	32 802	37 424	150 755	150 755

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

	Group		Company	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
17. Interest bearing borrowings				
All the US dollar loans below are secured by a guarantee from the State.				
Instalments of 3 658 178 USD made 6 monthly at an interest rate of 5.11% (2005: 3.19%). Final instalment 09/2008	113 330	159 984	113 330	159 984
Instalments of 3 097 879 USD made 6 monthly at an interest rate of 5.28% (2005: 3.43%). Final instalment 08/2010	149 802	189 759	149 802	189 759
Instalments of 3 672 520 USD made 6 monthly at an interest rate of 6.03% (2005:4.18%). Final instalment 08/2006	22 755	68 833	22 755	68 833
Instalments of 2 456 286 USD made 6 monthly at an interest rate of 5.11% (2005:3.19%) commencing on 15 March 2004. Final instalment 09/2010	136 972	168 805	136 972	168 805
Caylon/iGas - Final instalment 6 July 2010 with an option to extend for a further 5 years at an interest rate of 7.9380%	311 725	-	311 725	-
	734 584	587 381	734 584	587 381
Less: Current portion included in current portion of interest bearing borrowings	(136 914)	(160 999)	(136 914)	(160 999)
	597 670	426 382	597 670	426 382

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

18. Provisions

Group	Carrying amount at beginning of year R'000	Additional provisions R'000	Used during the year R'000	Unused amounts reversed during the year R'000	Current year interest expense and change in estimate R'000	Carrying amount at end of year R'000
Abandonment	2 583 943	-	-	-	(160 564)	2 423 379
Environmental rehabilitation	63 334	14 684	-	-	-	78 018
Post-retirement medical aid benefits	163 834	45 073	(11 343)	(25)	-	197 539
	2 811 111	59 757	(11 343)	(25)	(160 564)	2 698 936

Company	Carrying amount at beginning of year R'000	Additional provisions R'000	Carrying amount at end of year R'000
Post-retirement medical aid benefits	2 478	42	2 520

Abandonment provision

The total cost of future abandonment expenditure is estimated at R3 766 million. This cost includes the net expenditure to abandon and rehabilitate both the onshore and offshore facilities as well as other related closure costs. The costs are expected to be incurred as follows:

	<u>Rm</u>			
2007	304			
2008	539			
2009	192			
2010	210			
2011	229			
2012	250			
2013	2042			
		Group	Company	
		2006 R'000	2005 R'000	2006 R'000
Non-current		2 691 730	2 804 115	2 520
Current		7 206	6 996	-
		2 698 936	2 811 111	2 520

Notes to the annual financial statements

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19. Employee benefits

It is the policy of the group to provide retirement benefits for all of its eligible permanent employees. All eligible permanent employees are either members of the Mossgas Pension Fund, a defined benefit fund, PetroSA Retirement Fund, a defined contribution fund, a defined contribution provident fund previously operated by Soekor E and P (Pty) Ltd or to the CEF Pension Fund.

19.1 Pensions and Retirement Funds

19.1.1 Defined benefit pension plan

The CEF operates defined benefit retirement plans for the benefit of all employees. The plans are governed by the Pension Funds Act, 1956 (Act no. 24 of 1956). The assets of the plans are administered by trustees in funds independent of the CEF.

The Mossgas pension fund is closed to new entrants and currently covers 38 (3.1%) of its employees. Contributions to the fund commenced in March 1990. The pension fund is actuarially valued every three years with the most recent actuarial valuation being performed as at 1 February 2004. The independent actuary was of the opinion that the fund was financially sound. The actuarial present value of promised retirement benefits as at 1 February 2004 was R33,61 million. The fair value of the plan assets had an actuarial value of R31,87 million and a market value of R31,87 million as at 1 February 2004, excluding the annuity policy. The value of the annuity policy for pensioners was R15,8 million. The Fund was valued using the "attained age method". It was assumed that investment returns (after taxation and asset management fees) would exceed general salary increases (excluding promotional increases) by some 3.49% per annum over the long term. It was further assumed that if investment returns were 5% per annum in excess of inflation, pensioners would receive fully inflation-linked pensions. Mortality assumptions were in line with standard tables SA56/62 (in service) and PA(90) (in retirement). These assumptions were materially changed from the previous valuation. The reason was that this was a "surplus apportionment valuation" for the purposes of the Pension Funds Second Amendment Act, 2001, and a surplus apportionment valuation requires best estimate assumptions rather than the conservative assumptions used in the 2001 valuation. The amount recognised as an expense during the year under review was R1,6 million (2005: R1,6 million) for the pension fund.

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

19. Employee benefits continued

	2006 R'000	2005 R'000
Defined benefit pension plan		
SFF		
Benefit liability	(3 420)	(3 103)
Benefit asset	15 732	12 274
Benefit asset/(liability) - non-current	12 312	9 171
Movements in the benefit asset / (liability) during the year ended		
At beginning of year	9 171	7 012
Contributions	152	139
Benefit expense	(1 788)	(1 509)
Other	4 777	3 529
At end of year	12 312	9 171
Net benefit expense		
Current service cost	(144)	(163)
Interest cost on benefit obligation	(326)	(376)
Expected return on plan assets	1 227	1 181
Effect of any curtailment	1 561	260
Net benefit expense	2 318	902
Actual plan returns	(5 094)	(2 906)
Assumptions used:		
Investment returns	8.1%	10.0%
Salary increases	6.2%	7.5%
Pension increases	6.2%	7.5%
Discount rate	7.86%	10.0%

19.1.2 Defined contribution pension plan

The group contributions for the year amounted to R47,0 million (2005: R36,821 million). The company contributions for the year amounted to R2.1 million (2005: R1.7 million).

Soekor Retirement Fund

The valuation of the Soekor Retirement Fund as at 1 January 2002 shows a surplus of R34 million, reflecting assets of approximately R81 million and liabilities of approximately R46 million. No contribution was recognised as an expense during the year as all employees were transferred to the PetroSA Retirement Fund. The company is uncertain of the extent of its entitlement to the surplus and has not accounted for its pending finalisation of the actuarial valuation.

PetroSA Retirement Fund

The amount recognised as an expense during the year under review was R43,3 million (2005: R33,1 million) for the retirement fund.

Notes to the annual financial statements

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19. Employee benefits continued

19.2. Medical benefits

Post-employment medical benefits

The CEF contributes to medical aid schemes for retired employees. The liability in respect of future contributions to the schemes in respect of retirees are actuarially valued every three years, using the projected unit credit method.

It is the policy of the group to provide for post retirement medical aid benefits for its eligible employees in accordance with their employment contracts, which stipulates that their employer must continue to fund medical aid contributions after their retirement. Currently the group has provided for an amount of R181,2 million (2005: R157,6 million). The medical costs trend rates used in assumptions for medical aid for the year is 7.5%.

20. Trade and other payables	Group		Company	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
Sundry payables	309 912	306 952	1 013	4 702
Accruals	526 789	204 691	5 996	1 274
Sundry Payables	149 550	102 527	22 771	30 380
Leave pay	22 432	33 138	2 060	1 515
	1 008 683	647 308	31 840	37 871

21. Deferred income				
Deferred income	23 518	-	-	-

This is in respect of government grants received by South African National Energy Research Institute (Pty) Ltd from the Department of Science and Technology to fund future related costs.

22. Forward exchange contracts

Forward exchange contract assets	75	14 379	75	14 379
Forward exchange contract liabilities	-	-	(287)	(2 392)

The foreign exchange contract assets consist of the forward exchange contracts to cover the back-to-back loan with PetroSA. The dollar amount is USD 7 534 083 with a spot rate of 6.2238 and a forward rate of 6.3323.

The foreign exchange contract liability consists of CEF's liabilities for the above back-to-back loan with PetroSA and two other forward exchange contracts which are not back-to-back amounting to USD 25 816 006, with a spot rate of 6.2238 and a forward rate of 6.3431.

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	Group		Company	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
23. Revenue				
Major classes of revenue comprise:				
Crude oil sales and fuel production	7 553 189	6 460 219	-	-
Tank rentals	51 968	42 382	-	-
Royalties	5 715	7 368	-	-
Other	10 900	23 207	-	-
	7 621 772	6 533 176	-	-
24. Interest received				
Investments	820 629	547 287	166 717	207 744
Subsidiaries	-	-	38 171	86 735
	820 629	547 287	204 888	294 479

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

	Note	Group		Company	
		2006 R'000	2005 R'000	2006 R'000	2005 R'000
25. Operating profit					
Operating profit is stated after:					
Income					
Income from subsidiaries					
Interest received		-	-	38 171	86 735
Profit on disposals of property, plant and equipment		18	37 575	-	-
Expenditure					
Auditors' remuneration		4 134	3 953	1 055	899
Audit fee - current year		3 934	1 614	264	146
Prior year		115	2 261	741	721
Expenses		76	44	50	32
Other services		9	34	-	-
Depreciation					
Property, plant and equipment		748 787	1 145 041	2 482	1 096
Impairment losses					
Property, plant and equipment		-	(1 194)	-	-
Amortisation of patents and trademarks		2 396	-	2 396	-
Lease rentals		216 139	67 617	1 434	4 727
Premises		13 368	16 018	1 434	4 727
Motor vehicles		291	50	-	-
Equipment		249	164	-	-
Lease rentals		202 231	51 385	-	-
Loss on disposals of property, plant and equipment		-	-	127	129
Net (profit)/loss on foreign exchange		(90 354)	124 095	4 598	12 978
Increase of stock provision		65 172	8 774	-	-
Employee benefits					
Staff costs		831 552	621 552	28 291	27 388
Directors' emoluments	34	17 612	9 800	4 393	2 207
Consulting fees		7 515	8,733	6 138	7 847
26. Finance costs					
Interest bearing borrowings		122 758	88 417	106 021	207 939
Bank overdrafts and acceptances		9 224	2,121	-	-
Other		1 078	980	1 078	6 015
Subsidiaries		-	-	25 982	-
		133 060	91 518	133 081	213 954

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	Group		Company	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
27. Impairment of investments				
Decrease in provision against loan to Enerkom	-	-	41	1 066
Increase in provision against loan to OPCS	-	-	(6 737)	(588)
Decrease in provision against loan to Cotec Patrade (Pty) Ltd	-	-	-	205
Decrease in provision against loan to Bannietor Mining (Pty) Ltd	1 112	-	1 112	-
Increase in provision against loan to iGas	-	-	(4 062)	(3 127)
	1 112	-	(9 646)	(2 444)
28. Taxation				
28.1. South African normal tax				
Current tax	3 965	42 505	4 156	6 175
Deferred tax				
Current year	(58 068)	(53 886)	(130)	(72)
Prior year adjustments	-	(205)	-	-
	(54 103)	(11 586)	4 026	6 103
Foreign tax	146 904	135 559	-	-
Tax for the year	92 801	123 973	4 026	6 103
28.2. Reconciliation of rate of taxation	%	%	%	%
South African normal tax rate	29.0	30.0	29.0	30.0
Adjusted for:				
Exempt income	-	-	(15.2)	(15.2)
Investment and other allowances	-	-	-	(1.2)
Tax Losses	(10.9)	(10.9)	-	-
Foreign taxation	(15.0)	(13.0)	-	-
Net reduction	(25.9)	(23.9)	(15.2)	(16.4)
Effective rate	3.1	6.1	13.8	13.6

No provision has been made for 2006 taxation for PetroSA as the company has an estimated assessed loss of R3.5 billion available for set-off against future taxable income. No deferred tax asset has been raised as the realisation of the related tax benefits in the foreseeable future is considered improbable. SARS has issued assessments disallowing a portion of the assessed loss amounting to approximately R7.9 billion with respect to the 1999 year of assessment. This disallowance has been disputed by PetroSA as the directors are firmly of the view, having sought professional advice, that the disallowance is incorrect. The matter is under appeal and the court hearing is scheduled for November 2006.

Income tax paid by SFF in a previous period has been viewed as being incorrect. A refund was requested from SARS and a refund assessment has been received. The error has been corrected in the previous period. The tax receivable and associated income and interest received relating to the prior years have been recognised.

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

	Group		Company	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
28.3. SARS for income tax				
Opening balance	81 822	(5 556)	(6 833)	(6 016)
Income tax for the year	92 801	123 974	4 026	6 103
Deferred portion	58 068	53 886	130	72
Payment made	(52 959)	(90 482)	2 756	(6 992)
Balance due to/(from) SARS	179 732	81 822	79	(6 833)
Summary:				
Taxation refund due from SARS	-	(28 303)	-	(6 833)
Taxation owing to SARS	179 732	110 125	79	-
	179 732	81 822	79	(6 833)

29. Notes to the cash flow statement

29.1. Cash receipts from customers

Sales and other revenue	7 747 002	6 704 748	5 759	4 043
Profit on sale of assets	(18)	(37 575)	64	(96)
Movement in trade and other receivables	(209 963)	745 970	(3 559)	16 672
	7 537 021	7 413 143	2 264	20 619

29.2. Cash paid to suppliers / employees

Cost of sales	4 345 671	3 775 527	-	-
Operating costs	1 089 416	1 312 795	59 129	64 113
Movement in inventories	147 359	27 068	-	-
Movement in trade and other payables	(384 895)	284 742	6 031	(5 148)
Non-cash items	(1 098 359)	(1 735 564)	(17 588)	21 788
Realised foreign exchange	(685 497)	(152 152)	3 946	(67 340)
	3 413 695	3 512 416	51 518	13 413

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

	Group		Company	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
29.3. Cash generated by operations				
Net profit before taxation	3 000 596	2 072 195	8 791	18 011
Non cash items:				
Depreciation	748 787	1 145 041	2 482	1 096
Impairment losses	(1 112)	-	9 646	2 444
Foreign exchange adjustment of Subsidiary	(4 622)	(8 290)	-	-
Movement in forward exchange contracts	14 304	(41 670)	12 199	(26 119)
Movement in provisions	(112 175)	225 594	42	239
Profit on disposals of property, plant and equipment	(18)	(37 575)	64	(96)
Amortisation of intangible assets	2 396	-	2 396	-
Movement in reserves	-	1 793	-	-
Exchange differences capitalised (restatement at year end)	1 627	(25 781)	469	2 996
Capitalised expenditure	125 863	(21 846)	-	-
Change in estimate of deferred expenditure	-	(7 183)	-	-
Amortisation of deferred expenditure	536 796	272 233	-	-
Transfer of property, plant and equipment	-	(6 267)	-	-
Transfer of fixed assets	(215 765)	-	-	-
Deferred income tax on foreign Joint Venture	1 150	201 940	-	-
	4 097 827	3 770 184	36 089	(1 429)
Other adjustments:				
Interest received	(820 629)	(547 287)	(204 888)	(294 479)
Finance costs	133 060	91 518	133 081	213 954
Realised foreign exchange loss/(gain)	685 497	152 152	(3 946)	67 340
	(2 072)	(303 617)	(75 753)	(13 185)
Movements in working capital				
Increase in inventories	(147 359)	(27 068)	-	-
(Increase)/decrease in trade and other receivables	(209 963)	745 970	(3 559)	16 672
Increase/(decrease) in trade and other payables	384 893	(284 742)	(6 031)	5 148
	4 123 326	3 900 727	(49 254)	7 206

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

	Group		Company	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
29.4 Increase in investment in Subsidiaries and associates				
29.4.1. Enerkom				
Provision against loan	-	-	(41)	(1 066)
Movement in investment	-	-	(41)	(1 066)
29.4.2. iGas				
Provision against investment	-	-	4 062	3 126
Movement in investment	-	-	4 062	3 126
29.4.3. OPCSA				
Provision against investment	-	-	6 737	588
Movement in investment	-	-	6 737	588
29.4.4. Cotec Patrade (Pty) Ltd				
Provision against investment	-	-	-	(205)
Movement in investment	-	-	-	(205)
29.4.5 Baniettor Mining (Pty) Ltd				
Provision against investment	(1 112)	-	(1 112)	-
Net movement on investment in subsidiaries and associates	(1 112)	-	9 646	2 443

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

	Group		Company	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
Opening carrying amount of loans to group companies:				
Petroleum Agency SA	-	-	(91 716)	(47 753)
SFF	-	-	301	12
PetroSA	-	-	(1 165 481)	(407 223)
	-	-	(1 256 896)	(454 964)
Closing carrying amount of loans to group companies:				
Petroleum Agency SA	-	-	(132 459)	(91 716)
SFF	-	-	35	301
PetroSA	-	-	(565 979)	(1 165 481)
South African Gas Development Company (Pty) Ltd	-	-	613 996	-
SANERI (Pty) Ltd	-	-	(23 732)	-
	-	-	(108 139)	(1 256 896)
Movement in carrying amount of loans	-	-	(1 148 757)	801 932
Net investment in subsidiaries and associates	(1 112)	-	(1 158 403)	799 485
Unrealised foreign exchange differences	-	-	1 158	(28 777)
Cash effect of investments in subsidiaries and associates	(1 112)	-	(1 157 245)	770 708

29.5. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

Cash and cash equivalents	12 227 125	9 179 711	2 215 046	2 706 585
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Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

Company	
2006	2005
R'000	R'000

30. Discontinued operations

30.1. Enerkom

During 2003, the Minister of Minerals and Energy, as recommended by the CEF Board of directors, directed that the company should (with effect from May 2002) terminate funding the operations of Enerkom, and that CEF meet all Enerkom's substantiated financial contractual obligations and creditors in connection with the closure of the company. Most of the company assets have been disposed of.

The results relating to Enerkom are as follows:

Revenue		
Internal	-	-
External	-	1 511
	-	1 511
Operating expenses	-	(131)
Profit from operations	-	1 380
Operating	-	1 066
Net cash (outflow) / inflow	-	1 066

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

	Group		Company	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
31. Contingent liabilities				
31.1. Guarantees				
Department of Minerals and Energy for the Rehabilitation of E-BT/E-AR mining lease	27 100	27 100	27 100	27 100
Eskom for payment of guarantee for electrical supply	9 485	9 485	9 485	9 485
Eskom for payment of guarantee for electrical supply	2 435	2 435	2 435	2 435
Department of Minerals and Energy for rehabilitation of FA mining lease	450 000	450 000	450 000	450 000
ABSA Bank for iGas to acquire a 25% interest in Rompco	380 000	-	380 000	-
Sonatrach & Burlington for PetroSA contract	-	17 962	-	17 962
Bluewater (UK) Limited for PetroSA for a rental contract. (This is an estimate of the liability based on the outstanding rentals)	320 290	812 457	320 290	812 457
Various financial institutions in for housing and motor loans of employees	73 894	98 241	-	-
ABSA Bank for OPCS's Deed of Suretyship	2 000	2 000	2 000	2 000
The group's share of 55% of costs being \$3.356 million would be payable from PetroSA's share of revenues from any future production within the E-P tract, should the tract be successful thus representing a contingent liability	20 792	21 206	-	-
The group has issued guarantees for the rehabilitation of land disturbed by mining on the Sable field, amounting to:	180 000	180 000	-	-
Department of Minerals and Energy for rehabilitation of land distributed by Mining	10	15	10	15
	1 466 006	1 620 901	1 191 320	1 321 454

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

31. Contingent liabilities continued

In addition to the guarantees in respect of the rehabilitation of mining leases issued to the Department of Minerals and Energy, adequate provision for the expected future cost of rehabilitation of these leases has been made.

	Group		Company	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000

32. Commitments

32.1. Capital expenditure

The following capital commitments will be financed through loans and operating cash flows:

Contracted for	1 267 772	-	-	-
Approved by the directors but not contracted for	1 124 319	1 382 931	-	-
	2 392 091	1 382 931	-	-

It is intended to finance this expenditure from internally generated funds and available cash resources.

32.2. Operating leases

PetroSA leases office space at the V & A Waterfront from Victoria & Alfred Waterfront Properties (Pty) Ltd, effective from 1 January 2003. The lease payment was fixed at R583 605 per month, with a 10% escalation per annum. The period of the lease agreement is five years and ends on 31 December 2008, at which time PetroSA has the option to renew the lease for a further five-year period ending 31 December 2013.

CEF leases the office space at 158 Jan Smuts Avenue. The period of the lease is 5 years and 4 months from 1 December 2004 until 31 March 2010.

OPCSA has entered into a property lease for its administrative offices. The non-cancellable lease is for a period of 3 years ending 31 August 2006. Thereafter, an option to renew for a further 2 years exists.

PetroSA Europe BV leases office space at 3011XB Willemswerf, 13th Floor, Boomjes, effective 1 December 2004. The lease payment is fixed at Euro 23,360 per annum, with an inflationary escalation per annum. The period of the lease agreement is five years and ends on 30 November 2009, at which time PetroSA Europe BV has the option to renew the lease for a further five-year period.

	2006 Present value of payments R'000	2005 Present value of payments R'000
Within one year	11 928	9 865
After one year but not more than five years	15 003	15 911
Present value of minimum lease payments	26 931	25 776

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

32.3. Subsidiaries

With OPCSA still in the start-up phase, the annual budget is approved by the CEF board of directors and CEF has agreed to fund OPCSA's operations via a loan account. CEF has signed a subordination agreement with respect to the loan in favour of OPCSA creditors. Furthermore CEF has agreed to cover all of the present liabilities of OPCSA. The subordination agreements will remain in place until such time as the assets, fairly valued, exceed the liabilities of OPCSA.

32.4. Closure of operations

In accordance with a directive from the Minister of Minerals and Energy, the company terminated the operations at its subsidiary Enerkom (Proprietary) Limited.

33. Financial instruments

33.1. Currency risk

CEF undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. The group manages this risk by entering into forward foreign exchange contracts.

Forward foreign exchange contracts

The group enters into forward foreign exchange contracts to buy and sell amounts of various foreign currencies in the future at a predetermined exchange rate. The contracts are matched with the anticipated future cash flows in foreign currencies and are primarily denominated in the currencies of the group's principal markets, the majority of which is the US Dollar.

The group does not enter into foreign currency exchange contracts for speculative purposes.

All local sales of finished products are sold on a foreign currency denominated basis. This leads to a situation where foreign currency inflows exceed outflows, thus creating a natural hedge situation to manage foreign currency exposure. In the event that this natural hedge is not apparent, the group enters into forward foreign exchange contracts to buy and sell specified amounts of various foreign currencies in the future at predetermined exchange rates. The contracts are entered into in order to manage the group's exposure to fluctuations in the foreign currency exchange rates on such transactions.

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

33. Financial instruments continued

The following table summarises by major currency the amounts under forward contracts:

		Group		Company	
		2006 R'000	2005 R'000	2006 R'000	2005 R'000
Forward exchange contracts - asset					
US Dollars	Maturing within 3 months	R 273 018	R -	R -	R -
	Foreign amounts	\$ 43 715	\$ -	\$ -	\$ -
	At an average rate of	R 6.2454	R -	R -	R -
EURO	Maturing within 3 months	R 57 081	R -	R -	R -
	Foreign amounts	EUR 7 555	EUR -	EUR -	EUR -
	At an average rate of	R 7.5554	R -	R -	R -
Forward exchange contracts - liability					
US Dollars	Maturing within 3 months	R 289 739	R 18 286	R -	R -
	Foreign amounts	\$ 46 702	\$ 3 000	\$ -	\$ -
	At an average rate of	R 6.2040	R 6.0954	R -	R -
US Dollars	Maturing within 12 months	R 116 074	R 198 319	R 116 074	R 151 752
	Foreign amounts	USD 18 530	USD 33 350	USD 18 530	USD 25 816
	At an average rate of	R 6.2641	R 5.9466	R 6.2641	R 5.8782

The group is well matched in its currency exposures. Major capital expenditure programs are incurred in foreign currencies, mainly the US dollar or currencies easily converted to US dollars. Term liabilities arising from funds raised to finance new projects are all denominated in US dollars. By the use of customer foreign currency bank accounts, short term mismatches can be avoided. It is seldom necessary therefore to hedge currency exposure risks other than on occasions where rand balances are held in anticipation of settlement of commitment in dollars.

33.2. Forward exchange contracts - asset

Forward exchange contracts	75	14 379	75	14 379
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33.3. Forward exchange contracts - liability

Forward exchange contracts	-	-	287	2 392
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33.4. Credit risk

Financial assets, which potentially subject the group to the risk of non-performance by counterparties and thereby subject the group to concentrations of credit risk, consist primarily of cash and cash equivalents, short-term investments, trade receivables and derivatives. The group's cash equivalents and short-term deposits are placed with high credit quality financial institutions. These institutions are reviewed by the CEF board of directors on a quarterly basis.

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

33. Financial instruments continued

With respect to the foreign exchange forward contracts, the group's exposure is on the full amount of the foreign currency receivable on settlement. The group minimises such risk by limiting the counterparties to a group of major financial institutions with high credit ratings assigned by international credit-rating agencies.

The group's exposure and the credit ratings of its treasury counter-parties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counter-parties. This covers the risk of significant exposure to any individual customer or counterparty. The group does not expect to incur any losses as a result of non-performance by these counterparties.

The carrying amounts of financial assets included in the balance sheet represent the group's exposure to credit risk in relation to these assets. The credit exposure of forward exchange contracts is represented by the net market value of the contracts as disclosed.

33.5. Fair values

The group's financial instruments consist mainly of cash and cash equivalents, trade receivables, investments, trade payables and long-term debt.

As at 31 March 2006 no financial asset was carried at an amount in excess of its fair value and fair values could be reliably measured for all financial assets that are available-for-sale or held-for-trading.

The following methods and assumptions are used to determine the fair value of each class of financial instruments:

Cash and cash equivalents

The carrying amounts of cash and cash equivalents approximates fair value due to the relatively short-term maturity of these financial assets

Trade receivables

The carrying amounts of trade receivables net of provision for bad debt, approximates fair value due to the relatively short-term maturity of this financial asset.

Investments

The carrying amounts of short-term investments approximates fair value due to the relatively short-term maturity of these assets. The fair values of other long-term investments are not materially different from the carrying amounts.

Trade payables

The carrying amounts of trade payables approximates fair value due to the relatively short-term maturity of these legal.

Interest-bearing borrowings

The carrying value of short-term borrowings approximates fair value due to the relatively short-term maturity of these liabilities. The fair values of other long-term borrowings are not materially different from the carrying amounts.

Derivatives

The fair value of foreign exchange forward contracts represent the estimated amounts (using rates quoted by the group's bankers) that the group would pay / receive to terminate the contracts at the reporting date, thereby taking into account the unrealised gains / losses on open contracts.

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

33. Financial instruments continued

33.6. Maturity profile

At least half or more of long-term finance, i.e. more than 3 years (or less in more volatile environments) should be at fixed rates of interest, even though such long-term rates are usually higher than the short-term rates ruling at the time that the long-term rates are negotiated. In mitigating the volatility risk, therefore, at least half of term finance is raised at fixed rates and other commitments will, if strong volatility threatens, be mitigated by the use of forward rate agreements, futures, interest rate options, interest rate swaps, caps, floors and collars.

The maturity profiles of financial assets and liabilities at balance sheet date are as follows:

Fixed interest rate maturing						
Group	Weighted Average Effective Interest Rate %	1 year or less R'000	1 to 5 years R'000	Over 5 years R'000	Non-interest bearing R'000	Total R'000
31 March 2005						
Assets						
Cash	7.34%	9 179 711	-	-	-	9 179 711
Trade Receivables	0.00%	-	-	-	771 427	771 427
Foreign exchange receivables	3.45%	-	-	-	14 379	14 379
Total financial assets		9 179 711	-	-	785 806	9 965 517
Financial						
Trade payables	0.00%	-	-	-	306 952	306 952
Foreign loans	3.38%	160 999	426 382	-	-	587 381
Total financial liabilities		160 999	426 382	-	306 952	894 333
Net financial assets/(liabilities)		9 018 712	(426 382)	-	478 854	9 071 184
31 March 2006						
Assets						
Cash	7.34%	12 227 125	-	-	-	12 227 125
Trade Receivables	0.00%	-	-	-	809 739	809 739
Foreign exchange receivables	3.45%	-	-	-	75	75
Total financial assets		12 227 125	-	-	809 814	13 036 939
Liabilities						
Trade Payables	0.00%	-	-	-	309 912	309 912
Foreign loans	3.38%	136 914	597 670	-	-	734 584
Total financial liabilities		136 914	597 670	-	309 912	1 044 496
Net financial assets/(liabilities)		12 090 211	(597 670)	-	499 902	11 992 443

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

33. Financial instruments continued

		Fixed interest rate maturing					
Company	Weighted Average Effective Interest Rate %	1 year or less R'000	1 to 5 years R'000	Over 5 years R'000	Non-interest bearing R'000	Total R'000	
31 March 2005							
Assets							
Cash	7.34%	2 706 585	-	-	-	2 706 585	
Trade Receivables	0.00%	-	-	-	3 889	3 889	
Foreign exchange receivables	3.45%	-	-	-	14 379	14 379	
Total financial assets		2 706 585	-	-	18 268	2 724 853	
Liabilities							
Trade payables	0.00%	-	-	-	4 702	4 702	
Foreign loans	3.38%	160 999	426 382	-	-	587 381	
Foreign exchange payables	- %	-	-	-	2 392	2 392	
Total financial liabilities		160 999	426 382	-	7 094	594 475	
Net financial assets/(Liabilities)		2 545 586	(426 382)	-	11 174	2 130 378	
31 March 2006							
Assets							
Cash	7.34%	2 215 046	-	-	-	2 215 046	
Trade Receivables	0.00%	-	-	-	1 246	1 246	
Foreign exchange receivables	3.45%	-	-	-	75	75	
Total financial assets		2 215 046	-	-	1 321	2 216 367	
Liabilities							
Trade payables	0.00%	-	-	-	1 013	1 013	
Foreign loans	3.38%	136 914	597 670	-	-	734 584	
Foreign exchange payables	0.00%	-	-	-	287	287	
Total financial liabilities		136 914	597 670	-	1 300	735 884	
Net financial assets/(liabilities)		2 078 132	(597 670)	-	21	1 480 483	

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

33. Financial instruments continued

33.7. Liquidity risk

The group manages liquidity risk through proper management of working capital, capital expenditure and actual vs. forecasted cash flows. Adequate reserves and liquid resources are also maintained.

33.8. Price risk

- Currency risk

The group is exposed to exchange rate fluctuations inherent in the raising of funding on the offshore financial markets, importing of raw materials and spares, and the exporting of finished products and crude oil. The group manages this risk by entering into forward foreign exchange contracts.

- Interest rate risk

Exposure to interest rate risk on liabilities and investments is monitored on a proactive basis. The financing of the group is structured on a combination of floating and fixed interest rates.

- Market risk

External sales and purchases are subject to price and basic risks associated with volume and timing differences. Price risk is mitigated using various operational and financial instruments. Instruments used are liquid and can be traded and valued at any time. The hedge portfolio may consist of exchange-traded options and futures as well as non-exotic over the counter options and swaps. Options, however, are only traded within zero cost collars. The selling prices are hedged using the International Petroleum Exchange (IPE), New York Mercantile Exchange (Nymex), Singapore Monetary exchange (Simex).

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

34. Directors' emoluments

34.1. Directors' emoluments

CEF Year ended	Salary/ Fee R'000	Bonuses and performance payments R'000	Pension contrib. R'000	Other contrib. R'000	Expenses R'000	Compensate for loss of office R'000	Other R'000	Total R'000
31 March 2006								
Executive directors:	2 538	125	109	61	-	-	24	2 857
Ms O Mans	1 082	92	109	61	-	-	12	1 356
Mr M B Damane	1 456	33	-	-	-	-	12	1 501
Non executive directors:	1 129	-	-	-	391	-	16	1 536
Mr A Mjekula*	388	-	-	-	384	-	16	788
Dr Z Rustumjee	140	-	-	-	-	-	-	140
Mrs K Mthimunye	46	-	-	-	-	-	-	46
Ms B Mabuza	230	-	-	-	-	-	-	230
Ms N Mazwai	200	-	-	-	7	-	-	207
Dr P Molefe	125	-	-	-	-	-	-	125
Executive Management:	3 488	231	325	173	-	-	48	4 265
Ms J Jeftha	1 009	80	90	48	-	-	12	1 239
Ms M Joubert	762	70	77	41	-	-	12	962
Mr M Singh	1 107	38	102	54	-	-	12	1 313
Mr A Haffejee	610	43	56	30	-	-	12	751
Year ended								
31 March 2005	4 720	209	-	30	759	-	8	5 726
Executive directors:	1 450	63	-	-	214	-	-	1 727
Non executive directors:	217	-	-	30	225	-	8	480
Executive Management:	3 053	146	-	-	320	-	-	3 519

* Paid directly to employer up to December 2005

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

34. Directors' emoluments continued

PetroSA								
Year ended	Salary/ Fee R'000	Bonuses and performance payments R'000	Pension contrib. R'000	Other contrib. R'000	Expenses allowances R'000	Compensate for loss of office R'000	Other R'000	Total R'000
31 March 2006								
Executive directors:	3 108	1 455	281	125	-	-	104	5 073
S Mkhize	1 725	850	116	67	-	-	54	2 812
N Nika	1 383	605	165	58	-	-	50	2 261

Non executive directors:	1 748	-	-	-	301	-	-	2 049
J N Dlamini	-	-	-	-	20	-	-	20
TO Mokwena	191	-	-	-	33	-	-	224
J Huntley	221	-	-	-	17	-	-	238
A Mjekula	200	-	-	-	23	-	-	223
PS Molefe	364	-	-	-	34	-	-	398
N Gumede	-	-	-	-	25	-	-	25
PPJ Molefe	14	-	-	-	4	-	-	18
T Chikane	256	-	-	-	19	-	-	275
B Figaji	216	-	-	-	4	-	-	220
M Mzimba	37	-	-	-	98	-	-	135
A Nkuhlu	249	-	-	-	24	-	-	273

Executive Management:	4 869	777	391	156	178	-	204	6 575
SM Ramosa	716	-	66	37	70	-	35	924
N Siswana	1 047	362	68	12	-	-	44	1 533
JM Maisela	1 007	-	67	33	-	-	44	1 151
W de Meyer	1 127	415	125	36	-	-	45	1 748
JEP Falbe	972	-	65	38	108	-	36	1 219
S Mehlomaklu	-	-	-	-	-	-	-	-
K Kotsokoane	-	-	-	-	-	-	-	-
L Mkhize	-	-	-	-	-	-	-	-
T Ngcobo	-	-	-	-	-	-	-	-

Year ended								
31 March 2005	7 458	348	740	266	1 614	-	322	10 748
Executive directors:	1 307	126	193	66	396	-	61	2 149
Non executive directors:	555	-	-	-	530	-	-	1 085
Executive Management	5 596	222	547	200	688	-	261	7 514

* Paid directly to employer

** Not for full year

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

34. Directors' emoluments continued

SFF

Year ended	Salary/ Fee R'000	Bonuses and performance payments R'000	Pension contrib. R'000	Other contrib. R'000	Expenses allowances R'000	Compensate for loss of office R'000	Other R'000	Total R'000
31 March 2006								
Non executive directors:	234	-	-	-	-	-	-	234
B Mabuza	51	-	-	-	-	-	-	51
Z Rustomjee	28	-	-	-	-	-	-	28
P Molefe	16	-	-	-	-	-	-	16
N Mazwai	58	-	-	-	-	-	-	58
A Mjekula	81	-	-	-	-	-	-	81

Year ended

31 March 2005	213	-	-	-	-	-	-	213
Non executive directors:	213	-	-	-	-	-	-	213

Petroleum Agency SA

Year ended 31 March 2006

Executive directors:	2 323	331	253	-	47	-	-	2 954
J Holliday	742	217	89	-	-	-	-	1 048
L Madlala	831	114	87	-	3	-	-	1 035
M Xiphu	750	-	77	-	44	-	-	871

Non executive directors:	121	-	-	-	-	-	-	121
A Mjekula	74	-	-	-	-	-	-	74
L Makatini	47	-	-	-	-	-	-	47

Executive Members:	4 883	504	493	-	212	-	-	6 092
D Broad	835	120	84	-	95	-	-	1 134
V Storm	865	121	87	-	1	-	-	1 074
S Mills	793	111	81	-	100	-	-	1 085
I Mclachlan	827	119	84	-	13	-	-	1 043
N Ngabaza	715	33	74	-	3	-	-	825
N Makupula*	462	-	47	-	-	-	-	509
M Mehlomakulu*	386	-	36	-	-	-	-	422

Year ended

31 March 2005	2 043	341	208	-	16	-	-	2 608
Executive directors:	2 043	341	208	-	16	-	-	2 608

* Not for full year

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

34. Directors' emoluments continued

iGas Year ended 31 March 2006	Salary/ Fee R'000	Bonuses and performance payments R'000	Pension contrib. R'000	Other contrib. R'000	Expenses allowances R'000	Compensate for loss of office R'000	Other R'000	Total R'000
Non executive directors:	235	-	-	-	-	-	-	235
Dr Z Rustonjee	105	-	-	-	-	-	-	105
Mr R Boqo	28	-	-	-	-	-	-	28
Mr Y Tenza	102	-	-	-	-	-	-	102
Executive Members:	702	72	-	-	222	-	167	1 163
Dr M de Pontes	702	72	-	-	222	-	167	1 163

Year ended 31 March 2005	1 083	-	-	-	256	-	-	1 339
Executive directors:	971	-	-	-	220	-	-	1 191
Non executive directors:	112	-	-	-	36	-	-	148

OPCSA

Year ended

31 March 2006

Executive directors:	1 228	92	181	-	-	-	12	1 513
Mr P D Coetzee	1 228	92	181	-	-	-	12	1 513

Non executive directors:	301	-	-	-	-	-	-	301
Mr A Mjekula	80	-	-	-	-	-	-	80
Mr M Kajee	77	-	-	-	-	-	-	77
Ms B Mabuza	25	-	-	-	-	-	-	25
Mr T Pillay	51	-	-	-	-	-	-	51
Dr M Madikizela	38	-	-	-	-	-	-	38
Ms M Magadza	30	-	-	-	-	-	-	30

Executive Members:	903	70	-	-	-	-	286	1 259
Mr A Jacobs	449	20	-	-	-	-	186	655
Mr A Engelbrecht	186	15	-	-	-	-	17	218
Mr A Partridge	268	35	-	-	-	-	83	386

Year ended 31 March 2005	2 913	-	-	-	181	-	-	3 094
Executive directors:	1 116	-	-	-	101	-	-	1 217
Non executive directors:	107	-	-	-	42	-	-	149
Executive Members:	1 690	-	-	-	38	-	-	1 728

* Paid directly to employer

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

35. Change in accounting policy

As a result of the adoption of IAS 27, the earnings of subsidiary companies are no longer equity accounted as per paragraph 37. The impact on the company figures were as follows:

	R'000
Decrease in equity earnings of subsidiaries - 2005	1 777 574
Decrease in equity earnings of subsidiaries - 2004	171 197

36. Prior period errors

The investments and corresponding provisions with subsidiaries, Klippoortje Koolmyne (Pty) Ltd and Mahnes Areas (Pty) Ltd have previously been incorrectly stated. This has now been corrected. There was a NIL effect on investments.

Income tax paid in a previous period has been viewed as being incorrect. A refund was requested from SARS and a refund assessment has been received. The error has been corrected in the previous period. The tax receivable and associated income and interest relating to the prior years have been recognised.

Increase in trade and other receivables	21 470
Increase in Gross Revenue	17 553
Increase in Interest Received	3 917
Increase in Retained Earnings	21 470

The PPE revaluation has been transferred to retained earnings in the previous year.

Decrease in Property, plant and equipment revaluation	1 793
Increase in Retained Earnings	1 793

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

37. Related parties

	Group		Company	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
Mosshold (Pty) Ltd				
Loan to	-	-	1 986 742	1 986 742
Enerkom				
Loan to	-	-	40	523
PetroSA				
Loan to	-	-	309 529	427 397
Cash on deposit for	-	-	876 718	1 594 000
Amounts owing to	-	-	-	14
Services rendered	-	-	-	15
Interest received	-	-	81 576	119 567
Interest paid	-	-	25 807	86 760
Amounts due by	-	-	-	380
Recoveries	-	-	-	495
Cotec Patrade (Pty) Ltd				
Loan to	-	-	3 733	3 733
iGas				
Loan to	-	-	23 936	19 873
Services rendered	-	-	442	530
OPCSA				
Loan to	-	-	18 482	11 745
Services rendered	-	-	1 449	646
Petroleum Agency SA				
Loan to/ from	-	-	132 459	91 716
Services rendered	-	-	434	750
SFF				
Loan to/ from	-	-	35	301
Amounts owing from	-	-	271	1 922
Department of Minerals and Energy				
Amounts received	-	-	1 268	186
Baniettoir Mining (Pty) Ltd				
Loan to	24 034	25 048	24 034	25 048
Sud-Chemie Zeolites (Pty) Ltd				
SARS				
Services received/ rendered	-	-	14 686	13 166
SA Post Office				
Services received/ rendered	-	-	783	334
SAA				
Services received/ rendered	-	-	209	381
Trans Caledon Tunnel Authority				
Interest received/ paid	-	-	(655)	(977)
Financial Services Board				
Services received/ rendered	-	-	114	-
Mintek				
Services received/ rendered	-	-	293	-
City of JHB				
Services received/ rendered	-	-	91	73
Road Accident Fund				
Services received/ rendered	-	-	(64)	(70)
Auditor-General				
Services received/ rendered	-	-	1 089	899

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

38. Interest in joint operating agreements

The group's proportionate share in the assets and liabilities of unincorporated joint ventures, which are included in the financial statement are as follows:

	Percentage Holding / Tracts					
2006	55% E-BA R'000	55% E-AG R'000	55% E-AD R'000	55% E-CB R'000	55% E-CN R'000	55% E-DC R'000
Current Assets	31	6	21	95	63	191
Total Assets	31	6	21	95	63	191
Current liabilities - interest free	6	-	22	93	28	-
Retained income	(1 473)	(441)	(226)	(23 172)	(249)	(37 205)
Company contribution to venture	1 498	447	225	23 174	284	37 396
Total liabilities	31	6	21	95	63	191
Revenue	5	-	-	5	2	10
Expenses	23	13	41	580	30	12
Net expenditure	(18)	(13)	(41)	(575)	(28)	(2)
Partners	Pioneer 45%	Pioneer 45%	Pioneer 45%	Pioneer 45%	Pioneer 45%	Pioneer 45%
Nature of project	Exploration	Exploration	Exploration	Exploration	Exploration	Exploration

	Percentage Holding / Tracts					
2006	55% E-CC R'000	55% R'000	22.86% Iris R'000	22.86% Themis R'000	25% Gryphon Marin R'000	25% Block 402d R'000
Production facilities	-	-	-	-	-	-
Current Assets	670	5	-	-	-	-
Total Assets	670	5	-	-	-	-
Current liabilities - interest free	6	-	-	-	-	-
Retained income	(116 763)	(186)	(23 283)	(7 866)	(34 863)	(31 739)
Company contribution to venture	117 427	191	23 283	7 866	34 863	31 739
Total liabilities	670	5	-	-	-	-
Revenue	41	1	-	-	-	-
Expenses	58	7	19 236	2 226	19 716	290
Net expenditure	(17)	(6)	(19 236)	(2 226)	(19 716)	(290)
Partners	Pioneer 45%	Pioneer 45%	Sterling 2.57% Pan Africa 25.71% Gabon Investment 12.86%	Sterling 2.57% Pan Africa 25.71% Gabon Investment 12.86%	Forest 40% Paladin 20% Energy Africa Gabon 15%	Burlington Resources 75%
Nature of project	Exploration	Exploration	Premier 36% Exploration	Premier 36% Exploration	Exploration	Exploration

Notes to the annual financial statements

FOR THE YEAR ENDED 31 MARCH 2006

38. Interest in joint operating agreements continued

2006	Percentage Holding / Tracts					
	55% E-P R'000	60% Sable R'000	55% E-BB R'000	24% Block 2A R'000	24% Block C R'000	55% F-Q R'000
Production facilities	30 670	42 833	12 268	53 812	-	-
Current assets	-	49 983	19	-	-	-
Total Assets	30 670	92 816	12 287	53 812	-	-
Current liabilities - interest free	-	37,281	31	-	-	-
Retained income	(27 068)	(574 487)	(43 883)	(159 120)	(1 790)	(21)
Company contribution to venture	57 738	630 022	56 139	212 932	1 790	21
Total liabilities	30 670	92 816	12 287	53 812	-	-
Revenue	-	140,938	3	-	-	-
Expenses	317	554 488	89	11 386	1 790	21
Net expenditure	(317)	(413 550)	(86)	(11 386)	(1 790)	(21)
Partners	Pioneer 45%	Pioneer 45%	Pioneer 45%	Anschutz 22.8% Forest 53.2%	Anschutz 22.8% Forest 53.2%	Pioneer 45%
Nature of project	Exploration	Production	Exploration	Exploration	Exploration	Exploration
2005						24% Ibhubezi R'000
Production facilities						-
Total Assets						-
Retained income						(364)
Company contribution to venture						364
Total liabilities						-
Revenue						-
Expenses						364
Net expenditure						(364)
Partners						Anschutz 22.8% Forest 53.2%
Nature of Project						Exploration

The company has been involved in production in the Oribi oil field since May 1997. This project was being conducted through the mechanism of a Joint Operating agreement with Energy Africa Bredasdorp (Pty) Ltd which has since ended on the 15 March 2004, as the partner has withdrawn.

Joint venture with Statoil ASA

The company has entered into a 50:50 joint venture with Statoil ASA, the Norwegian State Oil company, to develop GTL-Fisher Tropsch technology and to explore and develop GTL opportunities in Iran and elsewhere. The PetroSA share of assets amounts to R174 million at year-end.

Unaudited supplementary disclosure of reserves

FOR THE YEAR ENDED 31 MARCH 2006

Field in production and under development

	2006 Crude oil/ Condensate MMbbl	2006 Gas Bscf	2005 Crude oil/ Condensate MMbbl	2005 Gas Bscf
Movement in net remaining proved and probable reserve				
At beginning of year	29.90	334.70	16.80	320.70
Revisions of previous estimates	(3.70)	2.60	13.00	84.30
Production	(8.00)	(64.20)	(10.70)	(70.30)
Additions	4.90	80.60	10.80	-
	23.10	353.70	29.90	334.70

Proved and probable reserve by type of field

Fields in production	18.20	273.10	29.90	334.70
Fields under development	4.90	80.60	-	-
	23.10	353.70	29.90	334.70

Reserves by category

Proved	14.00	190.60	16.20	178.60
Proved and Probable	23.10	353.70	29.90	334.70
	23.10	353.70	29.90	334.70

Notes

- Oil
Fields in production and under development comprise the Oribi (80%), Oryx (100%) and Sable (60%) oil fields.
Gas
Fields in production and under development comprise the F-A and F-A Satellite and E-M and E-M Satellite gasfields respectively.
- The reserves disclosed for the 2006 year are net of royalty, and include the Nigerian reserves acquired during 2005.
- 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 working interest basis (100%).
- Oil and gas reserves cannot be measured exactly since estimation of reserves involves subjective judgment and arbitrary determinations and therefore all estimations are subject to revision. The gas reserves reflected above have been determined by an independent surveyor.

Unaudited supplementary disclosure of reserves

FOR THE YEAR ENDED 31 MARCH 2006

6. Definition

6.1. Proved reserves

Oil

Means the amount of petroleum which geophysical, geological and engineering data indicate to be commercially recoverable to a high degree of certainty. For the purposes of this definition, there is a 90% chance that the actual quantity will be more than the amount estimated as proved and a 10% chance that it will be less.

Gas

Means the amount of gas which geophysical, geological and engineering data indicate to be commercially recoverable to a high degree of certainty. For the purposes of this definition, there is a 90% chance that the actual quantity will be more than the amount estimated as proved and a 10% chance that it will be less.

6.2. Proved and Probable reserves

Oil

Means Proved reserves plus the amount of petroleum which geophysical, geological and engineering data indicate to be commercially recoverable but with a greater element of risk than in the case of proved. For the purposes of this definition, there is a 50% chance that the actual quantity will be more than the amount estimated as Proved and Probable and a 50% chance that it will be less.

Gas

Means Proved reserves plus the amount of gas which geophysical, geological and engineering data indicate

to be commercially recoverable but with a greater element of risk than in the case of proved. For the purposes of this definition, there is a 50% chance that the actual quantity will be more than the amount estimated as Proved and Probable and a 50% chance that it will be less.

6.3. Reserves under appraisal

Oil

Comprise quantities of petroleum, which are considered, on the basis of information currently available and current economic forecasts, to be commercially recoverable by present producing methods from fields that have been discovered but which require further appraisal prior to commerciality being established.

Gas

Comprise quantities of gas, which are considered, on the basis of information currently available and current economic forecasts, to be commercially recoverable by present producing methods from fields that have been discovered but which require further appraisal prior to commerciality being established.



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