

SECURING ENERGY SOLUTIONS TO POWER ALL



INTEGRATED ANNUAL  
**REPORT**  
**2021/22**



## ABBREVIATIONS AND ACRONYMS

<b>4IR</b>	Fourth Industrial Revolution
<b>AEMFC</b>	African Exploration Mining and Finance
<b>AFS</b>	Annual Financial Statements
<b>AGSA</b>	Auditor-General of South Africa
<b>BARC</b>	Board Audit & Risk Committee
<b>B-BBEE</b>	Broad-Based Black Economic Empowerment
<b>BBL</b>	Barrel (equals 159 litres)
<b>BCM</b>	Business Continuity Management
<b>BEE</b>	Black Economic Empowerment
<b>BIC</b>	Board Investment Committee
<b>BOPD</b>	Barrels of Oil Per Day
<b>BPS</b>	Basis Points
<b>Bscf</b>	Billions of standard cubic feet
<b>CCE</b>	Cape Cleaner Energy Solutions SOC Limited
<b>CCMA</b>	Commission for Conciliation, Mediation and Arbitration
<b>CEF Act</b>	Central Energy Fund (Act no 38 of 1977) as amended
<b>CEF</b>	CEF SOC Limited
<b>CEO</b>	Chief Executive Officer
<b>CFO</b>	Chief Financial Officer
<b>CGICTPF</b>	Corporate Governance of Information and Communication Technology Policy Framework
<b>CMG</b>	Companhia Mocambicana de Gasoduto
<b>CNG</b>	CNG Holdings
<b>CPI</b>	Consumer Price Index
<b>CSI</b>	Corporate Social Investment
<b>CSP</b>	Concentrated Solar Power
<b>CSR</b>	Corporate Social Responsibility
<b>DEFF</b>	Department of Environment, Forestry and Fisheries
<b>DIFR</b>	A ratio related of an injury per million man-hours worked
<b>DMRE</b>	Department of Mineral Resources and Energy
<b>DOALOS</b>	United Nations Division of Ocean Affairs and Law of the Sea
<b>DPSA</b>	Department of Public Service Administration
<b>DWT</b>	Deepwater TANO Block
<b>EAP</b>	Employee Assistance Programme
<b>EBITDA</b>	Earnings before Interest, Tax, Depreciation, Amortisation, impairment and fair value of assets & liabilities
<b>ECS</b>	Extended Continental Shelf
<b>ECSC</b>	Extended Continental Shelf Claim
<b>EIA</b>	Environmental Impact Assessment
<b>ENH</b>	Empresa Nacional de Hidrocarbonetos
<b>EPD</b>	Energy Projects Division
<b>ER</b>	Employee Relations
<b>ERF</b>	Enterprise Risk Management
<b>ERM</b>	Enterprise Risk Management
<b>EVP</b>	Employee Value Proposition
<b>EXCO</b>	Executive Committee
<b>FEED</b>	Front-end Engineering & Design
<b>FID</b>	Final Investment Decision
<b>FPSO</b>	Floating Production, Storage & Offloading
<b>FTC</b>	Fixed Term Contract
<b>GAAP</b>	Generally Accepted Accounting Practice
<b>GCEO</b>	Group Chief Executive Officer
<b>GCFO</b>	Group Chief Financial Officer
<b>GDP</b>	Gross Domestic Product

## ABBREVIATIONS AND ACRONYMS

<b>GiT</b>	Graduate-in-training
<b>GJ</b>	Gigajoule
<b>GMP</b>	Gas Master Plan
<b>GNGC</b>	Ghana National Gas Company
<b>GNPC</b>	Ghana National Petroleum Corporation
<b>GRC</b>	Governance, risk management and compliance
<b>GRI</b>	Global Reporting Initiative
<b>GTA's</b>	Gas Transportation Agreements
<b>GTL</b>	Gas-to-Liquid
<b>GTLR</b>	Gas-to-Liquids Refinery
<b>HPO</b>	High Performance Organisation
<b>HR</b>	Human Resources
<b>HSEC</b>	Health, Safety, Environment and Community
<b>IAS</b>	Internal Audit Services
<b>IEA</b>	International Energy Agency
<b>IEP</b>	(National) Integrated Energy Plan
<b>IFRS</b>	International Financial Reporting Standards
<b>iGAS</b>	The South African Gas Development
<b>IIA</b>	Institute of Internal Auditors
<b>IIRC</b>	International Integrated Reporting Council
<b>IPG</b>	International Partners Group
<b>IPP</b>	Independent Power Producers
<b>IPPO</b>	Independent Power Producers Office
<b>IR</b>	Integrated Reporting (Framework)
<b>IRP</b>	Integrated Resource Plan
<b>JETP</b>	Just Energy Transition Partnership
<b>King III</b>	King III Report on Corporate Governance
<b>KPIs</b>	Key Performance Indicators
<b>LFT</b>	Long-Fibre thermoplastics
<b>LNG</b>	Liquid Natural Gas
<b>LPG</b>	Liquefied Petroleum Gas
<b>Mb/d</b>	Million Barrels per day
<b>MMbbls</b>	Million Barrels
<b>MMbtu</b>	Million British Thermal Units
<b>MoI</b>	Memorandum of Incorporation
<b>MPRDA</b>	Mineral and Petroleum Resource Development Act, 2002 (Act of 2002)
<b>MTEF</b>	Medium Term Expenditure Framework
<b>MW</b>	Mega watt
<b>NDP</b>	National Development Plan
<b>NEAP</b>	National Economic Active Population
<b>NEMA</b>	National Environmental Management Act
<b>NERSA</b>	National Energy Regulator of South Africa
<b>NMBM</b>	Nelson Mandela Bay Metro
<b>NNPC</b>	Nigerian National Petroleum Corporation
<b>NOC</b>	National Oil Company
<b>NPA</b>	National Ports Authority
<b>NT</b>	NT Energy Corporation Limited
<b>NUM</b>	National Union of Mineworkers
<b>Nymex</b>	New York Mercantile Exchange
<b>OKR</b>	Objectives and Key Results
<b>OPCSA</b>	Oil Pollution Control South Africa
<b>PAMC</b>	Project Appraisal and Monitoring Committee

## ABBREVIATIONS AND ACRONYMS

<b>PAMDC</b>	Pan African Mineral Development Company Proprietary Limited
<b>PASA</b>	South African Agency for Promotion of Petroleum Exploration and Exploitation SOC Limited
<b>PAT</b>	Project Appraisal Team
<b>PCE</b>	Portfolio Committee on Energy
<b>PDD</b>	Project Design Document
<b>PDI</b>	Previously Disadvantaged Individuals
<b>PetroSA</b>	The Petroleum Oil and Gas Corporation of South Africa SOC Limited
<b>PFMA</b>	Public Finance Management Act (Act No 1 of 1999) as amended
<b>PGL</b>	PetroSA Ghana Limited
<b>PPA</b>	Power Purchase Agreement
<b>PPE</b>	Personal Protective Equipment
<b>PV</b>	Photovoltaic
<b>PwD</b>	Persons with Disabilities
<b>REEP</b>	Renewable Energy and Energy Efficiency Partnership
<b>REIPP</b>	Renewable Energy Independent Power Producer
<b>RENAC</b>	Renewable Energy Academy
<b>RES</b>	Renewable Energy Sources
<b>ROIC</b>	Return on invested capital
<b>ROMPCO</b>	Republic of Mozambique Pipeline Investments Company
<b>SADC</b>	Southern African Development Community
<b>SAMSA</b>	South African Maritime Safety Authority
<b>SANEDI</b>	South African National Energy Development Institute
<b>SANERI</b>	South African National Energy Research Institute
<b>SANPC</b>	South African National Petroleum Company
<b>SAPIA</b>	South African Petroleum Industry Association
<b>SARS</b>	South African Revenue Services
<b>SDA</b>	Swiss Development Agency
<b>SFF</b>	Strategic Fuel Fund Association
<b>Simex</b>	Singapore Monetary Exchange
<b>SLA</b>	Service Level Agreement
<b>SOC</b>	State Owned Company
<b>SOE</b>	State Owned Enterprise
<b>SOS</b>	SOS Children Village
<b>SPA</b>	Sales and Purchase Agreement
<b>STEM</b>	Science, Technology, Engineering and Mathematics
<b>STIP</b>	Short-Term Incentive Policy
<b>SWH</b>	Solar Water Heater
<b>TEN</b>	Twenboa-Enyenra-Ntomme (TEN)
<b>TFST</b>	Thin Film Solar Technology
<b>TMC</b>	Talent Management Committee
<b>TNPA</b>	Transnet National Ports Authority
<b>ToR</b>	Terms of Reference
<b>UNDP</b>	United Nations Development Programme
<b>UTT</b>	Upstream Training Trust
<b>VAT</b>	Value Added Tax
<b>VDI</b>	Virtual Desktop Infrastructure
<b>VLCC</b>	Very Large Crude Carrier
<b>WCTP</b>	West Cape Three Points Block
<b>WIL</b>	Work Integrated Learning



*The CEF Group RESET seeks to determine short to medium sustainable adjustments that are necessary to adapt and be effective in the midst of severe shifts by external and internal forces, business operations impact and disrupted systems. It is about control levers to deliver on our vision and drive results. RESET considers organizational strategy, effective operating models and resources as well as enablers to guarantee success.*

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# ABOUT THIS REPORT

## About this report

The CEF Group integrated report provides our Shareholder and Stakeholders with information pertaining to the Group's strategic trajectory, business model, strategic initiatives, operating environment context, material risks and opportunities, as well as governance and operational performance for the period 2020 to 2021. This information is vital in the assessment on how we create value for our Shareholder and strategic partners as a Schedule 2 entity that has a commercial viability and developmental dual mandate.

## Reporting Frames

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

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

## Reporting Boundary

Our integrated report provides an overview of the business performance for the financial period April 2021 to March 2022 of the CEF Group across the entire value chain as Schedule 2 State-owned Entity (SoE). It must be noted that Associates and joint ventures are equity accounted and, thus, not included in consolidated non-financial data. The consolidated data incorporates all entities that make up the CEF Group and are controlled by the holding Company CEF SOC from a consolidation perspective. The financial and non-financial information provided is aligned to the same financial reporting period, allowing for comparison of performance data. Various disclosures are made in the respective sections in the report. The CEF Group consolidated financial statements are prepared in line with IFRS

## Our Approach to Reporting

As the implementing arm of the Department of Mineral Resources and Energy (DMRE), the CEF Group on an annual basis contracts with the ultimate Shareholder via an outcomes-based Shareholder's Compact. This process enables for more effective monitoring and evaluation of the Group's performance in delivering on our mandate and strategic objectives. This is in line with the Group's adopted Objectives and Key Results (OKR) mythology that underpins our performance management framework. The Shareholder's

Compact specifies key performance areas from a commercial and developmental perspective and how we support the shareholder towards the delivery of broader government strategic initiatives. This approach informs the CEF Group's Corporate Plan and integrated reporting by focusing on achieving our strategic objectives and value add. It provides a pragmatic approach to success by outlining what outcomes we expect to achieve, key inputs, processes and outputs in a focused manner that are aligned to the National Development Plan (NDP).

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

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

## Determining Materiality

This report provides information on all matters that we believe substantively impact value creation activities of the CEF Group. The report is written primarily for the Shareholders and affected stakeholders in Government and energy sector and those that provide the Group with key resources that support the delivery of our strategic objectives. The report enables



## ABOUT THIS REPORT (CONTINUED)

interested stakeholders and potential strategic partners who wishes to make an informed assessment of the Group's ability to enhance value creation. In the belief that all the information in this report is material, we do not seek to provide a simple listing of material issues. To identify and prioritise the matters for inclusion in this report, we undertook a structured process involving senior decision-makers from across the CEF Group.

### Assurance

The CEF Board, with the support of the audit committee and management is ultimately responsible for CEF's system of internal control which is designed to identify, evaluate, manage and provide reasonable assurance against material misstatement and loss. We subscribe to a combined assurance model, which seeks to enhance the assurance obtained from management and internal and external assurance providers, while promoting a strong ethical climate and mechanisms to ensure compliance. Our assurance matrix is provided in detail as part of this report. All financial information in this report, together with material non-financial indicators, is independently assured by our external auditors, the Auditor-General of South Africa.

### Board Responsibility

All information and amounts disclosed in the Annual Report is consistent with the annual financial statements audited by the Auditor-General.

The Annual Report is complete, accurate and is free from any omissions.

The Annual Report has been prepared in accordance with the Guidelines on the Annual Report as issued by National Treasury.

The annual financial statements have been prepared in accordance with the standards applicable to the CEF Group.

The accounting authority is responsible for the preparation of the annual financial statements and for the judgements made in this information.

The CEF Board therefore acknowledges its accountability in ensuring the integrity of the integrated report. The directors have collectively assessed the content, and confirm that the report addresses all material issues and fairly represents the integrated performance of the CEF Group.

The Board Audit and Risk Committee (BARC), which has oversight responsibility for integrated reporting, recommended the report for approval by the Board. The Board, considering the completeness of the material items dealt with and the reliability of information presented, and based on the combined assurance process followed, approved the 2021/22 integrated report, annual financial statements and supplementary information on 16 September 2022.

In our opinion, the Annual Report fairly reflects the operations, the performance information, the human resources information and the financial affairs of the entity for the financial year ended 31 March 2022.

Yours faithfully



Group Chairman: Ms A Noah

30 September 2022



Group Audit & Risk Committee: Mr J Besnaar

30 September 2022

*This report should be read in conjunction with the detailed annual financial statements presented on pages 128. This report is a summary of our performance in delivering on the CEF Group's primary mandate as agreed with the Shareholder in the Shareholder's Compact. We are committed to playing a major role in growing the energy sector to be a catalyst for economic growth and poverty alleviation through security of supply and access to affordable energy. As a federation we also have a huge responsibility to support Government's initiatives on economic recovery.*

# STATEMENT OF RESPONSIBILITY AND CONFIRMATION OF THE ANNUAL REPORT



**Dr Ishmael Poolo**  
Group Chief Executive Officer



**Ms. Ayanda Noah**  
Group Chairperson

The CEF Group Chief Executive Officer (GCEO) and Group Chairperson provide assurance that:

The Group consolidated annual financial and non-financial information as well as the full, consolidated annual financial statements fairly present, in all material respects, the Group's financial position, financial performance and cash flows in terms of International Financial Reporting Standards (IFRS).

No material facts were omitted, nor were incorrect statements made that would render the annual financial statements false or misleading.

Internal financial controls were implemented to ensure that material information relating to the Group and its consolidated subsidiaries was provided to effectively prepare its financial statements.

Although our operating environment is complex and diverse, the internal financial controls are adequate and effective and can be relied upon to compile the annual financial statements.

We have fulfilled our role and function within the combined assurance model pursuant to principle 15 of King IV. Where we are not satisfied, we have disclosed the deficiencies in design and operational effectiveness of the internal financial controls. The Group Internal Audit plays a very critical role in dealing with matters pertaining to fraud across the Group as these are reported to the audit committee and the auditors take the necessary remedial action.

Yours faithfully

Group Chief Executive Officer  
Dr I Poolo  
30 September 2022

Group Chairperson  
Ms A Noah  
30 September 2022





# SECTION

**THE YEAR IN REVIEW**

*This report should be read in conjunction with the detailed annual financial statements presented on pages 128. This report is a summary of our performance in delivering on the CEF Group's primary mandate as agreed with the Shareholder in the Shareholder's Compact. We are committed to playing a major role in growing the energy sector to be a catalyst for economic growth and poverty alleviation through security of supply and access to affordable energy. As a federation we also have a huge responsibility to support Government's initiatives on economic recovery*

## BUSINESS PERFORMANCE HIGHLIGHTS

- On the back of a global economy that was emerging from the economic impacts of COVID-19, the current geopolitical events relating to the Russia and Ukraine conflict and associated outcomes has created monumental volatility and uncertainty in the energy sector. It has challenged a number of strongly held assumptions in relation to global stability, trade and security of energy supply and transition with supply chains are being disrupted across many sectors. As the implementing arm of the DMRE, the CEF Group exists to support government's broader strategic objectives in line with the NDP, whilst continuing to play a critical role in enabling economic development.
- The various subsidiaries of the CEF Group focus on their key strategic objectives across the energy sector value chain through the deployment of capital and human resources towards the delivery of our strategic projects and to create value. As a Group that operates across the entire value chain of the energy sector that is characterised by long lead times, capital intensity, high risks and is dominated by major global players, such global and domestic events have a significant impact on our operating environment and value chain bringing both positive and negative outcomes. Some of the key performance highlights for the period are the following:

<b>R366M</b>	<b>15%</b> Acquisition of 15% Sasol shares in ROMPCO making CEF through iGas and the CMG the majority shareholders.
<b>51%</b> Storage tank efficiency rate	<b>0%</b> Production from indigenous gas –GTL Refinery in care and maintenance
<b>14%</b> Gross Profit Margin	Gearing Ratio: 0% interest bearing debt: 100% total equity
<b>1822:</b> The total CEF Group employees across all subsidiaries. This number is down 9% from previous period due to voluntary severance packages and terminations	<b>R6 178 072.51</b> spend towards talent development through various training programmes and Work Integrated Learning (WIL) programmes
<b>15,794</b> SWH units installed in 13 municipalities across SA	<b>R103M:</b> The total cumulative spend to date towards the Solar Water Heater programme which is a social project
6 exploration & 4 renewal rights issued. In support of local exploration initiatives	<b>R77B</b> is the total Group Project pipeline value spanning the entire value chain as part of Portfolio Investment Management

*For a comprehensive overview of the CEF Group business performance for the period under review, this report should be read in conjunction with the detailed annual financial statements on pages 170 to 278. Through this report, the Group highlights business performance against predetermined objectives as outlined in the CEF Group Corporate Plan.*

# CHAIRPERSON'S STATEMENT



**Ms A Noah**  
Group Chairperson

A large spotlight is shining on corporate actions these days, and all stakeholders have growing expectations. A board's involvement in defining purpose helps meet those expectations

The CEF Group Corporate Plan acts as our North Star in directing and marshalling the Group's resources towards the achievement of a common set of objectives as we navigate through internal and external forces that shape our operating environment. In our previous Integrated Annual Report, we spoke enthusiastically about the execution of a number of strategic initiatives in line with the CEF Group strategic trajectory. This was based on the positive global economic recovery sentiments following the negative effects of COVID-19 which had shackled growth. However, the recent global developments have created a lot of uncertainty in global markets and in our operating environment as the CEF Group.

While global uncertainty itself isn't new, the speed and impact of the change is faster than ever before. Rapid geopolitical transition, new technological evolution and energy transition, economic and business model disruptions, socio-demographic shifts, and climate change in our operating environment have heightened the level of uncertainty and its relentless complexity. The Russia-Ukraine conflict has upended all short- and medium-term global macroeconomic assumptions, plunged Europe into an energy crisis and sent shockwaves throughout the world. It is having a capacious impact on the global supply chain, impeding the flow of goods, fueling dramatic cost commodity increases and product shortages which have resulted in burgeoning inflation rates across the globe. We are seeing a rise in energy commodity prices that is bound to have long-term effects on many economies.

As a result, the global energy sector and businesses as a whole are operating under increasing levels of pressure never experienced before with little headroom for short-

term options. As a consequence, the number of board strategic decisions required are growing in response to both the rate of change and the broadening range of complex issues. In the face of this uncertainty, the CEF Group cannot afford to wait for headwinds to change. We are required to play a critical role in supporting Government's broader strategic objectives as outlined in the NDP as well as the CEF mandate in ensuring security of energy supply.

During the 2021/22 financial year there were a number of significant events that took place that had a major impacted the domestic economy and had a direct impact on our operating environment.

- The impact of South Africa's deadly July 2021 social unrest that left over 350 people dead and caused massive economic damage left many social scars with seeds of growing discontent on the back of high employment and an economy that is restrained by power generation challenges and not growing fast enough.
- South Africa's oil refinery sector underwent significant changes with South Africa's "sub-scale" and aging refinery fleet becoming economically vulnerable in a context of changing demand, supply and environmental dynamics. As such many International Oil Companies are opting to convert these refineries to an import terminal trading model in order to capture trading margins whilst avoiding the investments required for "Clean Fuels 2". This places the country on security of energy supply risk and in time could impact skills and future capabilities.
- The threshold for self-generation power project licenses was increased to 100 MW allowing the private

## CHAIRPERSON'S STATEMENT (CONTINUED)

sector to play a key role in contributing towards power generation and supporting much needed economic growth in South Africa.

These and other key developments point to the strategic role State Owned Enterprises like the CEF Group continue to play in supporting Government to create much needed jobs. They also play a key role during market failures by stepping in to ensure security of energy supply whilst at the same time finding sustainable ways to partner with the private sector to accelerate economic growth.

### Overview of Group Business performance

At the start of the 2021/22 planning period, we had identified four core pillars that underpinned our strategic trajectory. These were around the need to stabilise the CEF Group and improve long term commercial sustainability through better value extraction from operating assets; driving growth and increasing market share through portfolio and income stream diversification; development and acquisition of key energy infrastructure programs in support of the Group Growth agenda; consolidation of business operations and synergy optimisation whilst turning around struggling entities.

However, during the period under review various global economic and domestic forces exacerbated by the developing conflict between Russian and Ukraine, supply chain and the inexorable domestic power challenges raised a number of questions and concerns about long term growth and commercial sustainability of some of our entities.

The CEF Group achieved a moderate aggregate performance **score of 3.69 out of 5.00**. This score reflects satisfactory progress on the delivery against predetermined objectives as outlined in our Corporate Plan with a focus on priority initiatives albeit a difficult trading environment. This underscores the importance of the CEF Board working closely with management to provide strategic guidance, setting targets, overseeing performance, impressing on key achievements the articulation of the desired end state. It is thus that for the period ended March 2022, the CEF Group recorded an increase in revenue of R3.55B and a net profit of R62.6M. We have made incremental progress on the following key initiatives:

**Stabilisation of PetroSA:** To enable and effect seamless decision making a number of key developments were undertaken to stabilise PetroSA. The PetroSA Board was configured with the support of the ultimate Shareholder and strengthened with members from the main board with various governance protocols to maintain independence and empower the configured board to exercise their fiduciary responsibilities. A tripartite War-Room was

set up made up of DMRE, CEF and PetroSA senior representatives to fast track decision making and provide oversight to the various work streams where steady progress has been made in stabilizing the organization. Achieving this stabilisation has also meant that we deal decisively with non-performance resulting in a significant change in management at PetroSA.

**Merger of iGAS, PetroSA and SFF (Strategic Fuel Fund Association):** In December 2021 we successfully completed the legal and commercial independent validation of the proposed merger archetype which came back with positive results as requested by the Cabinet Committee. We have also finalised a number of key deliverables related to the incorporation of the South African National Petroleum Company (SANPC) such as a detailed transition roadmap, transitional governance structures, high level operating model, key contrasts, support services as well as branding in anticipation of Cabinet approval expected during the 2022/23 financial year working closely with the DMRE.

**CEF SOC Repositioning:** the CEF Board approved the repositioning of CEF SOC to play a strategic trilateral role on behalf of the country and the Group. This was guided by the CEF Group parenting strategy, the imminent merger and the rapidly evolving energy landscape. CEF will focus on three core areas of being: (1) A **corporate parent** providing strategic steering, integrated leadership and driving synergies to ensure commercial sustainability of existing business; (2) a **strategic investor** and commercially focused entity, driving growth to maintain a balanced portfolio of energy investments; (3) a **developmental agency** supporting achievement of Government's developmental agenda in line with its investor role and driving tough leadership and innovation.

**Group Growth Agenda and business development:** We continue to make progress on initiatives that drive the Group's long-term commercial sustainability through strategic acquisitions and partnerships. The Group has made significant investments in projects that are expected to provide predictable strong steady returns to strengthen our Balance Sheet. Key among these is CEF's investment in the ACWA Redstone 100 MW Concentrated Solar Power (CSP) plant, and SFF's acquisition of 50% of the BP Terminal in the Western Cape. In addition, our subsidiary, the Petroleum Agency of South Africa (PASA) continues to play a significant regulatory role in unlocking activity both onshore and offshore and attracting key investments into the country to support economic recovery. This has also seen the Board spending a considerable amount of time to approve key Group investments.

## CHAIRPERSON'S STATEMENT (CONTINUED)

### Governance and Oversight

*"In a world of well-defined problems, directors are required to exercise influence over volatility, manage uncertainty, simplify complexity, and resolve ambiguity in the 21st-century digital environment,"* Pearl Zhu.

Whilst actively embracing the principles of King IV, the Companies Act, PFMA and the CEF Act the top three priority responsibilities or objectives of the CEF Board which underpin and define its critical role are:

- 1. High Impact and Value Creation:** The Board devotes significant attention to strategic planning and scenario reviews to understand the business cycles, operating environment, competitive posture, key drivers and resource allocation with a view of creating value.
- 2. Strategic Oversight:** The Board ensures that management executes on the plan and builds the management of the future whilst ensuring there is accountability and sufficient controls as well as oversight of legal and risk contingencies.
- 3. Succession:** The Board guides and coaches the executives to ensure smooth transition and business continuity whilst supporting the evolution of the organisational structures.

Clarity of purpose is core to the CEF Group amid a rapidly changing environment. It is thus that in line with the CEF Group parenting strategy, in December 2021 the CEF Board convened a strategy session with all the boards and management of the entire Group. This was to align on the long-term strategic trajectory of the CEF Group in light of a number of emerging risks and changes in our operating environment. Individual subsidiary corporate plans were stress tested and aligned with the anchoring of the Group's long-term commercial sustainability, growth and diversification.

The boards' role during these strategic planning sessions entailed identifying priorities, establishing goals and objectives, finding resources, and allocating funds to support the decisions that need to be made around the achievement of Group objectives and delivery on our mandate. The boards are also responsible for monitoring the execution of the strategic plans. Through regular monthly performance reporting the respective subsidiaries present their business performance to the CEF Board. The process of oversight is further strengthened by constant engagements at the Chairperson's forum where wide ranging performance related topics are discussed.

This period under review has also seen the various boards working closely with the management teams, initiating a number of consequence management processes to rid the Group of malfeasance and tighten control. This is our way of saying we will not tolerate a culture of impunity in the CEF Group, but we want to focus our efforts and resources in building a high performance organisation. In carrying out our business, we want to build a high performance and a learning culture that is based on ethical and moral behaviour that matches business and community expectations across all areas, and is anchored on our core company values.

### Going Forward

Uncertainty is the underlying theme when it comes to the top concerns in our industry. Geopolitical transition, operational risk and strategic risk remain high on the agenda, along with cyber security and changing business models.

The current prevailing business environment has shown us that the old approach of incremental change and slow processes to agree and approve tweaks to current state will not match the pace of new disruptors challenging the operating environment. Bold and decisive leadership across all levels is going to be required; leadership that builds and inculcates an opportunity and growth mind-set across the federation. This is about how we embrace risk and pursue opportunities guided by our appetite for innovation, and for expected failures along the way.

The CEF Group's organisational agility will need to embrace multiple concept developments concurrently, learn from rapid innovations, empower employees to drive positive change and build strong sensing mechanisms attuned to key stakeholder voices and changes in our landscape. This is what exponential organisations built on continuous improvement and excellence do.

We will have to foster new strategic partnerships and build ecosystems. Building valuable, open relationships across multiple stakeholder groups will build brand trust and CEF Group resilience during difficult times.

As we continue with the delivery of our strategic objectives, we have developed a roadmap anchored on three horizons that will guide key deliverables and targets to be met during each timeline so we can quickly gauge our progress and adjust our plans accordingly.

## CHAIRPERSON'S STATEMENT (CONTINUED)

### Acknowledgements

The period under review was not an easy period and the business performance results have come on the back of a number of sacrifices that were made by people who are committed and dedicated to supporting the economic recovery of our country and ensuring we have healthy and capable state-owned entities.

It is thus that I would like to convey my sincere gratitude to our shareholder, the Honourable Minister of Mineral Resources and Energy, Mr Mantashe and his department, for the leadership, guidance and support you have provided to us which has enabled the CEF Group to deliver on our mandate. We appreciate you taking time out of your busy schedule to make time for strategic discussions and providing much needed direction.

Without the support of the dynamic CEF Board and the Chairpersons of the Board members of subsidiaries we would not have been able to achieve most of the targets we had set ourselves to deliver. Engagements have not always been easy, but you remained steadfast and committed towards the long-term objectives of the CEF Group. Thank for making yourselves available to progress key decisions that were aimed at taking the Group forward.

To the CEF SOC Management, the CEO's and Executives of subsidiaries, thank you for your hard work, and for answering the call when your country needed you the most. It will not be easy but you have shown us that we can rely on you to execute on the audacious goals we have set ourselves as a Group.

To our employees and unions as multiple stakeholders, I would also like to convey my heartfelt thanks for your contributions towards the performance of the CEF Group. At times the decisions may not seem clear, but we ask you to trust the process and support all our efforts for making this organisation a high performance organisation and building a culture of collaboration.

On behalf of the Board, I wish to express gratitude and appreciation to the Group CEO, Dr Poolo for the role you have played in stabilising the Group. There are times when it has not been easy, and you have had to give more of yourself to make things happen. Thank you for resilience, patience and foresight and overall support to me and the CEF Board.

In closing, as we navigate through these uncertain times I would like to end off with a quote; "No matter how bleak or menacing a situation may appear, it does not entirely own us. It can't take away our freedom to respond, our power to take action," Ryder Carrol.

  
Ms A Noah  
Group Chairman

**A** good Board of Directors team is one where ideas are flowing fluidly – and where each idea is met with an initial welcome, an intellectual challenge, an expression of gratitude, a rigorous scrutiny and a readiness for action,

Hendrith Vanlon Smith Jr.pe

# GROUP CHIEF EXECUTIVE'S REPORT



**Dr Ishmael Poolo**  
Group Chief Executive Officer

“Change has a considerable psychological impact on the human mind. To the fearful it is threatening because it means that things may get worse. To the hopeful it is encouraging because things may get better. To the confident it is inspiring because the challenge exists to make things better.”

It is with pleasure to once again present the CEF Group's performance for the 2021/22 financial year against our Corporate Plan and long-term Group Strategy. It has to be noted that the Business Performance took place in a tumultuous financial year as the CEF Group navigated through a number of volatile and unpredictable complexities in our operating environment that were driven by internal and external push and pull factors. Chief amongst these are developing geopolitical tensions, COVID-19 impacts, increasing effects of climate change, rise in inequality, a need for energy transition and the fragile state of the global and local economy.

The post-COVID-19 economic recovery trajectory has been dealt a serious blow by a potentially huge global supply shock that will reduce growth and push up inflation. The conflict in Ukraine and economic sanctions on Russia which supplies around 10% of the world's energy, including 17% of its natural gas and 12% of its oil, have put global energy supplies at risk resulting in a spike in energy prices and other commodities. The jump in oil and gas prices will add to the global costs and reduce consumers' real incomes.

Outright shortages and energy rationing are possible in Europe and higher energy prices and inflation are a given. As a result, Fitch Ratings and the International Monetary Fund (IMF) have slashed their forecast for global economic growth and has cut its world GDP growth forecast for 2022. This reflects the drag from higher energy prices and a faster pace of global interest rate hikes than anticipated in the wake of rising inflation.

Despite these challenges CEF as the implementing arm of the Department of Mineral Resources and Energy

(DMRE), is required to deliver on its mandate, address market failures to ensure security of energy supply, while supporting Government's broader strategic objectives as outlined in the National Development Plan. This expectation comes against the backdrop of an environment that is plagued by global shortage of energy supply, disruptions in supply chains, a domestic electricity crisis in and high inflation in the global economy dampening economic growth.

These challenges also present opportunities for the CEF Group to think creatively in its response to energy security which is essential for the Government's economic recovery and growth ambitions. It is thus that as a Group we have had to intensify our efforts towards the delivery around the four core strategic pillars that encompass commercial sustainability, growth, energy infrastructure program development, synergy optimisation and consolidation of business operations imperatives.

## **Performance for the Financial Year Ending March 2022**

For the period under review, the CEF Group reported a net profit of R62.6 million compared to R540 million profit reported in the prior period. The group performance is mainly due to an increase in operating expenses by 40% (R375 million reversal) which was mainly driven by PetroSA as the reversal of impairment was R1.5 billion in the previous year. This was countered by a 34% increase in revenue, mainly attributable to PetroSA and AEMFC. Operating expenses also increased by 35%, mainly attributable to PetroSA (83% increase, 2022: R2.1 billion, 2021: R1.2 billion). As a result of the above,

## GROUP CHIEF EXECUTIVE'S REPORT (CONTINUED)

the Group reported an EBITDA of R80.4 million (margin: 0.6%) compared to the negative R676 million (margin: -6.5%) in the prior year.

Revenue has increased by 34% compared to prior years. The cash generated from operations improved in the current year compared to the prior year; R822.5 million (inflow) and R5.0 billion (outflow) respectively. This was mainly due to the R5.5 billion payment to the traders in relation to the sale of strategic stock in the prior year.

### Key Trends During the Period Under Review

There were a number of key significant trends and developments that took place during the reporting period that continue to have an impact on our operating environment which the Group monitored on regular basis to ascertain the degree of impact. Some of these were:

**Geopolitics:** The global impact of the Russia & Ukraine conflict on key energy commodities, impact on supply chains and the looming energy crisis in Europe as well as China and the United States' antagonistic stances on issues related to security, economics, technology, and ideology pointing to simmering tensions.

**Covid 19:** COVID-19 lockdowns severely affected supply chains and had a massive impact on the global economy. The global vaccination drive and slowing infections supported global economic recovery as countries eased restrictions.

**Global & Domestic Economy:** The Russia and Ukraine conflict will have dire economic consequences on the global economy and will contribute to a significant slowdown in global growth in 2022 and add to inflation. It is estimated that it will cost the global economy \$2.8 trillion in lost output by the end of next year—and even more if a severe winter leads to energy rationing in Europe.

**Inflation:** A worldwide increase in inflation began to occur due attributed to various causes, including pandemic-related fiscal and monetary stimulus, supply shortages (including chip shortages and energy shortages), price gouging and as of 2022, the Russian invasion of Ukraine. Global inflation forecast to rise to 7.5% by the end of 2022, driven by a number of these factors. Central banks have responded to this by raising interest rates.

**Energy Transition & Climate Change:** Extreme weather conditions in many parts of the world have also inflicted severe human and economic losses and contributed to major gyrations in energy markets. The COP26 international climate conference took place in Glasgow from 31 October to 12 November 2021. The main goal was to secure global net zero by mid-century and keep a maximum of 1.5 C degrees of warming within reach.

**Domestic Energy Crisis:** The South African energy crisis, most notably manifesting in the form of successive rounds of load shedding, continued as electricity supply fell behind electricity demand, threatening to destabilize the national power grid and further dent any prospects of economic recovery.

**Social unrests:** The Covid-19 pandemic has further exposed structural fault lines in the country, such as extreme inequality saw bouts of violence and social unrest pose a risk to economic growth against the backdrop of high unemployment.

**Declining Refinery Capacity:** The declining refining capacity within the country poses critical security of supply challenges. These extend not only to the main white products in the refinery slate (diesel, petrol and jet/kerosene), but also to crucial by-products in the production slate such as bitumen, HFO and lubricants. Importantly, many of the by-products in which local capacity is being lost have important cost implications for infrastructure delivery, cost competitiveness of the mining industry and have extensive forward linkages into other industrial production processes.

### Key Macroeconomic Indicators and Value Chain Elements

The CEF Group keeps a watching brief on a number of key macroeconomic indicators that underpin some of our planning assumptions so we can adjust key plans to suit changes in our operating environment. The Russia and Ukraine conflict has spurred an increase in energy prices that is rippling around the globe, hurting consumers and pressuring world leaders to ease their pain.

#### Crude Oil Prices:

Crude oil then spiked above \$110–120 at the start of the Russia and Ukraine conflict and have come down. Oil prices will remain above \$100/barrel for as long as the conflict rages on with other supply constraints and refining capacity challenges compounding global inflation.

#### Natural Gas:

The Russia's and Ukraine conflict has exacerbated the tightening supply of natural gas underway since mid-2021, further pushing up prices for consumers and leading to fuel switching and demand destruction. It also casts longer-term uncertainty on market prospects for natural gas, especially in developing markets where it was to play a central role in energy transitions. Natural gas demand is expected to decline in 2022 and remain subdued up to 2025 with Europe pursuing various LNG options.

## GROUP CHIEF EXECUTIVE'S REPORT (CONTINUED)

**Coal:** Despite a slowing global economy and lockdowns in China, soaring natural gas prices due to the Russia and Ukraine conflict are propping up the world's use of coal in 2022. The world's consumption of coal is set to rise slightly in 2022, taking it back to the record level it reached nearly a decade ago, according to an IEA report. Based on current economic and market trends, global coal consumption is forecast to rise by 0.7% in 2022 to 8 billion tonnes, assuming the Chinese economy recovers as expected.

**Renewables, Energy Transition:** Renewables will continue to play a critical role in clean energy transitions and support domestic energy challenges. They are responsible for over one-third of the CO<sub>2</sub> emission reductions between 2020 and 2030 under the Net Zero Emissions by 2050 Scenario. Soaring energy prices will likely make renewables more competitive but longer-term, the Russia-Ukraine conflict will actually accelerate the shift towards greener sources of energy in many parts of the world with solar, wind, hydro, geothermal and ocean energy being accelerated.

**Domestic Economy:** Statistics South Africa reported in early-September that the South African economy contracted by 0.7% q-o-q (seasonally adjusted and annualised) during the second quarter of this year. The majority of industries recorded a decline in economic activity due to a combination of factors, including electricity load-shedding, flooding in KwaZulu-Natal, elevated global inflation, disruption in global supply chains due to the Russia and Ukraine conflict, as well as a slowdown in global economic momentum caused by the fallout from this situation. Economic growth is expected to converge at around 1.5% p.a. over the longer term.

**ZAR/USD Exchange Rates:** The South African rand was trading around 14.80 against the US dollar, its lowest since December 2021, amid a stronger dollar on expectations of aggressive monetary policy tightening by the Federal Reserve and the prospect of more severe Western sanctions against Russia. The rand's strengthening trend since the start of last year has stalled at the major level, mainly afflicted by the moderation in commodity prices. The South African Rand is expected to trade at 17.74 by the end of this quarter, according to Trading Economics global macro models and analysts' expectations. Looking forward, the ZAR is expected to trade at 19.10 in 12 months' time with the Russia and Ukraine conflict uncertainty a major factor.

### **Global Economic Outlook:**

Despite a boost in activity as COVID-19 infections drop worldwide and economies remove restrictions, global growth is projected to remain subdued in the second

half of 2022, before slowing further in 2023 to an annual growth of just 2.2%. A key factor slowing global growth is the generalized tightening of monetary policy, driven by the greater-than-expected overshoot of inflation targets.

### **Group strategic trajectory**

The global economy and energy markets are in a period of extraordinary turbulence as the world contends with the global energy crisis and the fallouts from the Russia and Ukraine conflict. The impact of external and internal forces and other key developments have a major impact on our business operations and strategy execution across the entire value chain. This exhorted us to continuously review of plans and to adapt to both internal and external changes.

It is thus that certain adjustments were made to the Group strategic trajectory in line with prevailing global trends to ensure the long term commercial sustainability of the CEF Group. This is mainly driven by the CEF Group mandate and Parenting Strategy. The strategic challenges in our operating environment not only pose risks to our plan but they also present various opportunities that must be exploited to improve the Group's value proposition and support the country's economic recovery and minimize market failures. The process has been redefined with the use of the new value curve that is aimed and driving the Group to focus simultaneously on eliminating and reducing, as well as raising and creating while unlocking a new value. In essence we will be focusing on value preservation and value creation and pivoting to new strategic plays.

Over the planning period, the CEF Group will migrate over three strategic horizons supporting the delivery of the Group's strategic objectives with the view of value creation and improving our value proposition. The first horizon is about Group Reset and realigning the Group with primary focus on stabilisation and portfolio realignment in light of market changes. The Second horizon is about Group Scaling with the primary focus of aggressively driving the Group growth agenda and strategic partnership formations. The last horizon is focus on sustaining the core and optimizing o current Group operating model and portfolio.

The Group strategic roadmap of the 3 horizons articulates clearly defined strategic desired outputs and results, the desired market position and well as key enablers for supporting strategy execution. This is an ambitious plan and we are grateful for the support that management receives from the CEF Board in shaping the long term desired end state of the Group.

# GROUP CHIEF EXECUTIVE'S REPORT (CONTINUED)

## Group Growth agenda Growth

The business development activities extend across different subsidiaries and departments and encompasses a wide scope of ideas, activities, and initiatives such as sales growth, business expansion, and the formation of strategic partnerships with the end objective of creating value. In the financial year under review, subsidiaries advanced their strategic developmental initiatives in line with their corporate plans.

Overall there was sound progress throughout the Group on initiatives that support the Group Growth Agenda through acquisitions and strategic partnerships as we tried to diversify and grow our portfolio. Key notable business development initiatives include the following:

- SFF progressed with the acquisition of 50% of the Fuel Terminal in Montague Gardens and 60% share acquisition of the Avedia LPG Storage facility.
- The ZAR 11.5 billion Redstone CSP Project where CEF is 25% shareholder commenced construction activities in June 2021, expected completion by July '23 and will go a long way in easing current energy challenges.
- CEF is in the process of investing R1 billion for a 10% stake in Tetra4, the Renergen-owned gas producer developing a massive project near Virginia in the Free State which is estimated to be worth over R1 trillion.
- Completion of an additional 15% share acquisition in ROMPCO via IGas. This is a significant milestone by the CEF Group.

## Subsidiary Management & Oversight

### *PetroSA Stabilisation:*

A PetroSA multilateral war room was set up to advance various initiatives for stabilizing and turning around PetroSA. Great progress has been in addressing both the commercial and leadership challenges that have plagued the organization for years. There are a number of positive developments geared towards turning the organization around and bringing the GTL refinery back into production based on technical and commercial solutions being mapped out.

### *The Merger Project:*

Great progress has been made towards the merger project so that the planned South African National Petroleum Company (SANPC) can take advantage of market opportunities worth R95 Billions rands and champions South Africa's energy objectives. We are working very closely with the DMRE to obtain final cabinet approval during the 2022/23 financial year.

## Our people

In order to perform optimally in the ever-evolving energy landscape requires competent and empowered people working safely together across the CEF Group. Our inclusive recruitment, development and remuneration of people is linked to a strategy that seeks to organise our business effectively. We believe that a diverse workforce, and in inclusive caring work environment is essential in improving safety and performance in our business.

Thus, our people are at the core of the work by the CEF Group, they are a critical enabler of the group's execution in its mandate and to sustaining business performance over the long term. Consistent engagement aids in us being able to accelerate people's development, harness talent for its leadership capabilities and drive a high-performance culture aimed at effective achievement of objectives.

## Governance

The executive team is constantly exploring means to improve collaboration with the Board of directors and its subcommittees to drive alignment on group strategy and to ensure effective execution thereof. During the period under review there were a number of processes that were put in place to strengthen governance and control with the support of the Group board structures. Such initiatives will support our long term efforts of improving the organisational reputation and overall performance. As we move to automate a number of our business processes, we will also be streaming a number of governance activities for effective execution and oversight.

## Outlook and Way Forward

COVID-19 and the Russia-Ukraine conflict has challenged the viability of globalization and created significant uncertainty in the energy sector. Russia's "decoupling from the global economy" as a result of the conflict has caused governments and companies to examine their reliance on other nations. Some countries will be focusing on building up their domestic industries, as companies onshore or "nearshore" their operations and energy security will join the energy transition as a top global priority.

As a result there is bound to be certain shifts in global value chains and adoption of new operating models as well as geopolitical realignment. CEF Group will keep an eye on a number of key global developments as we continue to scan the horizon for black swans and any other impacts to the delivery of our strategic plans.

## GROUP CHIEF EXECUTIVE'S REPORT (CONTINUED)

The newly adopted Group strategy was designed to be flexible and adaptive to environmental changes. As we go into the new financial year our focus will continue to be to execute on our strategic objectives, create value for the shareholder and play our part in supporting government's broader strategic initiatives.

In closing, I would like to thank the Group Chairperson Ms Ayanda Noah, the entire CEF Board for their steadfast support to myself and the Group executive teams as we navigate through various complex matters and ensure that the CEF Group continues to execute on its mandate to create value for the Shareholder.

I would also like to recognise the various subsidiary CEOs who have played a significant role and helping us to achieve the noble objectives of the Group. The socioeconomic and energy challenges that the country is facing requires the CEF Group to play a much broader role in alleviating various market failures, attract investments and create much needed jobs. For this to happen we must be relentless with our execution. True success is all about working towards meaningful goals and execution makes all the difference.



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**Dr Ishmael Poolo**  
Group Chief Executive Officer



## CEF GROUP OVERVIEW (CONTINUED)

### Group Values

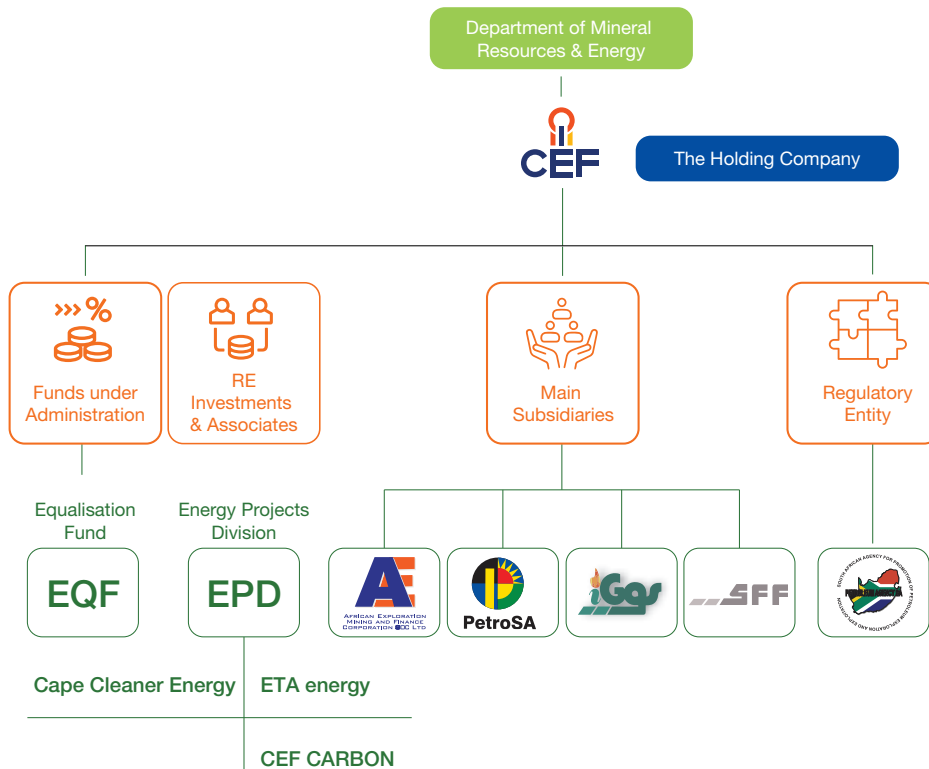
The CEF Group's organizational core values are the guiding principles that provide the federation with purpose and direction. They help the Group manage our interactions with the shareholder and a variety of key stakeholders such as labour Unions, customers and employees. They help to differentiate ourselves from other industry players, guide the leadership teams and employees in their decision-making whilst boosting our chances of achieving our desired end state of becoming a High Performance Organisation. They define how we want the world to see us. The CEF Group core values are:

B – BATHO PELE	We are committed to work together to put people first in ensuring a zero harm, commercially viable business that adds value to the people of South Africa.
R – RESPECT	We are committed to hold all our stakeholders in high esteem and treat them with honour and understanding.
I – INTEGRITY	We are committed to do the right things the right way even if no one is looking, inculcating transparency in the conduct of business, communications in the application of skills, and mobilisation of organisational resources.
C – CONTINUOUS IMPROVEMENT	We are committed to ensure operational excellence, innovation, agility and quality in our opportunity selection, decision-making and service and product delivery.
S – STEWARDSHIP	<p>We are committed to lead in a responsible manner that ensures caring through professionalism, accountability and custodianship that improves value over time.</p> <ul style="list-style-type: none"> <li>• Provide thought leadership in energy policy development and other energy initiatives.</li> <li>• Contribute to security of energy supply (in liquid fuels and gas) and support the deployment of new energy technologies in the country.</li> </ul>

### Group Structure

CEF (SOC) Ltd is the holding company for a number of subsidiaries, which, make up the CEF Group of companies.

Diagram of Group Structure



## CEF GROUP OVERVIEW (CONTINUED)

These subsidiaries operate across the entire energy sector value chain with commercial, regulatory and developmental roles, and supports delivery on the CEF mandate by taking on a number of wide-ranging strategic initiatives. The energy sector supports major industries and plays an influential role in the local and global economy as the world's primary fuel sources. The processes and systems involved in producing and transporting energy sources are highly complex, capital-intensive, and require systems thinking approach. The primary role of our entities is to create value for the Shareholder, drive the advancement of national objectives in the oil and gas industry, and contribute to energy security of supply whilst supporting Government's overall strategic intent in line with the NDP. Our value chain can be best described

as having four distinct areas of operation, namely:

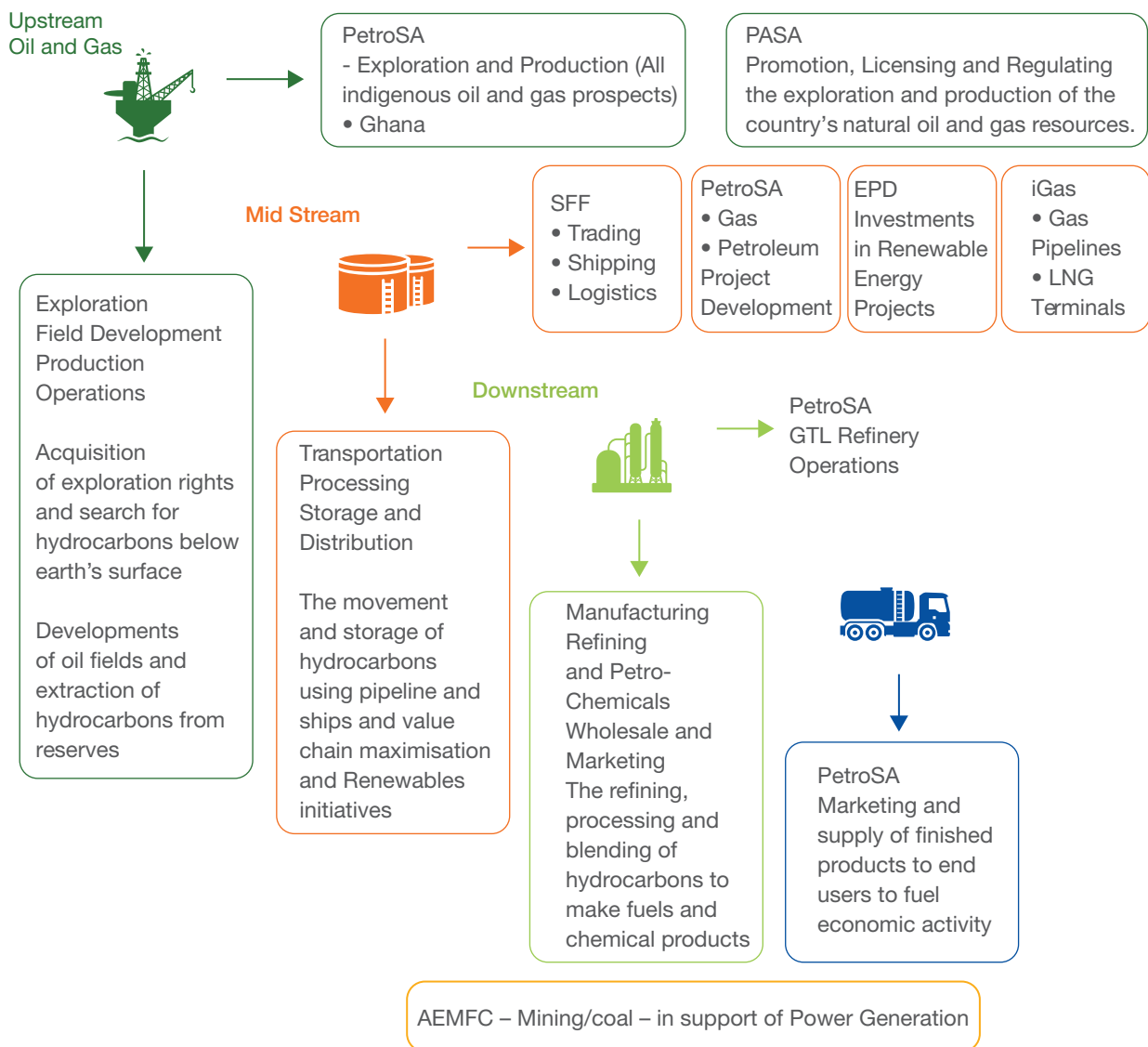
**Upstream:** The activities of oil and gas as well as other energy minerals' exploration, production and extraction.

**Midstream:** Transportation and storage, and other transmission pipelines.

**Downstream:** Includes refining and marketing of products to end users.

**Renewables:** Energy from renewable resources that are naturally replenished on a human timescale.

The CEF Group's Value Chain and Key activities of each entity are:



## CEF GROUP OVERVIEW (CONTINUED)

The Petroleum Oil and Gas Corporation of South Africa's (PetroSA) core activities are the exploration development and production of oil and gas and the production of synthetic fuels from gas. It has operations in South Africa, Ghana and the Netherlands.

- South African Agency for Promotion of Petroleum Exploration and Exploitation SOC Limited (PASA) promotes and regulates oil and gas exploration and production in South Africa. It is responsible for evaluating our oil and gas resources, attracting explorers in the oil and gas sector, monitoring their exploration and production activities, and archiving data produced from these activities.
- South African Gas Development (iGAS) develops gas and gas infrastructure through active investment in the provision of gas molecules and gas infrastructure. It is a key investor in The Republic of Mozambique Pipeline Investments Company (ROMPCO) who is the commercial operator of the 865km high-pressure gas pipeline connecting the onshore gas fields in Mozambique to South Africa.
- The African Exploration Mining and Financing Corporation (AEMFC) is responsible for the mining and supply of coal for the generation of electricity. The company operates from Ogies, Mpumalanga" supplying various power station. It focuses on key minerals that will provide energy for the future. It supplies in excess of 1.5 million tons of coal per year.

- The Strategic Fuel Fund (SFF) is responsible for acquiring and building key energy storage infrastructure as well as maintaining the country's strategic fuel stocks in order to ensure the country's security of energy supply. It operates from Saldanha Bay and Milnerton, Western Cape, and eMalahleni (Ogies), Mpumalanga. Its core assets include steel storage facilities 39 Steel tanks, each with 200 000 barrels storage capacity and 6 in-ground tanks, each with 7.5 million barrels storage capacity.
- The Energy Projects Division (EPD) is responsible for the commercialisation of new energy technologies and key Group business developmental initiatives to support our Growth Agenda objective which is anchored on acquisitions and strategic partnerships. The division will spearhead CEF SOC's repositioning approach in line with the holding company's parenting strategy in relation to growth and diversification.

### Global Footprint and Operations

The CEF Group of Companies have a number of key strategic partnerships and operations across the globe that span across the energy value chain as directed by the CEF mandate and our portfolio diversification approach. The Group has operations in South Africa, Ghana, Mozambique, the Netherlands and South Sudan. CEF also has a number of key Government-to-Government strategic relationships with a number of oil-producing countries' statute entities to support South Africa's security of energy supply objectives.

SOUTH AFRICAN OPERATIONS	GHANA OPERATIONS	MOZAMBIQUE OPERATIONS	SOUTH SUDAN OPERATIONS
Mining, Offshore production. Refining, renewables investment, Energy Developmental programmes and research	3% stake in the Jubilee Oilfield that produces 90 000 Barrel Oil per day (BOPD) off the coast of Ghana, managed by Tullow Oil. Through PetroSA, the Group will be excursing the pre-emptive rights to increase their stakes in the Jubilee and Twenboa-Enyenra-Ntomme (TEN) fields	ROMPCO is a joint venture company (CMG 25%, iGas 25% and Sasol 50%) that owns and operates an 865km high pressure transmission gas pipeline which extends from Mozambique South Africa. iGas and CMG have recently concluded the acquisition of the 30% of Sasol Shares.	Joint project to develop petroleum infrastructure in South Sudan for the benefit of both countries and the continent in support of the Agenda 2063 of an energy independent Africa.

## CEF GROUP AT A GLANCE (CONTINUED)

### LEGISLATIVE ENVIRONMENT

As a diverse Group of companies operating a complex environment, we are guided by a number of key legislative frameworks that drive the organisational strategic thrust and define the parameters for its operational effectiveness in supporting government's broader objectives. The list is not exhaustive but articulates and guides our strategic planning processes.

#### CEF Group Key Legislative Acts

Key Acts	Energy Sector Planning
CEF Act, No 38 of 1977	Draft Regulations on the Mandatory Blending of Biofuels with Petrol and Diesel, 2012
Public Finance Management Act, 1999 and Regulations	Integrated Resource Plan for Energy, 2019
Companies Act, 2008	Energy Security Master Plan, 2007
Petroleum Products Act, 1977	Draft Strategic Stocks Petroleum Policy and Draft Strategic Stocks Implementation Plan
Petroleum Pipelines Act, 2003	Integrated Energy Plan
Gas Act, 2001	Liquid Fuels Master Plan
Electricity Act, 1987	Gas Utilisation Master Plan
Mineral and Petroleum Resources Development Amendment Bill, 2013	



# CEF GROUP GOVERNANCE AND LEADERSHIP STRUCTURE

## Board of Directors

In a post COVID-19 era perforated with geopolitical dynamics and subdued growth, uncertainty and volatility continue to shape the world. The role of the CEF Board during this period is to guide the Group to reinvent itself, quickly adapt, capitalise and thrive on innovative pursuits as a priority for long-term commercial sustainability. This is how the Board keeps the Group moving forward.



**Ms Ayanda Noah**  
Group Chairperson

Appointed as Group Chairman to the CEF Board in 2020.

Ms Noah is a qualified engineer with 29 years' experience in the energy industry. She has worked at Eskom as the Group Executive for Distribution & Customer Services Division and is the Managing director an engineering consulting firm.

Her vast experience includes Governance serving as a non-director at the Eskom Rotek Industries, SANEA, CSIR and EAP and currently Chairs the Performance Committee at Lesedi Local Municipality.

She holds an MBA from the International Management Centre, an Executive Development Programme from the University of the Witwatersrand, an Advanced Management Program from the Harvard Business School and a BSc (Electrical Engineering) from UCT. She is accredited as a Pr Eng with ECSA, a member of SAIEE and the IoD



**Dr Ishmael Poolo**  
Group CEO

Dr Poolo is a seasoned executive with over 20 years' experience in the energy sector. He has demonstrable ability and business acumen in initiating projects and delivering sustained results. His strength lies in strategizing and leading cross-functional teams in the improvement of business processes aimed at delivering shareholder value – both as a leader and expert consultant in the energy sector.

He holds a PhD (Management of Technology & Innovation), MSc (Management of Technology & Innovation), BTech (Mechanical Engineering), NDip (Mechanical Engineering) and Artisan & Fitter Certificate.

He was appointed Group CEO and executive director to the CEF Board in 2020.



**Ms Ditsietsi Morabe**  
Group CFO

Ms Morabe has over 26 years of experience in Finance, Supply Chain Management and Policy Analysis. She served as a member of Finance Committees; Risk and Audit Committees; and Director in Boards of different entities. She also served as the moderator for the Financial Management Key Performance Area in the National and Provincial Government Management Performance Assessment Project led by DPME. Ms Morabe joined CEF SOC in December 2020 as the Interim Group Chief Financial Officer.

Her responsibilities includes overseeing the Corporate Finance, Supply Chain Management and Treasury functions of the CEF Group and providing strategic support to the Group CEO and the CEF Group.

She holds a MCom (Economics - Public Finance); BCom Hons (Economics); BCom (majors Economics and Business Economics); Certificates in Executive Development Program and Management Development Program.



**Mr Tseliso Maqubela**  
Director (Shareholder Representative)

Reappointed as a non-executive director (DoE representative) on the CEF Board in 2017. He is currently the DDG for Petroleum and Petroleum Products Regulation at DoE. He has 21 years of experience in the energy sector, having started his career at Koeberg Nuclear Power Station. He led the drafting team for the Nuclear Energy Policy of SA and is currently the chairperson of the Council for Non-Proliferation of Weapons of Mass Production. He holds a MAP and a BSc (Hons).

# CEF GROUP GOVERNANCE AND LEADERSHIP STRUCTURE

## Board of Directors



**Ms Florence Leketi**  
Director (Shareholder Representative Alternate)

Appointed as a non-executive director (DoE representative) on the CEF Board in 2016. Ms Leketi is not a newcomer to the oil, petroleum and gas sector. She is currently Chief Director: Petroleum and Petroleum Products at the DoE.

She also serves as a director on the Chemical Industries Education and Training Authority (Chieta) Base Chemicals and Petroleum Chamber. She holds a BCom (Hons) Statistics from the University of North West.



**Advocate Priakumari Hassan**  
Director

An award-winning and industry-changing entrepreneur, Advocate Priakumari Hassan, was appointed to the CEF Board in 2019.

She is the founder and CEO of the Women of Africa (WOA) Investment Group- a dynamic women-driven service provider in the pharmaceutical, construction, logistics and energy sectors - is at the forefront of women development in South Africa.

In her legal profession she has worked for ABSA, Standard Bank, IPROP and Transnet.

She holds roles in a number of entities such as Proudly South African, Coastlands Hotel Group: SNG Group, Illumina Capital Pty Ltd, WOA to name but a few.

She holds a B. PROC and LLB from the University of Natal and is an Admitted Advocate, Strategic Management & Executive Development Programme from GIBS



**Mr Nkululeko Poya**  
Director

Mr Poya is a Civil Engineering Technologist with 20 years' experience in the Road and Railway Industry of which more than 15 years was at Executive Management level.

He has worked for Transnet Freight Rail and Spoornet, Eastern Cape Department of Transport's Kei Rail project.

And held various senior management roles such as Deputy Director General (DDG: Transport Infrastructure), CEO of the Railway Safety Regulator. He was appointed non-executive director to the CEF Board in 2020. He currently serves as a Director of Umtongata Holdings, which has divisions within the agriculture and energy sector.

She holds a BSc Electrical Engineering from University of Cape Town, Certificated Engineer for factories (GCC). MDP from (GIBS) and currently completing MSc Project Management at UCT.



**Ms Unati Figlan**  
Director

Appointed as a non-executive director of the CEF Board in 2022.

Ms Figlan is the Executive Director of Empower a Thousand Holdings Investment Company. She served as an Executive Director of Power Tech Transformers and Dorper Wind Farm IPP for period of 2 years.

Her illustrious hands-on engineering experience was gained at, Power Utility, Rail and Renewable energy, spanning more than 18 years, covering areas of Maintenance, Plant operations, Project management, Power transmission, Distribution and Management.

## CEF GROUP EXECUTIVES

### Board of Directors



**Mr Jim Besnaar**  
Director

Appointed as a non-executive director on the CEF Board in 2016. He is currently the CEO of Makomota Investment Holdings (Pty) Ltd. Mr Besnaar has held senior positions in both provincial and local government as acting Chief Financial Officer for the department of tourism, economic and environmental affairs (DTEEA) and Chief Financial Officer for Naledi Local Municipality.

He also serves as a director/shareholder at Circle Way Trading, Bricksnet, Yard Plant Rentals (Pty) Ltd and Dragon Loo (Pty) Ltd and has held a number of non-executive director in a various entities. He is currently a Member of the Free State and Northern Cape Provincial Legislature Audit Committees.

He holds a Postgraduate Diploma in Accounting from UCT and a Chartered Accountant by profession having served his articles at PWC.



**Ms Nolubabalo Sondlo**  
Director

Ms Sondlo is the CEO of Sondlo Chartered Accountants. She has 18 years' experience in the public and private sector environment where her expertise stretches from external audit, internal audit, risk and financial management as well as audit clean-up operations and preparation of annual financial statements in terms of IFRS and Generally Recognised Accounting Practice. She is a member of the South African Institute of Chartered Accountants, the Institute of Internal Auditors South Africa, and the Independent Regulatory Board of Auditors.

She was appointed non-executive director to the CEF board in 2020.



## CEF GROUP EXECUTIVES

The Executive Director and Board relationship is an essential ingredient for the execution of business performance and delivery against the CEF Groups' predetermined objectives. It is our licence for long-term success. Having well-articulated roles and responsibilities, expectations and sound organisational targets foster a productive Executive Director and Board relationship that begins with all parties working together to promote the best interests of the Group.

The Board is responsible for setting corporate strategy direction and goals whilst playing a guidance role on various growth, governance and sustainability matters. While the Group CEO's primary responsibility is to manage the consolidated Group's strategic outlook and performance delivery by working closely with the subsidiary executive leadership teams, the respective subsidiary CEO's are responsible for providing strategic and operational leadership to their entities that must align at a Group level. They ensure the strategies are executed effectively.



**Dr Ishmael Poolo**  
Group CEO &  
iGas Acting CEO

Dr Poolo is a seasoned executive with over 20 years' experience in the energy sector. He has demonstrable ability and business acumen in initiating projects and delivering sustained results. His strength lies in strategising and leading cross-functional teams in the improvement of business processes aimed at delivering shareholder value both as a leader and expert consultant in the energy sector.

He holds a PhD (Management of Technology and Innovation), MSc (Management of Technology and Innovation), BTech (Mechanical Engineering), NDip (Mechanical Engineering) and Artisan and Fitter certificate.

He was appointed Group CEO and Executive Director to the CEF Board in 2020.

During the transitional period, he is also the acting CEO of iGAS.



**Dr Phindile Masangane**  
PASA CEO

Appointed in 2020 as PASA CEO, Dr Masangane is responsible for the regulation of petroleum exploration and production. Prior to this role she was in charge of clean, renewable and alternative energy projects at the South African state-owned company, CEF (SOC) Ltd.

At the height of her career in the energy sector, she was a partner and director at KPMG responsible for the Energy Advisory Division from 2010 to 2013. During her tenure at the CEF Group, she led the development and investments in renewable, clean and alternative energy projects on behalf of the CEF Group of Companies. She holds a PhD (Chemistry), MBA, and a BSc degree.



**Mr Godfrey Moagi**  
SFF CEO

Mr Moagi is an oil and gas executive with more than 25 years of industry experience and has held many senior roles at BP Southern Africa. He has a wealth of experience in the understanding of global economies and markets in crude, fuels, lubricants, supply and trading, and value chain management, setting up a new trading book, including governance and compliance processes for the business to manage risks.

He holds various Executive Programmes from Wits and Harvard, a BCom (Hons) and a BCom degree.

## CEF GROUP EXECUTIVES (CONTINUED)



**Ms Sandisiwe Ncemane**  
Acting PetroSA CEO

Appointed as Acting Group Chief Executive Office (AGCEO) of PetroSA from April 2022, Ms Ncemane is a professionally registered Engineer with over 16 years in the Engineering and Services in the Energy sector.

She has a wealth of experience in Capital Projects Development, Programme Management, Investment Promotion and Stakeholder Management having worked for the Coega Development Corporation and being in charge of a number of key projects relating to gas-to-power, Renewables Components Manufacturing, and Nuclear localisation amongst others.

She holds an Electrical Engineering undergraduate qualification from UCT, and a post-graduate degree in MSc (Eng) Engineering Management from the University of Pretoria.



**Mr Lemogang Pitsoe**  
AEMFC CEO

Appointed to AEMFC in 2022, Mr Pitsoe is a mining engineer with extensive experience having worked for De Beers, African Explosives Ltd., Royal Bafokeng Resources Holdings, Coal of Africa and Alexkor to name a few.

He has managed Greenfield investment projects, exploration programmes and mining operations as well as financial aspects of business operations including business development.

He holds a Master's in Business Leadership (MBL) from UNISA, BSc. (Mining Engineering) from WITS, and a Diploma in Investment Management (RAU).

## CEF SOC Executive Management Team

As the holding company for all the subsidiaries, the CEF SOC executive team in line with the Group Parenting Strategy is responsible of setting the Group agenda in terms of growth sustainability, performance objectives, partnerships, and diversification in an integrated manner that ensures strategic alignment extraction of Group synergies. Most importantly the CEF SOC executive team, led by the Group CEO, is responsible for value creation, oversight and a coordinated approach towards CEF Mandate delivery.



**Dr Ishmael Poolo**  
Group CEO

Qualifications: PhD and MSc (Management of Technology and Innovation), BTech and NDip (Mechanical Engineering) and Artisan and Fitter Certificate

Dr Poolo is a seasoned executive with over 20 years' experience in the energy sector. He has demonstrable ability and business acumen in initiating projects and delivering sustained results. His strength lies in strategising and leading cross-functional teams in the improvement of business processes aimed at delivering shareholder value both as a leader and expert consultant in the energy sector.



**Ms Ditsietsi Morabe**  
Interim Group CFO

Qualifications: MCom (Economics – Public Finance), BCom Hons (Economics), BCom (majors Economics and Business Economics), Certificates in Executive Development Programme and Management Development Programme.

Ms Morabe has over 26 years' experience in Finance, Supply Chain Management and Policy Analysis. She served as a member of Finance Committees, Risk and Audit Committees, and Director in Boards of different entities. She also served as the moderator for the Financial Management Key Performance Area in the National and Provincial Government Management Performance Assessment Project led by DPME. Ms Morabe joined CEF SOC in December 2020 as the Interim Group Chief Financial Officer.

Her responsibilities include overseeing the Corporate Finance, Supply Chain Management and Treasury functions of the CEF Group and providing strategic support to the Group CEO and the CEF Group.



**Dr Tshepo Mokoka**  
Group COO

Position: Group COO  
Qualifications: PhD (Economics), MCom (Economics), Honours in Bachelor of Economic Science and Bachelor of Science.

Mr Mokoka has considerable experience in strategic entity oversight and stewardship of complex policy and operational processes from his role as a Special Advisor to the Minister of Science and Technology and the Minister of Tourism. In these positions, he also provided expert advice within the Economics Cluster in Government to inform sectoral and country growth strategies, including the energy sector. He has professional expertise in macroeconomic and financial modelling and has published several academic articles in internationally recognised peer-reviewed journals.

His responsibilities include supporting the Group CEO in business operations and execution. He is also responsible for the following portfolios: strategy and planning, business turnaround office, managing capital projects, new business development (investments), Information and Technology (IT), Marketing and Communication as well as improving the operational efficiency of the CEF Group.



**Mr Abdul Haffejee**  
Group Company Secretary

Qualifications: BProc, Associate of Chartered Secretaries, Admitted Attorney.

As the Group Company Secretary, Mr Haffejee is responsible for Group Corporate Governance framework and legal compliance, and for advising the CEF Board on key governance matters. Mr Haffejee has a wealth of experience in contract management, company secretariat, corporate governance, legal advisory, compliance and risk management.

## CEF SOC Executive Management Team



**Ms Brenda Moagi**  
GE: Legal, Risk and Compliance

Qualifications: Admitted Attorney, LL.M, LL.B, Certificate (Management Development Programme).

Ms Moagi is a corporate lawyer with over 18 years' experience specialising in commercial, compliance, regulatory, licensing, mergers and acquisitions, financing and investment, infrastructure, infrastructure development as well as mining exploration and establishment. As the Acting Chief Legal, she bears responsibility and accountability for the provision of legal services including developments of legal strategies to support new business growth as well as provide advice on litigation matters. She also serves as the director of Energy Joburg (Pty) since 2014.



**Ms Zinhle Thupana**  
Interim GM Corporate Services

Qualifications: Certified Ethics Officer, MBA, Certificate (Leadership Development Programme), Certificate (Management Development Programme), NDip (Accounting)

Ms Thupana is responsible for overseeing and ensuring adherence to generally accepted governance, risk management and compliance practices, embedding the requirements of company ethics, business continuity management and HSEQ. She monitors and reports to Board, GCCEO, and EXCO to establish the implementation of enterprise risk management and compliance programmes.

The image features a large, bold white number '2' in the center. The background is a vibrant green with a complex network diagram overlay. The diagram consists of numerous white nodes connected by thin white lines, forming a circular pattern around the number '2' and extending across the page. The overall aesthetic is modern and technological.

# 2

## SECTION

**BUSINESS OVERVIEW AND STRATEGY**

## BUSINESS OVERVIEW AND STRATEGY

Under uncertainty, traditional approaches to strategic planning can be downright dangerous.

The world is in a state of flux and uncertainty being driven by varying degrees of pace and scale of a number of forces creating volatility that has adverse effects on the global economy. Many global economic decisions are made on the basis of certainty and predictable expected outcomes. In order to make these decisions, governments and businesses have to form a view about what the future might look like and thus respond in a strategically appropriate manner. There is always uncertainty about the future, but large increases in uncertainty of the kind we are now experiencing (driven by geopolitics, energy transition, technological advancements, climate change, and pandemics) are challenging businesses' ability to form a confident view about the future. This means it is harder to make these forward-looking decisions and different approaches to long-term planning will be required.

Faced with an increasingly uncertain future, governments and businesses delay making important investment decisions which slows growth and demand resulting in subdued economic growth. There is considerable empirical evidence that the negative effects of uncertainty dominate, as was the case with the advent of COVID-19 where a number of key projects in the oil and gas sector were held in abeyance.

As part of our long-term planning, the CEF Group had identified five global megatrends that are shaping the future operating environment and are generating significant strategic uncertainty. These include:

- **Geopolitical Transition:** The fragile transition to an intensely competitive, multipolar international order while political shocks are incurred because of the pandemic. This included rising national debt, rising

inequality, populism, and climate change challenges.

- **Geo-economic Disruption:** The increasingly pervasive use of economic instruments for geostrategic purposes during the global recovery from the COVID-19 pandemic marred by the inequality of vaccine distribution resulted in different paces of economic recovery.
- **Socio-demographic Shift:** The changing structure of the human population and labour force and the evolution of social norms as well as rise in unrests due to growing inequality.
- **Technological Revolution:** The transformative impact of the accelerating advance and diffusion of technology across the entire value chain, but more importantly in the energy space leading to an explosion in energy transition.
- **Environmental and Resource System Disruption:** The disruptive cross-domain impact of climate change, including intensifying strains on the global resource nexus of food, water, energy and the climate.

Armed with our perspective of our operating environment for the period under review the Group had set itself ambitious objectives and other modest growth targets. This was in anticipation of a rebound in the global and domestic economy due to positive sentiments around the easing of economic restrictions and other global and domestic events we had been keeping a watching brief on. It is thus that the Group adopted the following microeconomic assumptions to guide investment decisions, partnerships and value creation imperatives.

	Actual current year Q4	Budget FY 2022	Forecast 2023
Crude oil price (\$/b) average	97,50	64,30	90,00
CPI (headline) average*	5,78	4,70	5,12
Prime overdraft rate average	7,75	7,00	9,00
R/\$ average	15,22	14,69	15,57
R/Euro average	17,09	17,48	17,91
GDP average	2,72	6,30	1,70

\*Actuals still not available for Q4 FY21/22, the forecast has been provided. Source for actual average and forecast figures: BER

## BUSINESS OVERVIEW AND STRATEGY (CONTINUED)

<b>Strategic Fit</b>	The degree to which the CEF Group matches its resources and capabilities with the opportunities in our external environment
<b>Impact and Outcomes</b>	The impact of our strategic and operational objectives on the programs of government and in communities where we operate
<b>Sustainability</b>	The sustainability of our operations in delivering value year-on-year and making remarkable impact on all our stakeholders

During the year under review, the CEF Group's operating environment was impacted by a number of global trends and domestic events that continue to influence our short-, medium- and long-term initiatives. These influence the Group's strategy and plans which must be adjusted to react to any implications these trends may have on the federation.

As countries around the world were reducing COVID-19 lockdown restrictions on the back of massive vaccination drives and decreasing infection rates, investors were looking forward to a rapid global economic recovery. However, the Russia and Ukraine conflict has upended all positive global growth sentiments. Global geopolitical risks have since increased with investors, market participants, and policymakers expecting the war to wield a grind on the global economy while pushing up inflation, with a sharp increase in uncertainty and risks of severe adverse outcomes.

The International Monetary Fund has observed that as a result of the geopolitical conflict, several shocks have hit the world economy that was already weakened by the pandemic; higher-than-expected inflation worldwide especially in the United States and European economies triggering a slew of tighter financial conditions; a worse-than-anticipated slowdown in China, reflecting COVID-19 outbreaks and lockdowns; and further negative spillovers from the war in Ukraine such as the disruptions in supply chains and a rise in energy commodity prices creating further global uncertainty.

The oil price increases have significant impacts on the economy's level of real gross domestic product (GDP) and economic performance. The oil price increases reduce the national output, change the structure of spending and production and shifts the economy to a lower economic growth path.

Whilst crude oil prices were stabilising due to the recess of the Omicron variant of COVID-19 with a yearly average price of \$68.17 in 2021, the Russia-Ukraine conflict caused the prices to rise as high as \$117 per barrel towards the end of our financial year, before declining to around \$100 per barrel in the following months. Russia supplied the EU with 40% of its natural gas last year. Futures prices are sensitive to expectations about developments on supply and demand. These expectations are fueled by political and economic factors. Once the stability in oil producing countries is under threat, this unnerves the market and fuels expectations with fears of future development among crude oil traders causing uneasiness about security of supplies. This has led to high prices at the pump for finished products like petrol and diesel.

Exacerbating these high pump prices is a huge global and domestic shortage in refining capacity which isn't likely to be resolved any time soon. Refiners turn crude oil into usable products like petrol, diesel, and jet fuel. Globally there are just fewer operating refiners today than a couple of years ago and the situation in South Africa is even worse when it comes to refining capacity.

The change in oil prices had a major impact on the Group planning assumptions. The high oil prices resulted in traders with oil stored at our SFF tanks in Saldanha exercising their rights to uplift the product taking advantage of arbitrageurs' market incentives. Less product stored at the tanks results in less revenue being generated by SFF.

High energy costs coupled with supply chain disruptions are a major input into a number of key products and services which oftentimes are passed on to the consumer resulting in high inflation. The growth in global inflation and the resultant response by central banks to increase

interest rates will impact the CEF Group through an increase in the cost of borrowing for a number of the key strategic acquisitions we are pursuing, but the upside will be an increased interest income.

Since the Russia-Ukraine conflict began, the market has remained tight with premiums for products rising to very high levels thus making it difficult to secure cargoes at reasonable market prices for both petrol and diesel. This will have an impact on the country's security of energy supply considering that most of the refineries in the country are currently not producing. As a result the volatility and rise of oil prices will make it difficult to land on equitable feedstock options for the GTL Refinery which is central to a number of our stabilisation and turnaround options for PetroSA.

Over the last ten years, the South African economy has seen a significant decline in local refining capacity. In 2010, local refining capacity accounted for about 80% of finished product consumed, compared to less than 35% in 2022.

Various reasons have been advanced for this decline, including (i) ageing refineries, (ii) the fact that no new mega refinery has been commissioned for over 30 years, (iii) reluctance of the local refining industry to invest in clean fuel technologies, and (iv) the discount between importation costs of refined product compared to the Basic Fuel Price. A large proportion of local refining capacity has over time been lost due to the import substitution effect.

The declining refining capacity within the country poses critical security of supply challenges. These extend not only to the main white products in the refinery slate (diesel, petrol and jet/kerosene), but also to crucial by-products in the production slate such as bitumen, HFO and lubricants. Importantly, many of the by-products in which local capacity is being lost have important cost implications for infrastructure delivery, cost competitiveness of the mining industry and have extensive forward linkages into other industrial production processes. Over and above the cost-push aspect of losing local refining capacity, there is also a security of supply challenge currently demonstrated by the limited ability of an economy to absorb global economic shocks such as the war between Russia and Ukraine. The CEF Group is advocating for increasing the ability of the South African economy to absorb adverse economic and geopolitical shocks that have implications for security of supply through increasing local refinery capacity and capabilities.

At the UNFCCC COP26 in November 2021, the governments of South Africa together with France, Germany, the United Kingdom, the United States

of America, and the European Union formed the International Partners Group (IPG) who announced a new ambitious, long-term Just Energy Transition Partnership (JETP) to support the Republic of South Africa's (RSA) decarbonisation effort in the context of domestic climate policy, including transitioning its economy towards cleaner energy sources. In line with the political declaration issued in November 2021, the IPG undertook to mobilise an initial amount of \$8.5 billion over the next 3 to 5 years to advance the partnership.

Our strategic planning and analysis identified renewables as a key source of new power generation in most markets across the world. This is due to cost declines as a result of technology evolutions and rapid policy advancements that have triggered new investments, leading to further capacity additions and price drops. It is also central to the country's just transition objectives. As such we have seen the Presidential Climate Commission (PCC) finalise their work on the Just Transition Framework which is supported by the Just Energy Transition discussion document by the DMRE that gives further substance to South Africa's approach to a just transition.

Furthermore, a sixth round of bids for renewables under the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) is underway, consistent with the country's Integrated Resource Plan. Other key initiatives relate to the raising of the licensing threshold for new generation capacity from 1 to 100 MW which has opened the way for the private sector to invest in renewable energy projects with positive developments related to development of a Hydrogen Economy Roadmap.

However, we see the latest geopolitical dynamics as a result of the Russia and Ukraine conflict likely to either accelerate renewables adoption or further defer net zero related initiatives. As a result, we see opportunities on the horizon for potential increase in our coal production as Europe sets to find alternative sources.

On the domestic front, South Africa continues to struggle with high unemployment with the current official national rate standing at 34.5% (which is a major concern) and the role that State Owned Entities can play is supporting economic recovery. The July 2021 unrest, which cost the lives of more than 340 people, interrupted the country's economic recovery and growth streak, with GDP contracting 1.5% in the third quarter according to Statistics South Africa and requires an integrated solution. The violence and looting stands on record as the most expensive riot, costing some R50 billion in output having also had an impact on some of our strategic initiatives and overall reputational damage on investment potential.

## BUSINESS OVERVIEW AND STRATEGY (CONTINUED)

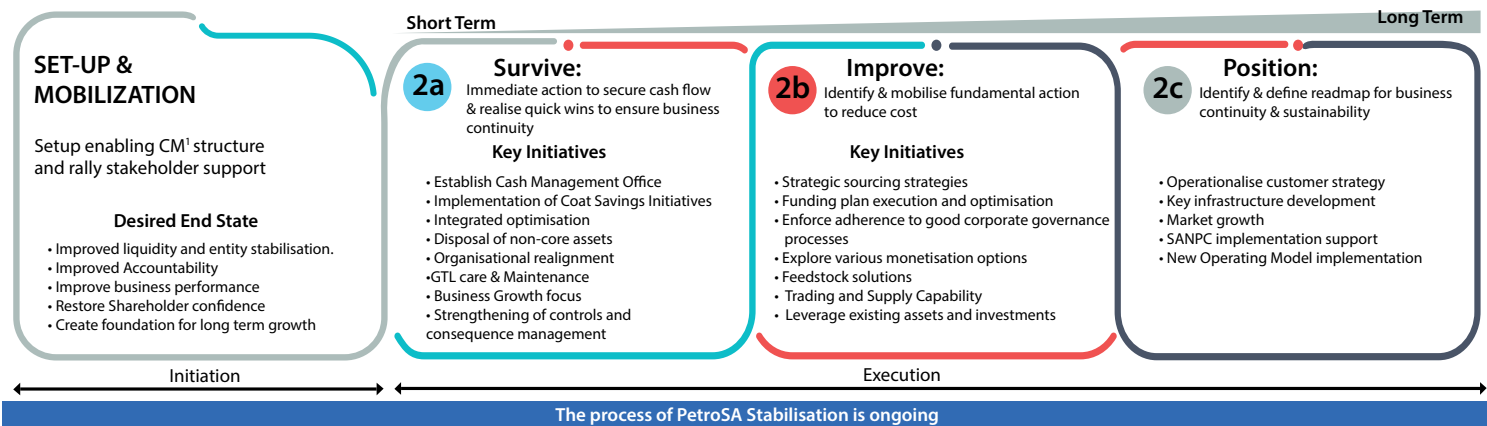
The concerns around the impact of climate change cannot continue to be ignored and seen as a peripheral item. Ten months since the social unrest in 2021, KwaZulu-Natal was hit with two days of heavy relentless rains that resulted in deaths and caused massive damage to key infrastructure, residential homes and the economy which was estimated at R25 billion with a provincial state of disaster being declared. Transport, energy, water and communication infrastructure were damaged during this period with the Durban port and surrounding industries being heavily damaged. The floods had a significant impact on some of our strategic investment decisions in relation to security of energy supply.

### Operating Environment – the Internal Perspective

In our previous Integrated Annual Report we identified a number of key focus areas as part of delivering on our strategic objectives. Here is an update on two of them:

### PetroSA Stabilisation and Turnaround

As the biggest subsidiary in the CEF Group and since the failed iKhwezi Project, PetroSA has been making significant losses over the past five years due to depleting gas reserves, reducing cash balances and operational inefficiency. This has resulted in the GTL Refinery being in care and maintenance since December 2020. As a result of financial crisis at PetroSA, a tripartite (between DMRE, CEF and PetroSA) war room has been set up with the aim of assisting with the development and integration of plausible stabilisation initiatives, the monitoring and evaluation of all these initiatives, and bolstering accountability to improve business results. The path from crisis transformation is non-linear and certain steps have been happening concurrently, or in repeating optimisation and continuous improvement loops. Below is a framework being adopted in a structured manner to enable the PetroSA stabilisation and turnaround which is being supported by the Shareholder CEF. Key success to such initiatives is ongoing communication with all stakeholders such as unions, employees and funders and dealing decisively with impediments through consequence management.



Progress to Date:

Incremental progress made on the Survival Initiatives with some of the following quick wins. The entity continues to execute key initiatives with the support of CEF

- Cost optimisation through strategic sourcing, rationalisation and business process alignment.
- Disposal of non-core assets has brought in substantial revenues that will go to fund growth initiatives
- Voluntary severance agreements in line with Labour Relations guidelines
- GTL continues to be in a care & maintenance state
- Leveraging of the Ghana Asset which has resulted dividends being declared that have supported working capital commitments
- Profit margin improvements
- Consequence management resulting in suspensions and terminations
- Progress being made on technical and commercial long term solution for the GTL Refinery

### Execution of the Merger

During the period under review and in preparation for the Merger Approval by Cabinet, the CEF Group was requested to undertake a further independent legal and commercial review on the merger. The outcome of this independent review supports the merger through the proposed archetype and CEF will be going back to Cabinet for final approval. In anticipation of Phase Two and execution of the merger, a detailed transitional roadmap has been developed covering various elements and key milestones of this complex project. In the meantime the following initiatives have been finalised:

- (1) **Transitional Governance Solutions** to support the SANPC with key decision-making and execution of the merger and other contractual arrangements.
- (2) **Human Capital Arrangements** in respect of key nominations and secondment arrangements for capacitating the SANPC during the transitional phase.
- (3) **Service Level Agreements** that will enable the incorporation of the new entity and support the day-to-day operational activities. These cover IT, Human Resources, Finance and Legal services.
- (4) **Employee Communications** plan has been developed covering a number of key phases that will need to be activated throughout the project.
- (5) **IT Platforms'** readiness assessment to enable migration of data and other support measures from an IT perspective including location.
- (6) **Master Lease and Assign Agreement** has been finalised which will be an overarching agreement between the SANPC and legacy based on proposed archetype.
- (7) **Financial Engagement Strategy** for the SANPC has been finalised looking at all the respective areas for investment and working capital requirements.
- (8) **SANPC Branding** and activation strategy and plan is in place articulating the entity's brand value proposition.

We expect the final merger approval to take place during the 2022/23 financial period.

### GROUP STRATEGY

*"Change will not come if we wait for some other person or some other time. We are the ones we've been waiting for. We are the change that we seek."*

The CEF Group's operating environment comprises of a number of disruptive factors and transitions in the global and domestic competitive landscape that affect the Group's success in achieving our long-term strategic objectives and desired end state. At first this disruption and transition comes from far and emerges from uncontrollable, environmental, geopolitical power shifts or a global pandemic that impacts commerce.

Against the backdrop of the prevailing Geopolitical Transition, Geo-economic Disruption, Socio-demographic Shift, Technological Revolution, Environmental and Resource System Disruption and the realities as well as aftershocks of the Russia and Ukraine conflict, global uncertainty is heightened.

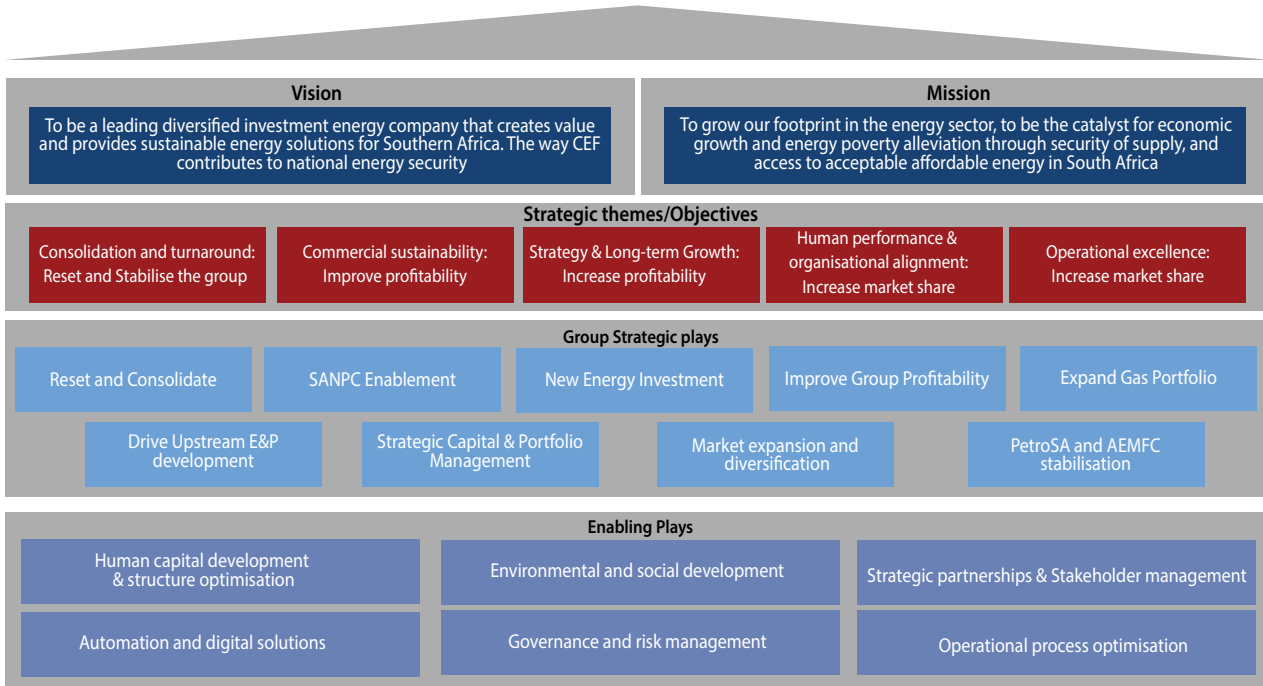
As the CEF Group we have had to make certain decisions in spite of an uncertain future. Guided by the CEF Board we have begun imagining the future through scenarios enabling us to identify robust strategic choices that would fit to any plausible future, and to keep strategies alive in case the future surprises us. This is part of the Group's adaptive strategic posture. Fundamentally, the Group's posture defines the intent of our strategy relative to the current and future state of the global and local energy landscape and associated industries.

The overall Group strategic trajectory and trust has not changed but has been refined to enable it to be more responsive towards the attainment of our desired end state. To address the strategic challenges, the CEF Group will therefore establish itself as a leading diversified energy company in support of our dual mandate. The strategic direction and plays to realise our strategic objectives have been summarised in the CEF Strategy House. We have adopted five key strategic objectives or themes, nine strategic plays, and six enabling plays with specific targets to pursue in this planning cycle.

This is about disrupting ourselves, which requires placing long-term bets on untested approaches and models. Clarity is needed on how to optimally invest scarce resources in a multi-horizon portfolio given the existing uncertainty, as well as identifying which models and approach will succeed while we balance growth and sustenance.

## BUSINESS OVERVIEW AND STRATEGY (CONTINUED)

Disruption required us to make investments that strengthen our strategic relevance and survival in the long term, but enhances financial performance and sustainability in the short run. This is about strategic investment for long-term disruption while continuing to win in the short term.



Over the planning period, guided by the CEF SOC parenting strategy, the CEF Group will migrate over three strategic horizons supporting the delivery of the Group's strategic objectives with the view of value creation and improving our value proposition. The multi-horizon strategic map bridges from the future back to today and makes the Group Strategy real and tangible.

The map targets a clear purpose and vision of the future with a portfolio of initiatives that provide immediate impact as well as the optionality to test and move into emerging or future markets over time in a systematic manner. The three Group strategic horizon's which are overlapping are:

Horizon	Time Frame	Description
RESET	2022/24	Fixing the fundamentals, enhancing the exponential Group operating model, structure and culture of CEF SOC, repositioning and execution of merger. Laying the foundation for growth and excellence.
SCALE FOR GROWTH	2023/26	Aggressive growth through acquisitions and strategic partnerships. Adoption of automation systems.
SUSTAIN	2027 and beyond	Defending the core and extracting value through a portfolio management approach.

## BUSINESS OVERVIEW AND STRATEGY (CONTINUED)

As a result of the pending merger, changes in the market, concerns around Group commercial sustainability and the overarching Group parenting strategy, the role of CEF SOC had to change. A survey from a number of key stakeholders expected CEF SOC to:

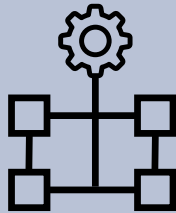
- i. position itself as an expert along the energy value chain, providing thought leadership and advisory to government;
- ii. prioritise commercial stability to drive financial sustainability and then focus efforts on driving the developmental agenda;

- iii. champion the energy transition in South Africa with a clear strategy, adequate capability and defined set of projects to enable the transition; and

- iv. define a clear strategic direction for the Group, maintaining delineation between strategy setting and execution whilst promoting group synergies and standardisation.

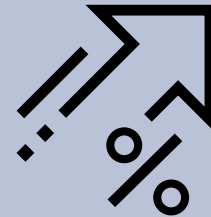
Therefore to remain relevant within the changing operating environment and fulfil its mandate, CEF SOC will play three key roles as part of its repositioning in order to deliver value creation.

### The role of CEF SOC



#### Strategic Parent

A **corporate parent** providing strategic steer, integrated leadership and driving synergies to ensure commercial sustainability of existing business



#### Strategic Investor

A commercially focused entity, driving growth to maintain a balanced portfolio of **energy investments**



#### Developmental agent

A state agent supporting achievement of government's **developmental agenda**

## BUSINESS OVERVIEW AND STRATEGY (CONTINUED)

Accordingly, we have started to define our investment strategy to sustain our value proposition and to drive government objectives and identifying clear guardrails as we continue to detail and formalise our investment strategy. This is how we begin to play a much more strategic role in the energy landscape.

### Our Investment Strategy

<b>Philosophy</b>	<ul style="list-style-type: none"> <li>– Prioritise long-term economic development &amp; revenue diversification</li> <li>– Both financial &amp; social returns form components of sustainable growth</li> </ul>
<b>Support our mandate</b>	<ul style="list-style-type: none"> <li>– Diversify sources of our revenue and invest in economic opportunities that sustain our value proposition and enable us to support the government's broader initiatives in line with the NDP</li> </ul>
<b>Acquisition based growth</b>	<ul style="list-style-type: none"> <li>– Growth enabled by shareholding in operational investments, diverse energy investments and non controlling stakes in strategic investments</li> <li>– Value add through expertise, synergy enablement, performance and innovative culture</li> </ul>
<b>Capability enablement</b>	<ul style="list-style-type: none"> <li>– Through our assets and strategic investments we will drive agility, efficiency and execution to generates revenue, provide capital to grow the business and ensure above market shareholder returns</li> </ul>
<b>Creation of Energy Fund</b>	<ul style="list-style-type: none"> <li>– Long term objective is to generate sufficient capital to create an "Energy Fund" to fund future growth projects</li> </ul>

### Investing for Value & Impact



*"With a good perspective on history, we can have a better understanding of the past and present, and thus a clear vision of the future."*

— Carlos Slim Helu

## BUSINESS OVERVIEW AND STRATEGY (CONTINUED)

### Group Exponential Business Model

Our business model defines how value gets created and delivered across the whole CEF Group. It is an organised way of laying out assumptions about key resources, partners and activities of a value chain. These include our value proposition, customer relationships, channels, customer segments, cost structures and revenue streams. Our exponential business model is catered around our understanding of the role of the CEF Group and such the underpinning elements for exponential transformation journey is driven by the following:

- i. Solving energy problems for many in line with our mandate
- ii. Investing in scalable and automation-based processes to achieve excellence
- iii. Leveraging strategic partners to improve our value proposition and performance

Creation of high performance culture that fosters continuous learning and innovation

<b>Strategic Parent Activities</b>  Provide Strategic Direction Streamline Governance Manage Group Performance Drive Group Synergies Manage Group Strategic Portfolio	<b>Exploration</b> <ul style="list-style-type: none"> <li>Oil, gas and coal</li> <li>Exploration drilling</li> <li>Seismic acquisition</li> <li>Processing and interpretation</li> <li>Finding, identifying and evaluating economically viable oil, gas and coal deposits</li> <li>Evaluation and design</li> </ul>	<b>Mine and Field Development</b> <ul style="list-style-type: none"> <li>Reservoir modelling</li> <li>Well design, drilling and completion</li> <li>Production modelling</li> <li>Separation systems</li> <li>Treatment systems needed to preserve the environment</li> <li>Establishing the necessary infrastructure to access deposits via shafts</li> <li>Material stripping</li> </ul>	<b>Mining Production</b> <ul style="list-style-type: none"> <li>Drilling-related engineering services</li> <li>Bringing oil/gas to the surface</li> <li>Ongoing field development</li> <li>Production and maintenance</li> <li>Transportation and fractionation</li> <li>Extracting coal from underground and open mines</li> <li>Transporting of mined mineral resources to plants</li> <li>Lifecycles cost management</li> </ul>	
	<b>Marketing</b> <ul style="list-style-type: none"> <li>Wholesale and marketing of gas, transport fuel and clean power to end-users</li> <li>Liquid fuels storage for industry</li> <li>Oil and gas data for exploration industry</li> </ul>	<b>Processing and Refining</b> <ul style="list-style-type: none"> <li>Crude/gas refining and processing</li> <li>Fractionation of crude oil into petroleum and petrochemical products</li> <li>Products blending</li> <li>Washing coal to specified grade for delivery to Eskom power stations</li> <li>Renewable power generation</li> <li>Power generation from gas</li> </ul>	<b>Storage and Trade</b> <ul style="list-style-type: none"> <li>Storage terminals</li> <li>Bunkering services</li> <li>Trading</li> <li>Gas pipeline transportation</li> <li>Liquefaction</li> <li>Coal storage in line with environmental regulations</li> <li>Mechanised loading/unloading systems</li> <li>Pollution control</li> <li>Storage technology partnerships</li> </ul>	
	<b>Licensing and Promotion</b> <ul style="list-style-type: none"> <li>Data sales</li> <li>License fees</li> <li>Regulatory approvals</li> <li>Renewal applications</li> <li>Receiving, maintaining, storing, interpreting, evaluating, and adding value, disseminating or dealing in all geological or geophysical information relating to the country's petroleum resources.</li> </ul>	<b>Business Development</b>	<b>Management of Funds</b>	

### Outlook and Way Forward

The next planning cycle will take place against the backdrop of a stagnant global economy that is contending with a number of factors as a resultant impact of the Russia-Ukraine conflict, climate change, China-US hostilities, supply chain disruptions, European energy crisis, commodity and currency volatility and overall geopolitical tension escalations. All of this is taking place amid a rise in WHO member states of officially reported laboratory-confirmed cases of monkeypox. It is now declared a public health emergency of international concern. While public health and social measures have been reduced, COVID-19 still poses a threat to us all. People are still being infected and dying.

The Russia-Ukraine conflict has worsened near-term global economic prospects and is having significant economic spillovers through commodity and financial markets as well as trade and migration resulting in higher food and energy prices which are adding to inflation pressures. This has led to markedly faster monetary policy tightening around the world which is further delaying economic recovery and exacerbates fiscal imbalances, inflation and food-energy insecurity.

A protracted war could further heighten global policy uncertainty and lead to lasting fragmentation of global financial, trade, and investment networks. Multiple possible evolutions exist for the Ukraine war, with direct potential impacts for the business environment. Various scenarios done by BCG outline four possible outcomes from the conflict. These are not intended as a prediction of future events but still provide valuable insights. These four contrasting stretched-yet-plausible scenarios for 2030 are:

- 1. Back to the Future** | Major powers see benefits in global cooperation and minimised military conflicts.
- 2. Tripolar Competition** | Western (primarily North America and EU) and Eastern (primarily China and Russia) blocks co-exist in new balance, while "non-aligned" nations seek a third path; norms and institutions differ within and among blocks.
- 3. Limited Stalemate** | Chronic conflict in Ukraine and elsewhere in non-NATO former Soviet republics; China keeps distance from Russia; economies survive sanction shock; West-inspired institutions struggle for relevance.
- 4. Global Escalation** | Economic and military confrontations erupt in multiple locations, disrupting trade patterns; economic and military power supplants institutional system.

As the CEF Group we have also ran our set of scenarios with the intention of crafting short-, medium- and long-term strategic options. Each of the scenarios above and those we have ran suggest different outcomes for key macroeconomic KPIs that shape the business environment.

Global forecasts on energy and other food commodities is subject to heightened uncertainty resulting from the Russia-Ukraine conflict, the scale and duration of the war, how sanctions will affect Russia's oil production, the production decisions of OPEC+, the rate at which US oil and natural gas production rises, global inflation, European energy crisis, global political instability and other contributing factors. Less robust global economic activity being forecasted could result in lower-than-forecast energy consumption. Some key macroeconomic forecasts from various sources provide some insights for planning purposes.

### Macroeconomic assumptions

- The Environmental Impact Assessment (EIA) Short-Term Energy Outlook forecast the spot price of Brent crude oil will average \$105 per barrel in 2022 and \$95 per barrel in 2023.
- The coal price direction will be determined by the impact of the ongoing Russia-Ukraine conflict, global economic growth, particularly China's economy, and the global transition to clean energy. Fitch Solutions revised its coal price forecast for 2022 to average \$320 per ton and is expected to drop to \$280 in 2023.
- The European natural gas crisis has worsened after Russia failed to resume gas flows to Europe. The World Bank in April forecast US natural gas prices could average \$5.20/MMBtu in 2022, \$4.80 in 2023 and \$4.20 in 2024. It expected European gas prices to trade at \$34/MMBtu in 2022, \$25 in 2023 and \$22.3 in 2024. As for LNG, the bank predicted it would average \$19/MMBtu in 2022, dropping to \$14 in 2023 and \$13.3 in 2024.
- The baseline forecast is for growth to slow from 6.1% last year to 3.2% in 2022, 0.4% lower than in the April 2022 World Economic Outlook.
- Global inflation has been revised up, driven by the cost-of-living crisis, soaring fuel and energy costs, and the global supply chain disruption caused by the Russia-Ukraine war as well as lingering supply-demand imbalances, and is anticipated to be between 6.6% to 7.5% in advanced economies and 9.5 % in emerging market and developing economies this year, upward revisions of 0.9 and 0.8 percentage points, respectively.

- Domestically, the South African rand breached 17 per USD, touching the lowest since August 2020, as investors seek the safety of the dollar amid rising global recession risks prompted by the worsening energy crisis and expectations of further monetary policy tightening. State-owned power utility Eskom's blackouts remain the biggest single strategic threat to South Africa's economic performance. The local currency is expected to trade at 17.74 by the end of this quarter according to Trading Economics global macro models and analysts' expectations. Looking forward, the ZAR is expected to trade at 19.10 in 12 months' time. One of the key matters we are watching very closely is the impact to our business of the potential grey-listing of South Africa by the Global AML/CFT Watchdog in 2023.

All in all, the microeconomic indicators point to a difficult trading period and as a Group of Companies with bold ambitions we will continue to navigate through headwinds as we deliver on our long-term strategic objectives. The operating environment may be made more challenging with the possibility of a global recession or various trading blocs going into a recession. The Group will keep a watching brief on any recession developments.

As we move forward in delivering on our key strategic objectives as outlined in the Group Corporate Plan and strategy, and the key priority projects identified such as the merger and the PetroSA stabilisation, the CEF Board has directed management to ensure delivery on the following areas to complement performance delivery:

### **Growth, Sustainability and Value Creation:**

A precision-focused view on driving an aggressive Group Growth agenda and Commercial sustainability within the set horizons. This is about eliminating poor execution making bold decisions in relation to the commercial growth agenda that supports value creation and on-time delivery of priority projects.

### **Resourcing and Operating Model:**

Urgent configuration of appropriate fit-for-purpose operating and service models that support value creation and synergy optimisation for the benefit of the Group. This is part of the exponential organisation transformation. It's about being nimble and agile to peruse both commercial and developmental objectives.

### **Strategic Partnership and Stakeholder Management**

Our long-term growth objectives must continue to be anchored around sound strategic partnerships and the management of key stakeholder relationships to enable access to key funding, assets, technologies, markets and other key resources.

### **Automation and Operational Excellence**

Continuously disrupting ourselves and pivoting towards Group-wide automation systems. This is about the adoption of new technologies/tools and processes to improve the Group's competitive advantage and operational excellence. The Group will be embarking on the automation of a business performance management system that will integrate many business processes.

### **Group Value Proposition**

Cementing the strategic relevance of the CEF Group which is the implementing arm of the DMRE and is charged with supporting Government's many strategic imperatives such as economic recovery and other market failures. Improving execution and stakeholder relations.

### **Culture and Collaboration**

Continuous creation of a high performance culture that encourages collaboration and innovation whilst leveraging internal synergies as we create an exponential organisation.

## **OUR ENTERPRISE RISK MANAGEMENT (ERM) OVERVIEW**

### **Our Approach to Enterprise Risk Management**

The current global and geopolitical complexities in our operating environment is leading many businesses to think beyond profitability only. The domino effect of current global incidences causes the future to be more dynamic and unpredictable than it was before. Factors such as perpetual perplexity and dynamics in social and geopolitical transition, strong competition in the economic environment, rapid technological advancements, and policy changes in the value chain are among the many elements galvanising the CEF Group to strengthen our risk management system. Effective and integrated risk management systems must support our sound decision-making which ultimately improve the company's performance and help us balance the trade-off between risk and expected returns.

## BUSINESS OVERVIEW AND STRATEGY (CONTINUED)

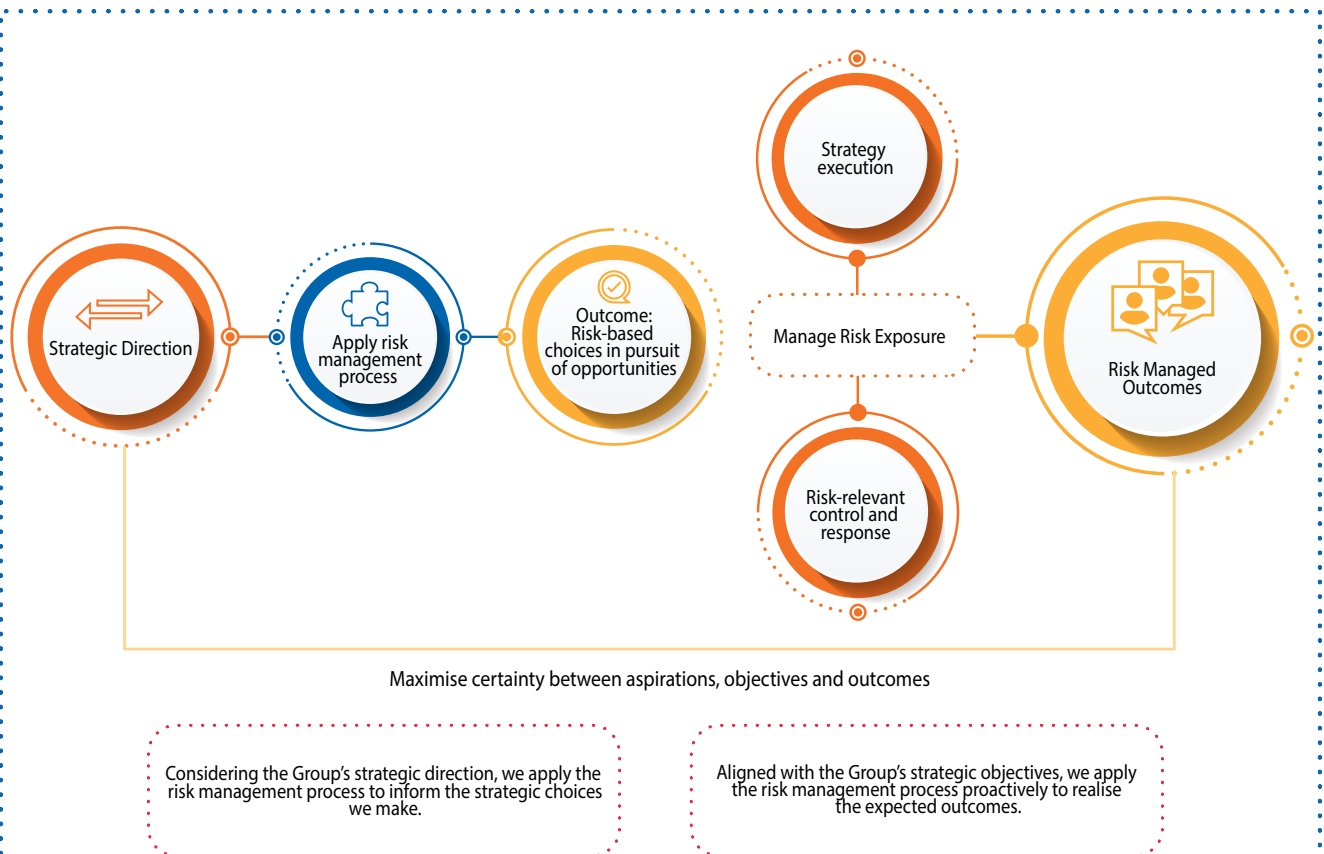
The sustainability challenges facing a number of state owned entities against the backdrop of an ailing domestic and subdued global economy puts further scrutiny on SOE's. It is thus that the CEF Board of Directors has the ultimate responsibility for risk management in the organisation, and oversees the enterprise risk management process at CEF. As such, the Board has sponsored a number of initiatives to further enhance the management of risk across the CEF Group.

The Board's Audit and Risk Committee works closely and effectively with management to make sure the risk management process complies with the relevant standards and governance requirements.

Our risk approach and methodology has continued to transcend to meet our changing business environment to ensure flexibility and relevance. The subsidiaries' management remains accountable for the administration of risks, whilst alignment sessions are held for assurance purposes and reporting in compliance with best practices.

Our approach, as emphasised in the figure below, has linkages to identified strategic objectives of the organisation with a view to achieve a balance of strategy, risk, opportunities in our operations environment, and taking cognisance of our stakeholders' interests.

### Risk and Opportunity Management



## BUSINESS OVERVIEW AND STRATEGY (CONTINUED)

CEF's effective risk management integrated approach contributes to the achievement of our business objectives to enhance resilience during current and anticipating change and difficult trading times.

### Our Risk Management Journey

The 2021/22 financial year detailed ERM objectives, associated activities and initiatives. The themes for the 2021/22 risk management plans were:

- aligning strategic objectives and risk appetite;
- reinforcing enabling processes and controls to facilitate efficient decision-making that is accountable and equitable;
- managing emerging risks and opportunities linked to strategic initiatives across the business value chain; and
- flexibility and speed.

During the year under review, we strengthened risk management as well as risk and ethics with our environment to sustain business continuity. The following initiatives were both implemented and reviewed during the year:

- Enhancement of an ERM maturity assessment for the Group to recognised maturity levels of ERM initiatives and consequently we attained 72%.
- Appointment of Risk Champions.
- Developing key strategic initiatives for Group Combined Assurance aligned with Vision 2040+.
- Standardisation of risk reporting template metrics.
- Approving a Group strategic risk register and cascading it into business operations.
- Monitoring of top acts and codes that have an impact on CEF operations.
- Conducting ERM training for employees and continuous development of ERM plans, including business continuity management.

*"Fix the basics, protect first what matters for your business and be ready to react properly to pertinent threats. Think data, but also business services integrity, awareness, customer experience, compliance, and reputation."* Stephane Nappo



## BUSINESS OVERVIEW AND STRATEGY (CONTINUED)

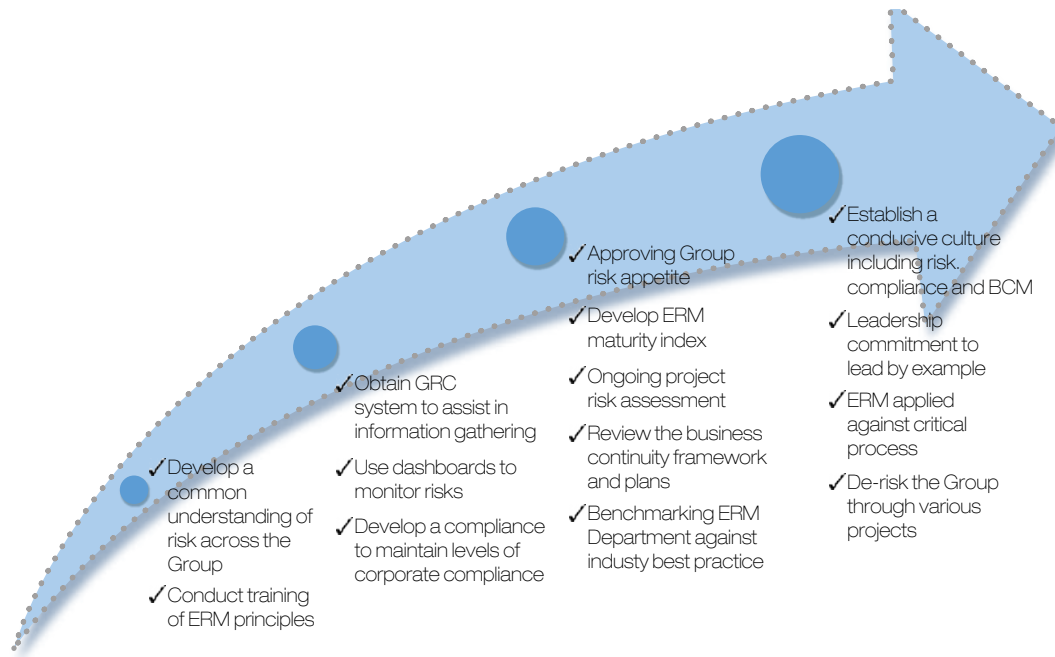
### ERM maturity journey

CEF Enterprise Risk Management Maturity Index

Departments	Basic	Developing	Established	Advanced	Leading
PASA	Risk Meetings	Appointed risk champion	Policies and procedures	Compliance plan	Business continuity plans
	Risk Assessments/ Risk register(s)	Risk Information System	Performance risk indicators	Risk Trends analysis	Attended scheduled risk awareness training
SFF	Risk Meetings	Appointed risk champion	Policies and procedures	Compliance plan	Business continuity plans
	Risk Assessments/ Risk register(s)	Risk Information System	Performance risk indicators	Risk Trends analysis	Attended scheduled risk awareness training
iGAS & CEF	Risk Assessments/ Risk register(s)	Appointed risk champion	Policies and procedures	Compliance plan	Business continuity plans
	Risk Assessments/ Risk register(s)	Risk Information System	Performance risk indicators	Risk Trends analysis	Attended scheduled risk awareness training
AEMC	Risk Meetings	Appointed risk champion	Policies and procedures	Compliance plan	Business continuity plans
	Risk Assessments/ Risk register(s)	Risk Information System	Performance risk indicators	Risk Trends analysis	Attended scheduled risk awareness training
PETROSA	Risk Meetings	Appointed risk champion	Policies and procedures	Compliance plan	Business continuity plans
	Risk Assessments/ Risk register(s)	Risk Information System	Performance risk indicators	Risk Trends analysis	Attended scheduled risk awareness training



## BUSINESS OVERVIEW AND STRATEGY (CONTINUED)



The Board of Directors is our ultimate line of defence for risk management and oversees the Enterprise Risk Management (ERM) progressions. The approved Enterprise Risk Management Policy guides our approach to risk management to ensure effective management of risks across the Group.

The Board's Audit and Risk Committee works closely with management to make sure the risk management process fulfils required compliance assurance standards excellently through the governance protocols detailed below:

<b>Risk Governance</b>	<b>Board of Directors and Risk and Audit Committee.</b>			<b>Technology</b>
	<ul style="list-style-type: none"> <li>• Ensure the risk culture (tone at the top).</li> <li>• Approve the risk appetite.</li> <li>• Ratify the key components of the ERM maturity index.</li> <li>• Discuss enterprise risks with executive management.</li> <li>• Approve ERM policies.</li> </ul>			
<b>Risk Resources and Management</b>	<b>Executive Management</b>	<b>Enterprise Risk Management</b>	<b>Internal Audit</b>	<ul style="list-style-type: none"> <li>• Provide real-time dashboards to oversee risks and to facilitate risk escalations.</li> <li>• Make monitoring and reporting.</li> <li>• Support timely maintenance and pre-empt problems.</li> </ul>
	<ul style="list-style-type: none"> <li>• Define the risk appetite.</li> <li>• Evaluate proposed strategies against risk</li> <li>• Capacitate risk function.</li> </ul>	<ul style="list-style-type: none"> <li>• Create common ERM framework.</li> <li>• Provide direction on applying framework.</li> <li>• Implement and manage technological advancement tools of ERMS systems.</li> <li>• Conduct training workshops.</li> <li>• Aggregate and assess risk information.</li> <li>• Monitoring and mitigation of risk and its plans</li> </ul>	<ul style="list-style-type: none"> <li>• Provide assurance on ERM processes.</li> <li>• Provide assurance on the controls and the mitigation plans for the risks.</li> </ul>	
<b>Risk Ownership</b>	<b>Business Units</b>			
	<ul style="list-style-type: none"> <li>• Take business-appropriate risks.</li> <li>• Identify and assess risks.</li> <li>• Respond to risks.</li> <li>• Monitor risks and report to risk management</li> <li>• Support risk and mitigation management</li> </ul>			

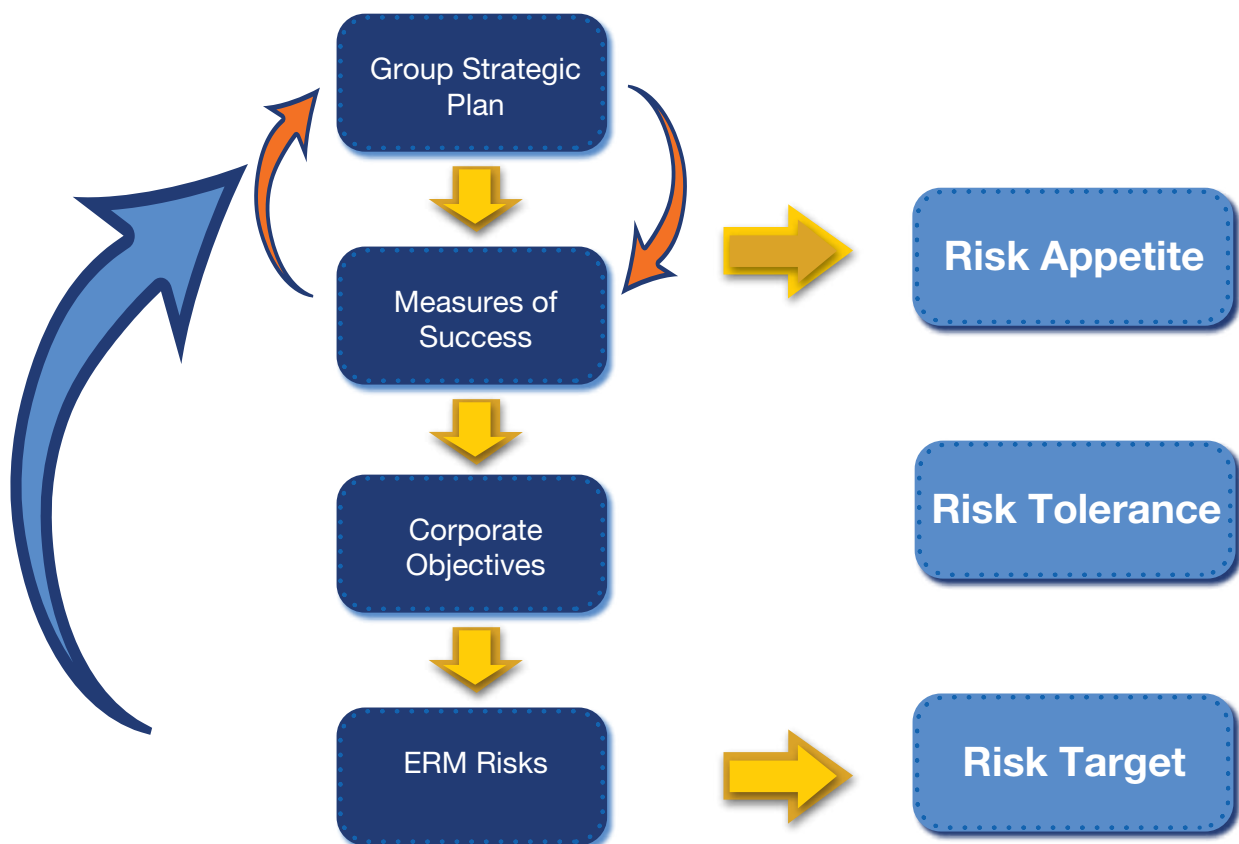
The Board's Audit and Risk Committee is actively involved in ensuring that:

- risk assessments are done through a structured framework and methodology;
- adequate monitoring and control functions are applied as defence requirements to achieve combined assurance framework;
- the identified risks are prioritised and appropriate mitigation plans are captured to enable control and monitoring of risk activity; and
- adopted internal controls operate effectively to mitigate risk.

### Risk Tolerance and Risk Appetite

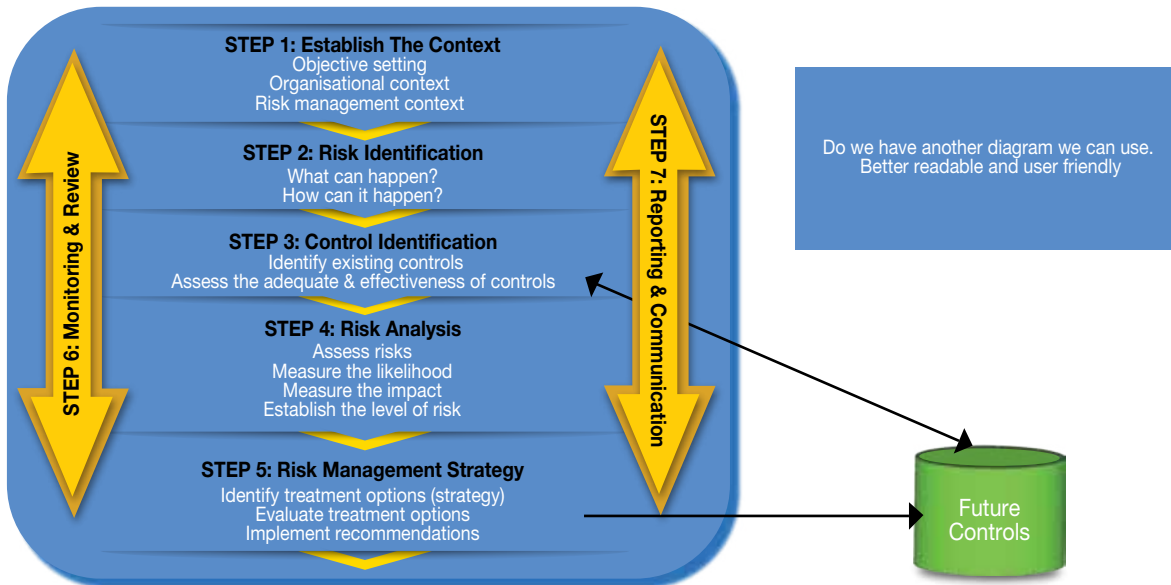
The CEF Group defines risk appetite as severity of the consequences that may materialise either from internal or external factors influencing occurrence of risk. A scale is used to help determine the limit of appetite, recognising that risk appetite will change over time. If a risk exceeds appetite, it will threaten the achievement of planned strategic objectives and may require management actions to be accelerated or enhanced to ensure the risks remain within appetite levels. The diagram below illustrates the mechanism of measurement of the CEF Group's risk appetite:

## Group Risk Appetite Framework



## Risk Management Process

In terms of our integrated approach to risk management, we assess, manage and report on all significant risks and related mitigation plans consistently, in accordance with our defined risk reporting protocol across the Group. As part of our journey to become more proactive and responsive, we have developed key risk indicators including devolvement of compliance framework policy which will guide planning and assessment of risks to enhance the monitoring of key trends in relation to risks and risk appetite. CEF's structured risk management process, which is aligned to industry standards, is rolled out across the Group, and risk profiles are developed at business unit, functional, process and project levels.



## Risk Identification and Opportunities

Risk management is not only about understanding what threatens our business but must be complied with to retain and enhance business growth. It therefore becomes paramount that risk management seeks opportunities to enable adaption of new processes for change, improve the resilience of the business and continue to deliver sustainable value to all stakeholders.

Accordingly, in 2021/22 the identified key opportunities include:

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

## BUSINESS OVERVIEW AND STRATEGY (CONTINUED)

### Key Risks for the Group

We have used our methodology to identify key risks to our strategic objectives as depicted below. From our Group risk assessment, we have identified 11 strategic risks which we have assessed into different residual exposure. The Board and management continue to monitor the implementation of risk mitigation plans for these risks.

Type of Risk	Description of Risk	Probability			Impact			Risk Response Strategy	Risk Owner	Status
		H	M	L	Strategy	Operations	Time & Costs			
Financial	Financial sustainability	●			H	H	M	<ul style="list-style-type: none"> <li>Support delivery of the strategic projects;</li> <li>Obtain external funding with low risks Implement Group wide portfolio optimization model.</li> <li>Divestment from non-core business.</li> </ul>	CFO	On going
Strategy	Strategy definition and execution		●		H	H	H	<ul style="list-style-type: none"> <li>Revision of Group Parenting Strategy</li> <li>Centralized and coordinated Group Strategy Planning in line with Parenting Strategy</li> <li>Develop the CEF Group acquisition and growth strategy</li> <li>Centralize business development.</li> <li>Develop Group integrated funding and investment model</li> </ul>	COO	In progress
Governance	Corporate Governance and regulatory		●		M	H	M	<ul style="list-style-type: none"> <li>Review and Enforcement implementation of MOIs and shareholder compacts./ Parenting Strategy</li> <li>Develop, review and implement Group wide application policies.</li> <li>Conduct training and awareness on the policies and ethics.</li> <li>Develop Board resolution tracking list to follow up on decision taken or outstanding.</li> </ul>	Chief Legal & COSEC	In progress
Strategy & Growth	Security of Energy Supply	●			H	H	L	<ul style="list-style-type: none"> <li>Implement Fuel import strategy linked to IVT plan.</li> <li>Maintain strategic stock of crude using OKINAWA model</li> <li>Develop strategic stock funding for refined product</li> <li>Develop LPG import strategy in line with new LPG import parity pricing.</li> <li>Acquisition of Coal mines to increase supply Eskom including strategic partnerships</li> <li>Development Trading House business establishment to import fuels and supplement production volume.</li> <li>Target high value Products/markets to maximize profits.</li> </ul>	COO	In progress
Financial	Decommissioning	●			H	H	H	<ul style="list-style-type: none"> <li>Maintain existing decommissioning guarantees and funds in compliance with NEMA and PFMA</li> <li>Review of existing Decommission process to align with national realities</li> </ul>	CFO	On going
Governance	Health & Safety		●		M	M	L	<ul style="list-style-type: none"> <li>Strategic risk workshop and risk register review</li> <li>Internal audit review and closing findings</li> <li>Group integrated Health Response Team activation</li> </ul>	Chief Legal	In progress
Strategy	Operating Model	●			M	H	H	<ul style="list-style-type: none"> <li>CEF reposition and merger implementation.</li> <li>Cascading strategic risks to operational risks.</li> <li>AEMFC Operating model review</li> <li>PetroSA operating model execution</li> <li>Diversification approach</li> </ul>	COO	Pending approval
Strategic	Human Capital	●			M	M	M	<ul style="list-style-type: none"> <li>Implementation and adoption of shared service model.</li> <li>Develop and anchor culture of high performance and reward schemes.</li> <li>Reduce and mitigate non – compliance Laws and Policies.</li> <li>Improve statistic on imbalance in gender employment.</li> <li>Leadership development &amp;</li> </ul>	GM Corporate Services	In progress
Strategic	Stakeholder & Shareholder Management		●		H	M	L	<ul style="list-style-type: none"> <li>Brand activation programme and showcasing of CEF achievements in the public domain.</li> <li>Monitor, respond and contain negative media reporting.</li> <li>Manage and maintain relations with external stakeholders.</li> <li>Stakeholder/Shareholder framework</li> </ul>	COO	In progress

CEF's structured risk management process, which is aligned to industry standards, aligned each risk identified into strategic objectives which are growth and sustainability, innovation and business excellence, governance and risk management, people and leadership, and partnership and stakeholder management.

This process is rolled out across the Group, and risk profiles are developed at business unit, functional, process and project levels.

Monitoring and assessment also occurs at business unit, functional, process and project levels to enable mitigation planning and implementation to avert risk occurrence and/or to minimised risk exposure eventually.





**3**

**SECTION**



**VALUE CREATION**

## VALUE CREATION

From a symbiotic perspective of the Government and the private sector, the transition to sustainable business involves incorporating a more holistic vision of their impacts and dependencies from nature. The CEF Group's five capitals model describes how these components fit together for sustainable development and enable us to continue to create value in an integrated manner that improves our strategic relevance and long-term benefit. As an organisation that operates across the energy value chain and with multiple locations, we continue to adapt to unprecedented challenges brought about by various dynamics in our operating environment, and as a result routinely reassesses our traditional value creation model. Achieving a model of life and economic and social development in harmony with nature, which allows for sustainable and sustained growth, requires a transformational change in the way we measure risks, identify opportunities, manage resources and make investment decisions.

As part of our strategic trajectory, we continue to take a broader, bolder perspective in relation to value creation in pursuit of a holistic transformational Group growth agenda to achieve long-term, sustained outcomes. Whether we are targeting an acquisition, considering a divestment or looking to improve Group performance, a value creation mindset informs most of our key decision-making processes. Below is the CEF Group model on how we create value:

INPUTS	BUSINESS ACTIVITIES AND PROCEDURES	OUTCOMES VALUE CREATION ON SUSTAINABLE DEVELOPMENT ISSUES
<b>Financial Capital</b> <ul style="list-style-type: none"> <li>Cashflows from operating activities and investments</li> <li>Total Equity &amp; Loans</li> <li>Dividends from Investments</li> </ul>	<ul style="list-style-type: none"> <li>Energy strategic leadership</li> <li>Energy strategic partnerships</li> </ul>	<b>Financial Value Creation</b> <ul style="list-style-type: none"> <li>Financial ratios of return ROCE, ROE &amp; EVA</li> <li>Net Profit</li> <li>Financing capability and development of operations</li> <li>Investment in energy infrastructure</li> </ul>
	Sales & Marketing	
<b>Industrial Capital</b> <ul style="list-style-type: none"> <li>Industrial production and Renewable Energy Sources (RES) plants.</li> </ul>	Resource Evaluation & Promotion Mining and Production Upstream, Midstream, Downstream	<b>Products &amp; Services</b> <ul style="list-style-type: none"> <li>Liquid fuel (Petrol, Diesel, Kero, LPG, Chemicals)</li> <li>Production facilities</li> <li>Storage facilities</li> <li>Transmission pipelines</li> </ul>
<b>Human Capital</b> <ul style="list-style-type: none"> <li>Number of employees (direct &amp; indirect)</li> <li>Employees abilities and capabilities</li> <li>Leadership</li> </ul>	Development of Energy Project Pipelines Development of Natural Gas Infrastructure	<b>Development of Human Capital</b> <ul style="list-style-type: none"> <li>Healthy &amp; safe working environment</li> <li>Low turnover ratios of specialised employees</li> <li>Stable workplace environment</li> <li>Productivity improvement</li> <li>Skills development &amp; women empowerment</li> </ul>
<b>Natural Capital</b> <ul style="list-style-type: none"> <li>Coal &amp; Gas</li> <li>Air</li> <li>Water &amp; Land use</li> </ul>	Refining & Production Regulatory & Data Management	<b>Respect of Natural Environment</b> <ul style="list-style-type: none"> <li>Fully compliance with environment rules and regulations</li> </ul>
<b>Social Capital</b> <ul style="list-style-type: none"> <li>Social investment</li> <li>Social license to operate</li> <li>Disclosure &amp; ethical governance</li> <li>CEF's reputation</li> </ul>	Energy Storage Expand national gas transmission pipelines Trading	<b>Social contribution</b> <ul style="list-style-type: none"> <li>Social contribution</li> <li>Job sustainability, job creation and local employment growth</li> <li>Cooperation with local communities and regional administration</li> <li>Support of local communities' infrastructure and businesses</li> <li>Tax payments</li> <li>Support of local suppliers and energy poverty alleviation</li> </ul>

## VALUE CREATION (CONTINUED)

### Financial Capital

The long-term commercial sustainability of the CEF Group drives a number of strategic initiatives. It is our licence to operate and ensure we can continue to be a viable entity. The key inputs to the CEF Group's financial framework revolves around the ability to ensure current operating assets continue to generate cash that enables the Group to fulfil the cash servicing of operating liabilities. The CEF Group's balance sheet continues to be used as a leveraging tool when engaging with financial institutions and it provides the Group with the ability to source operational loans as and when required. The premise of recommending project deals for approval is centred on the ability to receive constant dividends from such investments in order to contribute to increasing the CEF Group's cash position.

### Industrial Capital

The CEF Group continues to maximize value through participation and investing in value-add energy portfolios that can complement the Group's integrated business model. Future investments in the industrial production plants and renewable energy sources form part of the CEF Group's intention to continue being an important role player towards the reduction of carbon dioxide emissions.

### Business Activities and Procedures

of processes and procedures to support and guide the planning, execution and operational management of business activities. Active participation in the energy value chain is anchored by the CEF Group's focus on projects that add value to the Group's overall performance.

The key project activities are:

- planning and development of the LNG project at the Port of Gqeberha in the Eastern Cape;
- concluding the acquisition of additional equity in the currently operating ROMPCO Gas Pipeline venture which is a gas pipeline from Mozambique to South Africa;
- finalising project governance processes on renewables and other clean energy partnership projects to support Eskom's plan to increase the country's electricity generation capacity;
- focusing on ensuring PetroSA SOC becomes sustainable by either securing a long-term feedstock solution or alternative use of the GTL Refinery to continually offering energy products; and
- monitoring and participating in the construction of the 100 MW CSP ACWA Redstone project located in the Northern Cape, with commercial operation date planned for Quarter 4 of 2023;
- acquisition of equity in Renergen's Virginia gas project which is the first onshore petroleum production right in South Africa;

- acquisition of SAPREF business from Shell and BP as sellers;
- "2 million Giga Joule per Annum" gas trading JV between iGAS and ENH; and
- opportunistic yet strategic equity acquisitions and/or joint development of projects in the oil, gas and renewable energy sectors.

The role of oil, gas, and renewable energy in the South African energy mix continues to bring both opportunities and risks to the energy supply security, hence the CEF Group's intention to ensure the country's refining capacity and gas supply capacity are maintained, including the use of renewable energy. The CEF Group's strong balance sheet, external financial funding instruments and commercial and technical capabilities ensures the energy portfolio is executed in an efficient and effective business environment.

### Social Capital

A strategic business partnership is a long-term business relationship focused on creating joint value for all our partners and stakeholders. The CEF Group continuously strives to improve and maintain its relationship with all its identified stakeholders and strategic partners. The belief and appreciation of inputs made by the diversified staff, communities where the CEF Group operates, civil society, business community (local and international), regulators and our Shareholder empowers the Group to remain relevant and focus on delivering value through energy provision and security to the country. Such value-driven networks and ethical relationships enable the CEF Group to support initiatives that build local suppliers and ensures the achievement of energy poverty alleviation.

### Natural Capital

South Africa's indigenous energy resource base is dominated by coal, mainly used to generate electricity and produce petrochemical products (coal to liquid). A high percentage of coal is also exported through the Richards Bay Coal Terminal in KwaZulu-Natal. The global transition to net zero carbon dioxide emissions has brought an opportunity for the South African energy community to reflect on the continuous use of coal within a framework that accounts for the negative economic and social impact resulting from transitioning from coal usage. The CEF Group continues to participate and search for investments in strategic ventures that ensures the use of coal in a clean and controlled environment for the benefits of the country. The potential gas resources both onshore and offshore of our landscape present endless economic opportunities for the CEF Group and the country. Comprehensive commercial and technical studies are being conducted by the Petroleum Agency of South Africa to quantify the volume of gas in South Africa.

## VALUE CREATION (CONTINUED)

CEF also acknowledges that solar and wind resources can be used as bountiful energy sources for development similar to how coal resources powered industries and fuelled development.

### Sustaining Value

The CEF Group's strategic approach to value creation is governed by company processes, systems and procedures which deliver the best investment deals with a potential to contribute to security of energy supply. The focus on robust performance management, continuous assessment of opportunities, processes, and controls, updated governance framework and stakeholder management enables the CEF Group to remain relevant to the country's energy value chain and to achieve compliance to all statutory requirements as a state-owned company.

### Value Drivers

#### Human capital

The CEF Group continues to recruit the right type of people who have the attitude, capabilities and competency to add value in delivering on the business objectives across the energy value chain.

CEF's ability and business success rests on having talent and committed workforces supported by management to be continuously innovative, creative and in compliance with all statutory governance frameworks within the CEF Group.

Sustained value has been achieved by the business with the full support of the CEF team to ensure the energy supply mandate is maintained.

The primary value adding activities the CEF team intends to focus on are collaboration and partnership with other successful national oil and gas companies, including renewable energy companies, within the developing/emerging markets, those that share a similar developmental mandate as South Africa, to ensure transfer and sharing of skills and expertise in the technical, commercial, and general management areas.

### Business Development Value Add

CEF's investments and business development approach is anchored on the mandate to contribute to the security of energy supply for South Africa and the region through exploration, acquisition, development, marketing and strategic partnerships. This mandate is derived from the CEF Act (No 38 of 1977) and the Ministerial directives issued thereafter. The commercial drive is governed by the developmental mindset that ensures investments undertaken by CEF contributes to the reshaping of the country's energy sector, as well as being an agent of change in correcting any energy market failures and building capacity both in terms of electricity generation and refinery capacity within the country and the region.

Investments in renewables, gas infrastructure, gas-to-power generation, refinery capacity coupled with supporting strategic research, and development projects in green hydrogen, battery technologies, and geothermal energies within the South African borders and Southern African Development Community (SADC) region will continue to define CEF's future possibilities. The CEF's framework of investing in brownfield and greenfield projects is underpinned by the objectives articulated in the National Development Plan, the government economic recovery plans and the CEF's ministerial-approved strategy.

CEF's business is underpinned by a dual mandate which is commercial and developmental in nature. The approach to invest in short-, medium- and long-term revenue generating deals in the energy sector ensures that much needed revenue is achieved to efficiently and effectively operate the CEF Group without asking the state for any form of bailout or financial support.

### How our activities have added value to our stakeholders:

<p><b>The Shareholder</b></p> <p>Supported the Shareholder on various stakeholder engagements across the energy value chain geared towards economic recovery initiatives and thought leadership delivering on the CEF Mandate.</p>	<p><b>Strategic Partners</b></p> <p>Strategic information sharing and access to funding opportunities to support joint development of projects and programmes.</p>
<p><b>Employees</b></p> <p>Safe and secure operating environment and access to structured opportunities for further personal development and growth.</p>	<p><b>Customers</b></p> <p>Improved customer service and delivery of quality services and products.</p>
<p><b>Suppliers</b></p> <p>Joint solution development and mapping, sharing of risk and rewards in the creation of value and recognition of services being delivered.</p>	<p><b>Unions</b></p> <p>Structured engagements and communication based on mutual trust and respect to create value for the organisation.</p>

A large white number '4' is centered on a golden background. The background features a network diagram with white lines and nodes, and a geometric structure of white lines forming a cube-like shape at the bottom. The overall color scheme is warm and golden.

**4**

**SECTION**

**GROUP PERFORMANCE**

# GROUP PERFORMANCE

The CEF Group's organisational performance is a demonstration of our ability as an organisation to reach our goals and optimise results against predetermined objectives. In a complex and volatile operating environment, the organisational performance can be defined as the Group's ability to achieve goals in a state of constant change.

The Group's performance forms part of a much broader system of an integrated performance management system that encapsulates the planning process, the delivery and execution of plans, the ongoing monitoring by various governance structures and the review and reporting which forms an iterative feedback loop. An effective approach to performance management is important to the success of the CEF Group. It ensures we remain focused on what is important towards the delivery of our mandate.

During the 2019/20 planning period, the CEF Group adopted the Objectives and Key Results (OKR) methodology as a way of being more specific with quantifiable results in tightening our performance management processes. It was also driven by a need to align business goals and enterprise initiatives, with regular check-ins to gauge progress throughout the business planning quarters. Objectives and Key Results (OKR) is a goal-setting framework that helps CEF define goals (or objectives) and track the outcome. The framework is designed to help CEF establish far-reaching goals on a constant basis. The adoption continues to be a work-in-progress.

Similar to the previous year, the CEF Group's business performance is measured on a 5-point scale as outlined below. The weighting for each performance measure is the same for the holding/parent company CEF SOC and as agreed to in the 2020/21 CEF Group Corporate Plan.

Not Assessed	Not Achieved	Partially Achieved	Achieved	Above Target	Exceptional
0	1	2	3	4	5

The CEF Group scorecard is comprised of five core strategic objectives or themes that are underpinned by a number of supporting initiatives with different delivery timelines through the planning period. These are:

<b>Commercial Sustainability,</b>	<b>Consolidation &amp; Turnaround,</b>	<b>Human Performance and Organisational Alignment.</b>
<b>Operational Efficiency,</b>	<b>Strategy and Long Term Growth,</b>	



*"High-performance organizations home in on work that's important and are equally clear on what doesn't matter."*

## GROUP PERFORMANCE (CONTINUED)

### CEF GROUP Report on Performance Against Objectives

Strategic Themes	Goal / Objective	Measure / KPI	
Commercial Sustainability (30%)	Improve Profitability to achieve a return equivalent to the cost of capital	<ul style="list-style-type: none"> <li>• ROIC</li> <li>• Margins</li> <li>• Organic Growth</li> <li>• Plant utilisation rate</li> </ul>	
Consolidation and Turnaround (20%)	Reorganise the CEF Group and turn its performance around	<ul style="list-style-type: none"> <li>• Execute and monitor the Group reorganisation plan</li> </ul>	
Operational Efficiency (5%)	Increase in organisational efficiency and productivity	<ul style="list-style-type: none"> <li>• Overheads / Gross Profit</li> <li>• Automation Rate</li> </ul>	
		<ul style="list-style-type: none"> <li>• Support services cost/ GP</li> <li>• Digital Proficiency</li> </ul>	
Strategy & Long-term Growth (30%)	4% Market Share	<ul style="list-style-type: none"> <li>• ROIC</li> <li>• New Business Development conversation rate</li> <li>• Market share</li> </ul>	
Human Performance & Organisational Alignment (10%)	Sustained superior business performance in the market place and the achievement of competitive advantage	<p>Increased employee engagement by 10% yoy.</p> <p>Improved organisational business performance by 5% YoY.</p> <p>Increased employee retention ratio</p> <p>Average revenue per employee (Productivity</p>	

	Strategic Initiatives	Initiative %Weight	Annual Performance Targets FY21/ 22	FYE Score
<ul style="list-style-type: none"> <li>Portfolio management entities, associates &amp; surplus cash</li> <li>Strategic partnerships</li> <li>Diversify short term investments</li> <li>Feedstock: Backward integration / Equity crude finished product</li> <li>Plant utilisation rate: Preventative maintenance</li> <li>Production targets and quality management</li> </ul>	7.5%	Net Loss of R1.1B		
	7.5%	Gross Margin (4%)		
	7.5%	Utilisation Rate 95%		
	7.5%	Meet 80% Production Targets		
<ul style="list-style-type: none"> <li>PetroSA Turnaround Plan Execution</li> <li>Change Management &amp; Stakeholder Management</li> <li>Target Operating Model Design</li> <li>Refinery conversion: GTL to Crude TL</li> <li>Divestments: Upstream-Midstream and non-core assets</li> <li>Organisational rightsizing</li> <li>Merger of PetroSA, SFF and iGAS</li> <li>Embark on strategic partnerships</li> </ul>	10.0%	On time delivery of priority projects		
	10.0%	Execution of merger within stated timelines		
<ul style="list-style-type: none"> <li>Business Process Management</li> <li>Consolidation, rationalisation, and integration of Group enterprise systems</li> </ul>	2.0%	(Overheads / Gross Profit) to 539%		
	1.5%	50% Automation		
	1.5%	Support services cost/ GP of 7.0%		
<ul style="list-style-type: none"> <li>Consolidation, rationalisation, and integration of Group enterprise systems</li> <li>Shared Services</li> <li>Outsourcing of non-core activities</li> </ul>	2.5%	Digital Proficiency > 15% by 2022		
	2.5%	60% Initiative success rate		
<ul style="list-style-type: none"> <li>Develop and Execute Group Growth and Funding Strategy</li> <li>Acquisition of operating assets</li> <li>Petroleum (-Downstream entry</li> <li>Gas (LNG and shale gas)</li> <li>New Mine Development/ Acquisition</li> <li>Fuel storage (Storage in Durban, Cape Town, and Gauteng)</li> <li>New energy (Biofuel and energy storage)</li> <li>Group Master Brand strategy to position CEF Group</li> <li>Continental Shelf Claim and Upstream Marketing initiatives</li> </ul>	7.5%	R300M income from new business		
	7.5%	New Business Development conversion rate of 60%		
	7.5%	Brand Reputation Score of 60%		
	7.5%	2% Market Share		
<ul style="list-style-type: none"> <li>Fit for Purpose Holding Company and New Merged Company Org Structure development</li> <li>Change and Transformation Pillar and adaptation to New Normal Transformation Culture and 4IR</li> <li>Integrated Talent Management Strategy</li> <li>Group HR Strategy Framework including EVP, Policy Review and Harmonisation</li> <li>Group Values and Culture</li> <li>Shared Services Delivery Model</li> </ul>	2.5%	Holding Company Org Structure implementation to support Parenting Strategy & New Company Org Structure Development as part of Merger		
	2.5%	Implementation of Change Management initiatives to support the Org Structures & New Normal due to COVID		
	2.5%	<ul style="list-style-type: none"> <li>Performance Management Automation</li> <li>Leadership Competency Framework</li> <li>Activate Integrated Talent Management System, Talent Boards</li> <li>Training and Development</li> </ul>		
	2.5%	Shared Services Integration: Approved business case		

## GROUP PERFORMANCE (CONTINUED)

Strategic Themes	Goal / Objective	Measure / KPI	
Socioeconomic Transformation and Reputational Management (50%)	Improve CEF Brand reputational value	<ul style="list-style-type: none"> <li>B-BBEE Level</li> <li>Brand reputation</li> </ul>	
	Minimise risk exposure and cost of doing business (13%)	Audit opinion: Process Design and/or Effectiveness of Controls Assessment levels were evaluated as "Good"	
Corporate Governance & Enterprise Risk management (ERM) (50%)	Minimise risk exposure and cost of doing business (10%)	Litigation & Penalty costs	
		Maturity level	
	Risk level		
	Effective and efficient corporate governance / oversight structures and driving of shareholder-alignment (13%)	<ul style="list-style-type: none"> <li>Board evaluation</li> <li>Shareholder approvals</li> </ul>	

Not Assessed 0	Not Achieved 1	Below Target 2	On Target 3	Above Target 4	Exceptional / Ceiling 5
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	Strategic Initiatives	Initiative %Weight	Annual Performance Targets FY21/ 22	FYE Score
	B-BBEE Level	25%	B-BBEE Score Level 3	Yellow
	<ul style="list-style-type: none"> <li>Brand reputation</li> </ul>	25%	Implement Brand & Stakeholder Strategy (20% of 5yr plan)	
	<ul style="list-style-type: none"> <li>Operating model for IA</li> </ul>	4%	Unqualified audit / (Combined assurance)	Green
	<ul style="list-style-type: none"> <li>Evaluate whether initiatives supporting Corporate Plan delivered the intended goal</li> </ul>	4%		Yellow
	<ul style="list-style-type: none"> <li>Evaluate all internal controls for effectiveness.</li> </ul>	5%		Dark Green
	<ul style="list-style-type: none"> <li>Develop legal strategy and operating model of Group-Legal department &amp; align to parenting strategy</li> <li>Develop contracting framework / standardisation for complex transaction, that will articulate the liability tolerance and allowable deviations in support of commercial business transactions</li> </ul>	6%	<ul style="list-style-type: none"> <li>Contracting framework / standardisation for complex transaction</li> <li>Implementation of contracting policy and standardisation of contracts.</li> <li>Procurement and implementation a contract management system.</li> <li>SHEQ coordination plan and COVID-19 policy framework</li> </ul>	Dark Green
		4%	<ul style="list-style-type: none"> <li>Group Priority: Provide oversight on high impact litigated matters.</li> </ul>	Green
	Update and implement ERM maturity level initiative	6%	Basic ERM Maturity level	Yellow
	Improved Scenario planning / predictive analysis	5%	Establish risk tolerance-level	Red
	<ul style="list-style-type: none"> <li>Develop and implement governance framework (Including parenting strategy)</li> <li>Develop and implement a shareholder relationship model</li> <li>Streamline and enhance the subsidiary management model</li> </ul>	13%	Conclusion of Shareholder Compacts	Green

# GROUP PERFORMANCE (CONTINUED)

## Corporate Services

The purpose of this report is to highlight the CEF Group Human Capital (HC) Divisional activities and achievements for the 2021/22 fiscal year. Human Capital Function is responsible for driving the people agenda within the CEF Group through the development and implementation of the most effective interventions that will ensure that the organisation achieves its strategic objective.

### 1.Executive Summary

Since the outbreak of COVID-19 in 2020 we have seen companies, especially Human Capital, changing how they assess business requirements to be relevant in the business space. The relationship of Human Capital requires a more collaborative approach and requires that we have an adaptive mindset. For Human Capital to deliver on their mandate, data integrity plays a huge role as CEF SOC Group's data integrity will be the centre of our Human Capital decision-making.

Our employees were the cornerstone of changes that the company implemented and were in the driving seat right through. We adhered to the Government's COVID-19 regulations including, but not limited to implementing a work rotation schedule to ensure that social distancing at the workplace is maintained.

The Human Capital department managed to provide a responsible and fair remuneration for our people. Employee development was amongst our top priority. The department will continue to strengthen the values, culture of the company, and enhance our Employee Value Proposition.

Our priority is to accelerate our capability to be an equal business partner for the organisation. This will help to strengthen our stakeholders' trust in delivering and supporting the business strategy.

### The Human Capital outlook for the year 2021/22:

- Total of 1 823 employees employed across all entities
- Diverse Top and Senior Management team with 37% female representation at Senior Management level
- 58% of Previously Disadvantaged Individuals (PDI's) employed in all entities are permanently employed
- 67% of the total employees is represented by male while 33% represents female
- R6 750 141 invested on skills development
- R191 642 236.73 salaries and benefits for CEF SOC, AEMFC and iGAS
- 11% Turnover
- The pending merger remains a threat for SFF to achieve operation targets

### 1.2.Human Capital Strategy

The long-term strategy of CEF Group Human Capital is to facilitate the creation of a High-Performance Organisation (HPO). The Group Human Capital Strategy orbits around four broad pillars, namely:

- Culture of high performance
- Integrated talent management
- Employee value proposition
- Transformation and change

The success of the Human Capital Strategy hinges on its ability to respond to the parenting strategy through appropriately skilled human capital, digitisation, and automated processes. For the strategy to be effective, the technology platform and business support systems must be supportive in integrating all aspects relating to human capital. In addition to the platform are the policies, procedures, and a support services operating model.

# GROUP PERFORMANCE (CONTINUED)



## A SUSTAINABLE LEARNING ORGANISATION

The CEF Group is committed to creating an agile environment that enables consistent and streamlined people-development policies, systems, processes, and procedures to contribute to the development of 'One CEF' through the application of Strategic Investing. The Integrated Talent Management Framework drives the human capital interventions towards the realisation of a HPO.

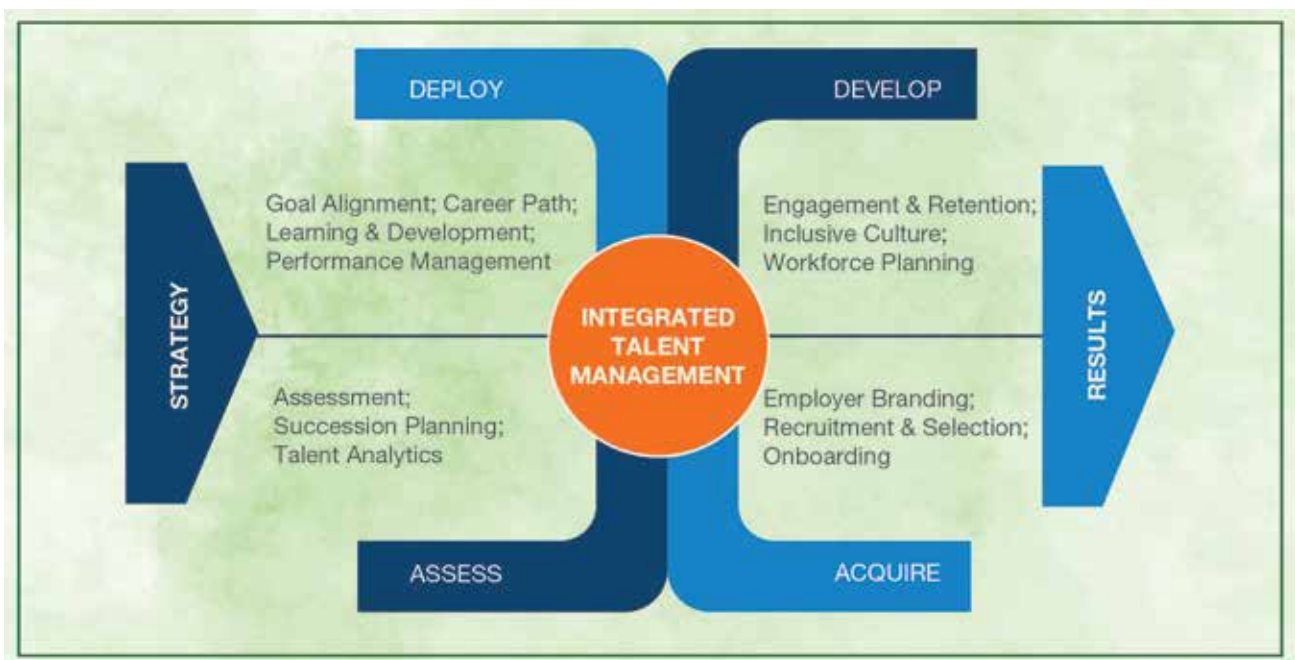


Figure 3: Group Integrated Talent Management Framework

# GROUP PERFORMANCE (CONTINUED)

## 1.3. Employee Movements

CEF SOC Group had 1 823 permanent, Fixed Term Contracts (FTC's) and short-term contract employees.

### Employee Movements

- 2 055 Permanents, FTC's and short-term contract employees

## GROUP EMPLOYEE MOVEMENTS

CEF Group Employee Movement	2020/21
Headcount at 31 December 2020	1 877
<b>Add:</b> Appointments	21
<b>Less:</b> Broken down as follows:	75
Resignations (Incl. end of contracts, VSP/ retrenchments)	(43)
Deaths	(1)
Dismissal	(9)
Retirements	(13)
Retrenchments (voluntary severance packages)	(0)
Disability	(9)
<b>Total headcount at 31 March 2022</b>	<b>1 823</b>

## 1.4 Group Headcount as at Q4 2021/22

The diagram below summarises the total headcount and the breakdown of the headcount per subsidiary.

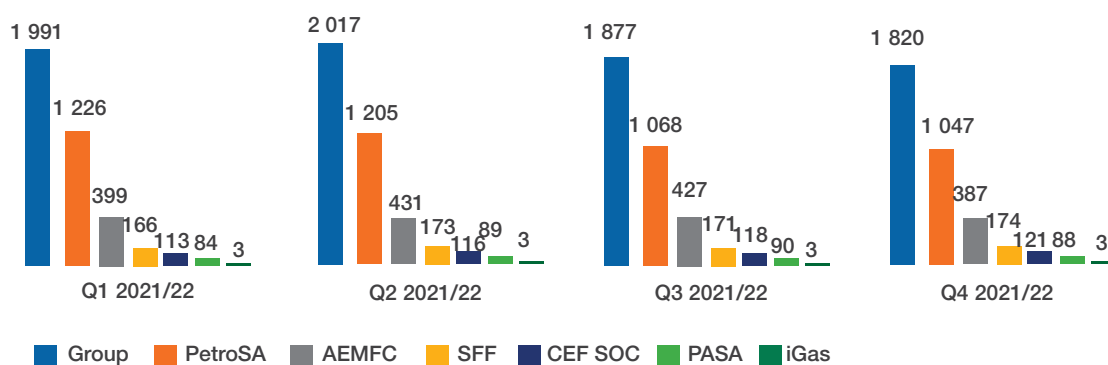


Diagram 1: CEF Group headcount as at 31 March 2022

Category	2020/21	2019/20	2018/19
Employee Population	2 055	2 324	2 107
Black Representation	60%	61%	57%
Women Representation	31%	28%	29%
Female % at Top and Senior Management Level	32%	27%	26%
% of PWD	1%	1%	1%

# GROUP PERFORMANCE (CONTINUED)

## 1.5. Diversity, Inclusion, and Transformation

The Group reported a slight decrease of its gender representation with 31% of its female population compared to 69% male population. The decrease of gender representation is due to employment of more males than females. The Group continues to be underrepresented on People Living with Disabilities as it stands at 1% of the total employee population, which is below the target of 2% set by the Government.

## 1.6. Group Diversity Status 2021/22

Indicator	African M	Coloured M	Indian M	White M	African F	Coloured F	Indian F	White F	Total
Top Management	12	0	2	0	5	0	0	0	19
Senior Management	25	2	5	9	16	2	2	1	62
Professionally qualified, experienced specialist	105	64	8	49	78	6	6	16	348
Skilled technical, academically qualified workers, junior management	192	170	8	97	107	6	6	36	687
Semi-skilled technical	230	56	0	10	83	0	0	2	400
Unskilled technical	47	4	0	0	44	0	0	0	97
<b>Total Permanent</b>	<b>611</b>	<b>296</b>	<b>23</b>	<b>165</b>	<b>333</b>	<b>14</b>	<b>14</b>	<b>55</b>	<b>1 613</b>
Non Permanent	82	20	1	15	54	2	2	5	186
People with disability	2	4	1	7	4	0	0	3	24
<b>Total</b>	<b>695</b>	<b>320</b>	<b>25</b>	<b>187</b>	<b>126</b>	<b>16</b>	<b>16</b>	<b>63</b>	<b>1 823</b>

Transformation and managing diversity are organisational imperatives, hence the importance of CEF Group to embrace the benefits of managing a divergent workforce and translate it to organisational benefits.

The table below illustrates the CEF racial profile in comparison with subsidiaries that are based in different provinces. It must be noted that the various provincial Employee Assistance Programme (EAP) are used which influence the racial profiles of each entity due to their location. Western Cape EAP impacts SFF, PetroSA and PASA; Mpumalanga EAP influences AEMFC; and Gauteng EAP influences CEF SOC and iGAS. Recruitment remains a key source of providing the pipeline of employees from various races, mainly the African and Indian population, to address the disparities reflected in the diagram below.

Race	NEAP	PetroSA	AEMFC	SFF	PASA	CEF
African	78.8%	46.0%	98.0%	53%	59.0%	87%
Coloured	9.8%	35.0%	0.5%	35.2%	35.0%	3%
Indian	2.6%	2.0%	0.0%	2%	2.0%	4%
White	8.8%	17.0%	1.4%	9.0%	6.0%	6%

CEF racial profile per CEF entity vs National Economic Active Population (NEAP)

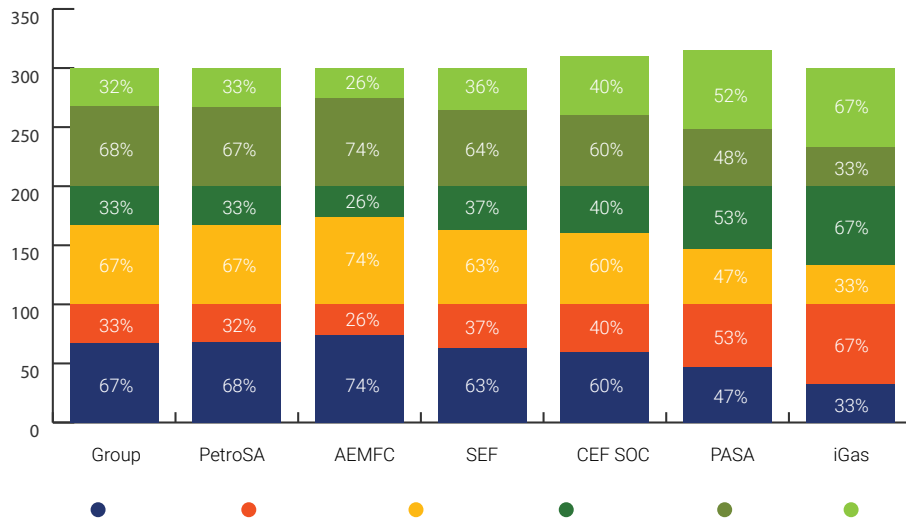
## 1.7. Group Diversity Status

Employment Equity (RACE, Gender, Youth and People with Disability (PwD))

During the period under reporting, the Group's gender representation is at 67% male vs 33% female. PASA has remained a stellar performer in terms of the 53% women representation for Quarter 4 of this financial year when compared to other entities. Reducing the diversity gaps (representation of females and people living with disabilities) remains a critical transformation imperative for the Group. Recruitment and internal promotions are the main pipeline processes to address these gaps and the reduction in recruitment by the different entities due to the upcoming merger or due to their financial positions has hugely impacted this initiative. The Group's female representation was below the NEAP at 44.6%.

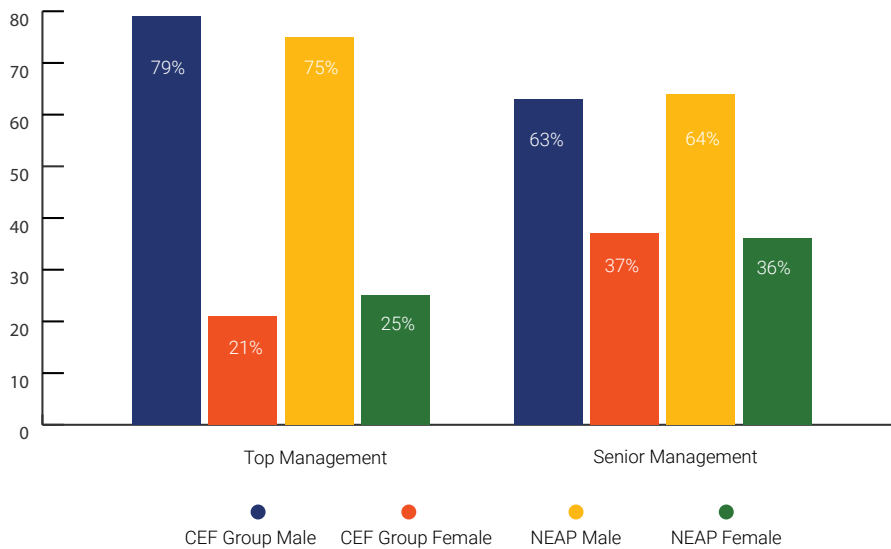
# GROUP PERFORMANCE (CONTINUED)

Group Gender Profile per entity



PetroSA reported a small decrease in its gender representation in Q4 at 68% male vs 32% female. The appointment of 11 males vs 2 females at AEMFC during Q2 has resulted in a degression of the gender representation, which further increased the existing disparity at 74% male vs 26% to affect the Group due to their gender representation being above 70% male vs 30% female.

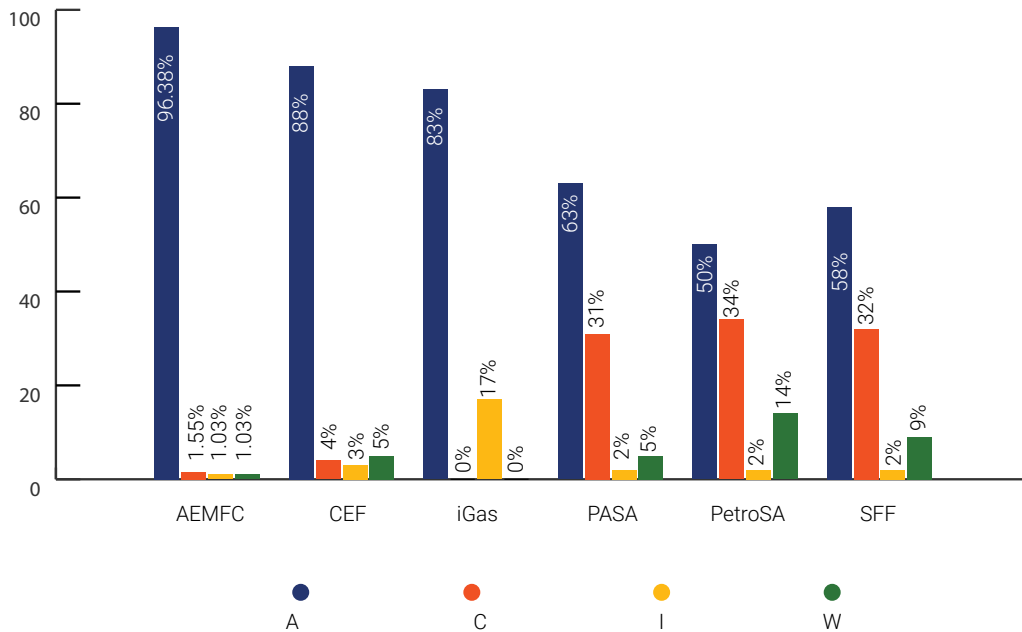
Group Gender Profile at Top & Senior Management for 2022



The data above reflects that CEF Group' female representation at Top Management is still less than the NEAP, while at Senior Management level CEF's female representation at 37, % has exceeded the NEAP target of 36%. The data below illustrates CEF Racial profile comparing each CEF entity. It must be noted that the various Provincial EAP influence the racial profiles of each entity due to their location, Western Cape EAP impacts SFF, PetroSA and PASA, Mpumalanga EAP influences AEMFC, and Gauteng EAP influences CEF SOC and iGas. Recruitment remains a key source of providing the pipeline of employees from various races African and Indian population to address the disparities reflected in the below diagram.

# GROUP PERFORMANCE (CONTINUED)

Group Racial Profile per Entity for 2022



The Group representation of people living with disabilities remained below the target of 2% during this period at 1.0% of the employee populations. The transformation strategy being developed should outline plans that can be implemented to address this disparity and ensure that the work environment can accommodate people with disabilities.

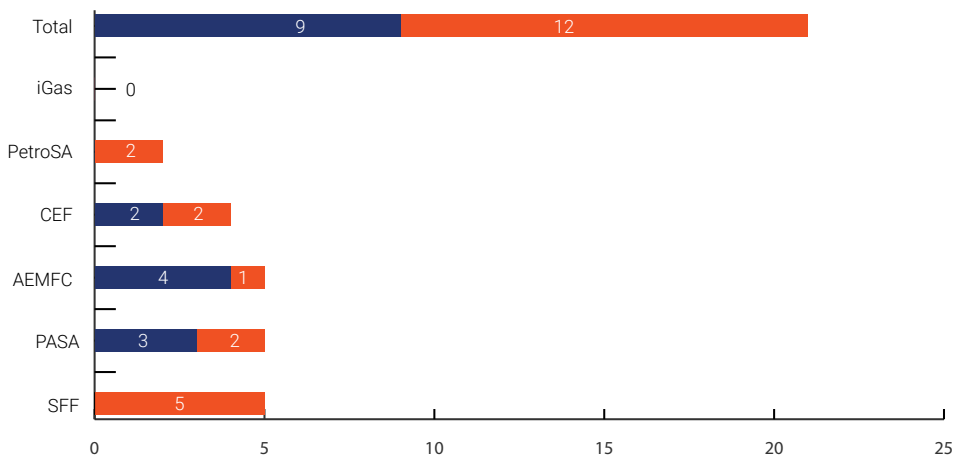
## 1.8. Talent Sourcing Report

AEMFC reported that during 2021/22 about 80% of the senior vacant positions were filled i.e., GM: Projects, GM: Corporate Services, GM Mining Operation, GM: Finance

### Appointments

The CEF Group had 21 new appointments for the financial year. The gender representation of the appointments was 57% female vs 43% male.

Group Racial Profile per Entity for 2022



	SFF	PASA	AEMFC	CEF	PetroSA	iGAs	Total
Series1	5	3	4	2	0	0	9
Series2	0	2	1	2	2	0	12

# GROUP PERFORMANCE (CONTINUED)

## 2. Group Remuneration Philosophy

CEF Group's remuneration policy applies to all employees in all organisational levels including Executive Members, except for Non-Executive Directors whose remuneration practices are governed by the DMRE guidelines.

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

### 2.1. Remuneration Framework

CEF adopted the following remuneration framework for its employees:

1. Target gross total guaranteed package at market median value or the 50th percentile.
2. Target total earnings (total guaranteed package and variable pay) will be benchmarked with the relevant competitive markets between median and upper quartile levels.
3. The principle of "equal pay for work of equal value" is recognised and adopted to drive internal equity.
4. Regular market benchmarking is done using current reputable surveys and appropriate comparator groups.

### 2.2 Remuneration Strategy

The Remuneration Strategy is a critical lever of the HR Strategy that is intended to position CEF as an employer of choice thereby increasing its competitive advantage in the market while increasing its ability to attract, retain and motivate high calibre talent. The CEF Remuneration Strategy will be an integrated approach encompassing various reward components that will be designed around various influencing levers such as:

- Financial and strategic performance of CEF
- Individual performance
- Market movements

This approach is not wholly dependent upon remuneration as the only driver of performance but also considers the overall employee satisfaction and engagement. The remuneration strategy of CEF shall be guided by the following five forces:

- Organisational needs and values
- Individual needs and values
- Performance management
- Internal relativities (internal parity and equity)
- External relativities (salary surveys/benchmarks)

### 2.3. Group Remuneration Report

AEMFC has reported that it has spent R107 090.73 million on labour costs while CEF SOC labour cost for 2021/22 was R83 229 million and iGAS has reported R1 323 236.00. It must be noted that the medical aid and retirement fund contributions are included in the Total Guaranteed Remuneration (TGR) costs as this forms part of employees' all-inclusive package.

Entity Name	Labour Cost
PETROSA	R1 086 647 384.00
AEMFC	R107 090 000.00
SFF	R103 486 765.00
CEF	R83 229 254.00
PASA	R21 296 132.00
IGAS	R1 323 236.00

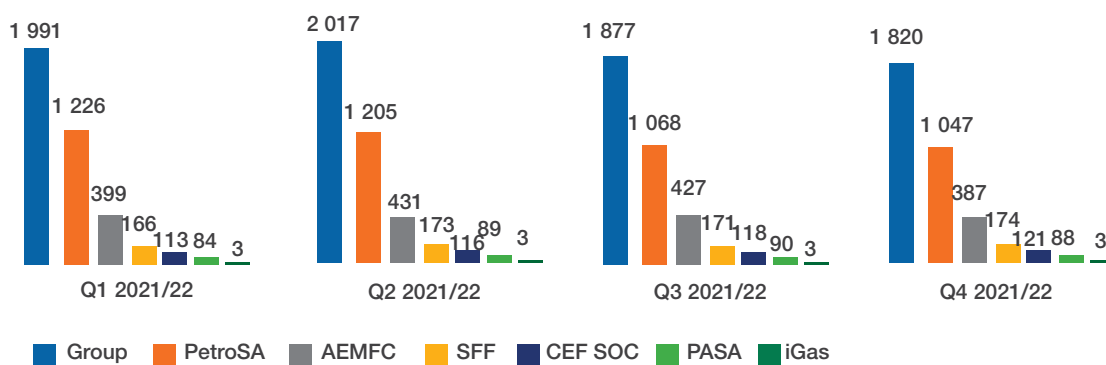
It must be noted that the medical aid and retirement fund contributions are included in the Total Guaranteed Remuneration (TGR) costs as this forms part of employees' all-inclusive package

# GROUP PERFORMANCE (CONTINUED)

## 3. Group Headcount

The diagram below summarises the total headcount and the breakdown of the headcount per subsidiary, comparing Q1 to Q4 2021/22.

Group Entities Employee Population from Q1 to Q4 2021/22



### 3.1. Terminations

The Group reported a total of 75 terminations, including the death of 1 employee at AEMFC

Table 2: CEF Group termination report per entity as at Q4 2021/22

Type of Termination	PetroSA	AEMFC	SFF	CEF	PASA	IGas	Total
End of Contract	17	0	0	8	0	0	25
Resignation	11	2	1	4	0	0	18
Retirement	10	0	0	3	0	0	13
Deaths	0	1	0	0	0	0	1
Dismissal	1	4	2	2	0	0	9
Disability	0	6	0	0	3	0	9
Retrenchment	0	0	0	0	0	0	0
<b>Total</b>	<b>39</b>	<b>13</b>	<b>3</b>	<b>17</b>	<b>3</b>	<b>0</b>	<b>75</b>

There was an increase in the number of ended contracts and resignation when comparing Q3 to Q4. PetroSA and CEF are the highest contributors in terms of terminations.

# GROUP PERFORMANCE (CONTINUED)

## 3.2. Group Diversity Status

Group Gender Profile per entity Q1 - Q4 2021/22

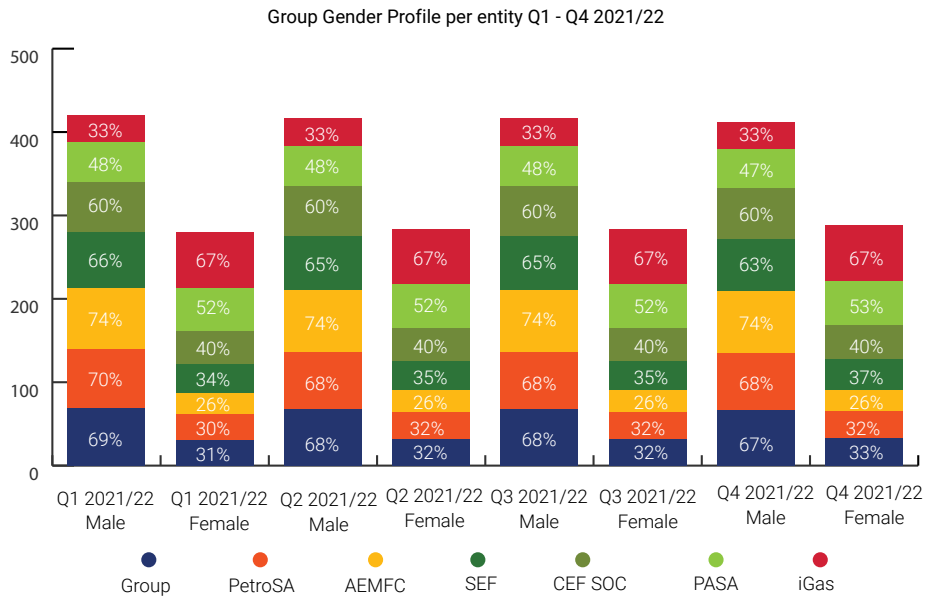


Diagram 3: CEF Group gender profile per entity as at end of Q4 2021/22

All entities reported a consistent gender representation.

## 4. Employee Skills Development, Training and Youth Development

The coronavirus disease (COVID-19) pandemic and related lockdown and physical distancing measures caused not only unprecedented disruption in the provision of education and training but also catalysed learning in the form of virtual learning. Most of the entities focused on compliance and regulatory internal training to comply with the COVID-19 safety requirements.

As a result, the Group invested R6 750 141.23 YTD in the development of its talent through various training programmes for its employees and Work Integrated Learning (WIL) programmes ranging from external bursaries, graduates-in-training's travel, salaries and/or stipend, learnerships, internship and apprenticeships.

CEF SOC reported that, in the period under review, out of the 77 students funded in the 2021 academic year, 9% of people trained were youth.

The table below illustrates the categories under which the training and development was invested for the year under review.

# GROUP PERFORMANCE (CONTINUED)

## Skills development cost dashboard

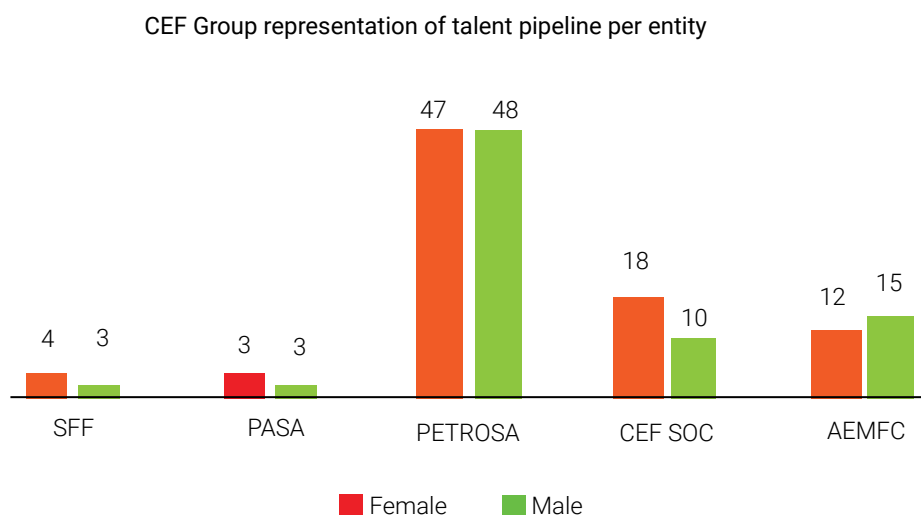
Category	Costs	Cost Breakdown
Employee Functional Training	R1 242 007.29	Employee-related training and development
Travel and Accommodation	R0.00	Training-related travel and accommodation
Employee Financial Study Assistance	R257 353.62	Employee study assistance
Graduate-in-Training (GiT)	R1 122 409.90	GiTs stipend paid and training-related
External Bursary Programme	R2 789 306.42	Fees, books, tuition and accommodation
Internship	R405 000.00	Stipend
Apprenticeship	R934 064.00	Stipend
Professional Association Fees	0	
<b>TOTAL AMOUNT PAID</b>	<b>R6 750 141.23</b>	

Diagram 5: Distribution of skills development expenditure per intervention

### 4.1 Talent Pipeline Development Programs

From the Group's R6 750 million spent on skills development during 2021/22, 78% of that amount (which equals to R5 265 million) was invested on the WIL programmes that included the following programmes: external bursaries, Graduates-in-Training's travel, salaries and/or stipend, learnerships, internship and apprenticeships. Figure 2 below shows the representation of the Group's talent pipeline per gender.

Diagram 6: CEF Group representation of talent pipeline per entity



# GROUP PERFORMANCE (CONTINUED)

## 5. Organisational Development

Implementation of the new organisational structure

PASA reported that it achieved 80% of its Q4 Human Capital target focused on the recruitment for the 8 new positions i.e., Chief Information Officer, Senior Environmental Compliance Coordinator, Personal Assistant, Licensing Systems Administrator, E & P Assets Manager, Licensing and Legal Compliance Officer, Senior Human Resource Officer and Admin Assistant, and Group Employee Relations.

SFF recruited 8 females into the organisation for the financial year. This shows commitment from the executive team on managing diversity.

### 5.1. Group Employee Relations Q4 2021/22 FY

#### 5.1.1. Employee Relations Climate

The internal Employee Relations climate in the Group was unstable and uncertain. In particular, the climate at AEMFC was so volatile that it culminated in two strike notices being issued by unions but were interdicted at the Labour Court. The uncertainty was attributable to the following factors, details of which are outlined under the heading "Pending Disputes" below:

- a) Revised s189A Notice issued to organised labour in December 2021, wherein labour demanded that management should withdraw the notice (PetroSA).
- b) No finalisation of the Short-Term Incentives Policy dispute which is still pending at the Labour Court (PetroSA).
- c) Pending review application wherein management sought to review CCMA's ruling, which dismissed the company's application for Exemption from the 2018-21 Wage Agreement, at the Labour Court (PetroSA).
- d) The Risk Allowance Agreement dispute in which management is challenging the validity thereof at the CCMA (AEMFC).

## 2. Wage Negotiations

### (a) PASA

The annual salary negotiations for FY2021/22 were concluded in January 2022 with an agreement of 3.1% increase across the board. Non-bargaining unit employees, including Management were also granted a 3.1% salary increment.

### (c) CEF SOC

The process of finalising salary increases will resume for the current financial year.

## 3. Industrial Actions

No strike action was reported in the Group during Q3. However, both AMCU and NUM served AEMFC with 48-hour strike notices in September and October 2021, respectively. Both notices were successfully interdicted through urgent court application. As soon as papers were served to AMCU the union agreed to withdraw the action since it involved payment of annual bonuses which is a dispute of right that ought to be arbitrated.

It must be mentioned that actions of this nature not only affect the financial resources of the company, but they also impact on mutual trust which is the bedrock upon which the employment relationship rests

### 5.1.2. FUNCTIONALITY OF CONSULTATIVE STRUCTURES

The Group's consultative structures (ERFs and Workplace Forum) had mixed responses on holding monthly meetings due to a variety of reasons. All entities held the quarterly forums where issues of Human Capital policies, moratorium, remuneration and benefits matters were discussed.

### 5.1.5. OVERALL CASE LOAD

The overall Group Employee Relations (ER) case load on grievances, disciplinary and matters referred to the CCMA/ Bargaining Councils and Labour Court are reflected in the table below.

Table 4: CEF Group employee relations matters (disciplinary, grievances and CCMA/Labour Court/Bargaining Councils referrals)

Cases	CEF SOC	PetroSA	AEMFC	SFF	PASA	Total
Grievances	01	07	00	00	00	08
Disciplinary	04	07	03	00	00	14
CCM/BC	00	03	03	00	00	06
LC/LAC	00	00	00	00	00	00
<b>Total</b>	<b>05</b>	<b>17</b>	<b>06</b>	<b>00</b>	<b>00</b>	<b>28</b>

## 4. Human Capital Global Trends

The world has changed rapidly in the past two years which required organisations to be agile. Since the pandemic we have seen a shift towards full remote working, health concerns, great resignation and lately, the shortage of talent. The following are the global Human Capital trends for 2022/23 and beyond:

- **Change in Human Capital:** Human Capital has moved from a project offering to product offering. This is a major change since the product is a continuing offering, resources are allocated as impact increases and are aimed at providing value. This will increase Human Capital service delivery quality, and help Human Capital build the capabilities that improve the business' bottom line.
- **HR transformation:** Human Capital must own business transformation. Currently in most organisations Human Capital is introduced late in the process of business transformation. Human Capital professionals are already equipped with skills like organisational design, organisational development, and transformation. When these skills are utilised in the early stage of business transformation, it will save businesses time and minimise litigations.
- **Collaboration by design:** Remote work has boosted productivity by 77% during the pandemic, it also shrank networks and created more silos. Human Capital must help organisations with collaboration, co-creation and an innovation approach. Human Capital must help businesses by designing a workplace that is both physical and digital that helps teams work together and connect.
- **Career experiences:** The average experience an employee gives per organisation is at least 4 years. To retain employees some organisations introduced lateral, vertical, rotational and boomerang experiences.
- **Talent marketplace:** Companies can no longer rely on hiring people. Human Capital is increasingly conscious of the importance of planned skill development. As consequence, more and more companies are looking into working with their strategic partners to create common talent marketplaces.
- **Diversity, Equity, Inclusion and Belonging:** Belonging brings a shift towards psychological safety and real inclusion. It is a long-term integral part of the organisation.
- **Impactful reward must be equitable:** The employee value proposition has shifted, there is more emphasis on flexibility, supporting employees, and creating purpose. Employees require organisations to offer inclusive benefits, holistic wellbeing, and mental support.
- **Data literacy:** Shifting from people analytics to data literacy to implement data driven Human Capital deliverables. This is not to say that Human Capital professionals will need to become experts in data collection or analysis. The added value of Human Capital professionals is in translating analytical outcomes into actions.
- **The skill economy:** The shelf-life for skills have shrunk and companies must map skills accordingly. Being able to identify relevant skills, how and when they are developed helps companies match employees with their perfect role and it helps employees navigate their career.
- **Preparing for multiple futures, the flexible and ambiguity:** The pandemic has underlined the importance of workforce and scenario planning, allowing companies to create more adaptive strategies that develop as the business environment evolves.



**5**

**SECTION**

**CORPORATE GOVERNANCE**

## CORPORATE GOVERNANCE

The economic success of the CEF Group is not only dependent on efficiency, innovation and quality management but also on compliance of corporate governance principles. Implementation of corporate governance standards improves the Group performance and positively impacts on our internal efficiency.

Corporate governance practices play a key role in improving the performance and competitiveness of the CEF Group. It has therefore been important for the Group to define the governance rules and mechanisms we will follow that are both specific and effective in an environment marked by perpetual change in order to promote the achievement of very positive results and our long-term commercial sustainability.

Corporate governance aims at facilitating effective monitoring and efficient control of business. Its essence lies in fairness and transparency in operations and enhanced disclosures for protecting the interests of different stakeholders. Corporate governance is defined in King IV as the exercise of ethical and effective leadership by the governing body (the Board) towards the achievement of the following governance outcomes:

- ethical culture;
- good performance;
- effective control; and
- legitimacy.

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

### Ethics and Integrity

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

### Standards of Business Conduct

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

### Internal Audits

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

The mandate is encapsulated in the terms of reference of Internal Audit which is reviewed and approved annually by the Board.

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

### Strategic Internal Audit Plan Alignment

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

- The CEF Group's Corporate Plan and Shareholder's Compact;
- The CEF Group's purpose as it relates to institutionalising a sound governance, risk and control environment;
- Human Capital management strategy and employee culture;
- Factors that could prevent realisation of the Group's goals and objectives;
- Findings from previous internal and external audit reports;
- Results from control self-assessments, integrated assurance and other continuous control monitoring tools used by management; and
- Combined assurance plan.
- The CEF IAS was due for a quality assurance review by the IIA during the latter part of 2018, the last review having taken place in 2013 when it received general compliance results.

The CEF IAS is due for a quality assurance review by the IIA during the latter part of 2023. The last review took place in 2018 when it received general compliance results which is an excellent result as it indicates that Internal Audit complies with International IIA Standards.

### Systems and Practices for Anti-Corruption

The Group is committed to the eradication of fraud, corruption, misconduct and irregularities. The Code of Ethics assists the Board, executive management, staff and contractors of the Group to make ethical decisions and engage in appropriate and lawful conduct.

The subsidiary companies each have a Fraud Prevention Policy, which addresses fraud risk management from both proactive and reactive perspectives. The Group has contracted the services of an independent provider of a hotline service for the confidential reporting of fraud and other inappropriate behaviour. The activities of the fraud hotline are reported to the Group Chief Audit Executive (GCAE) and the Chairperson of the Board Audit and Risk Committee on a monthly basis and on a quarterly basis to the Board Audit and Risk Committee.

The Fraud Prevention Policy provides for the GCAE and Chairperson to procure for the services of an investigator outside the procurement department, while following the spirit of the procurement legislation. This is done due to the sensitive nature of the fraud investigation.

### Transparency

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

### Board of Directors

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

### The Board Retains Overall Accountability

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

These issues include:

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

### Board Selection Process

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

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

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

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

### Induction for New Board Members

Induction of new board members underpins the work of the executive management team. It ensures that new board members have all the information they need to fulfil their role. The CEF induction is one of the most practical ways of ensuring new board members have all the information they need to understand and fulfil their role, the workings of the organisation and their relationship with other key stakeholders in and outside the organisation.

### Continuous Board Development

As part of our efforts of becoming a high performance organisation, CEF facilitates a number of formal and informal continuous board development initiatives. Board training gives members the preparation, resources, and tools they need to enhance strategic oversight and guidance, cultivate strategic partners and the Shareholder effectively. The professional development and training programmes empower board members to be more effective in ways that create impact and fuels success.

### Communicating with Directors

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

### Compensation of Board of Directors

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

### Board Committees

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

Board Committee Structure	Strategic Responsibility
Board Audit and Risk Committee	Responsible for discharging its duties relating to the safeguarding of Group assets, the operation of adequate systems, control processes and the preparation of accurate integrated reporting and financial statements in compliance with all applicable legal, regulatory and reporting requirements and standards as well as reputational risk, as listed and defined in the Group's enterprise-wide Risk Management framework.
Social and Ethics and Governance Committee	Responsible for providing leadership and taking responsibility for the CEF Group's transformation, social economic development, ethics employment equity and sustainability, including the management of non-financial issues, within the broader Group Governance and Strategic framework

## CORPORATE GOVERNANCE (CONTINUED)

### Human Resources, Remuneration and Nominations Committee

Responsible for monitoring the quality and integrity of Human Resource policies and practices of the CEF Group and general oversight of Human Resource and Remuneration policies and procedures. Monitors compliance with significant legislative and regulatory requirements as well as Board development, recruitment and nomination in the Group.

### Finance, Investment, Projects and Procurement Committee

The Committee monitors, considers and makes recommendations to the Board it deems appropriate on all relevant finance, investment, project and procurement matters within the ambit of its terms of reference.

### Materiality and Significance Framework

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

### Board Leadership Structure

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

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

The detailed report on committees, meeting dates, appointments and resignations is contained in the Group Directors' Report in the Annual Report.

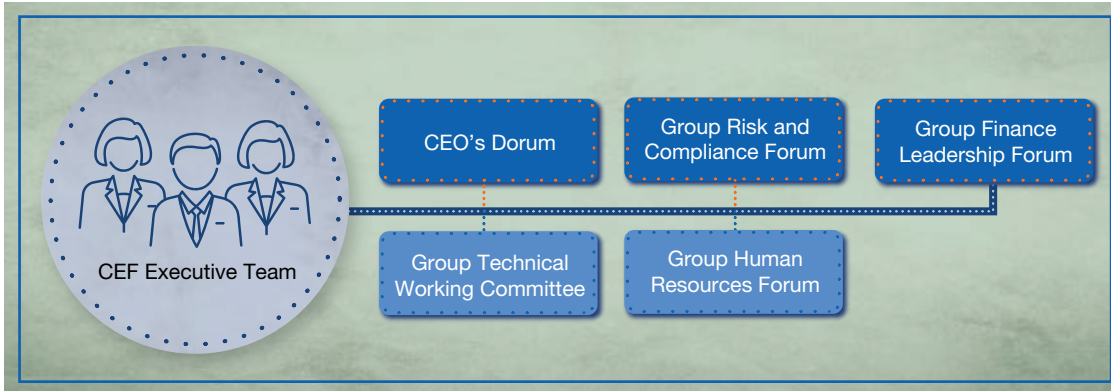
### Executive Management Structures

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

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

## CORPORATE GOVERNANCE (CONTINUED)

teams are active Group management governance forums designed to exploit Group synergies and to ensure alignment to improve Group performance.



As part of CEF management forum there is also IT Steering Committee that provides oversight on key information technology Information strategic initiatives

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

Management Committee	Strategic Responsibility
<b>CEO's Forum</b>	This is the principal structure to give effect to integrated execution of strategy across the group. The forum is chaired by the CEF Group CEO, with the CEOs of each subsidiary making up its membership. Key CEF executives are invited to the forum, including the CFO, Group COO, Corporate Services, Group Head of Risk and Compliance, Group Corporate Planner and General Manager: EPD.
<b>Group Legal, Risk and Compliance Forum</b>	This forum informs the state of practice across the Group for dealing with legal, risk-management and compliance matters, pursues the mandate of streamlining and improving governance and oversight across the Group for GRC purposes, and streamline the risk management, compliance and fraud-management policies within the Group.
<b>Group Finance Leadership Forum</b>	The purpose of the forum is to lead the CEF Group to achieve a uniformly high standard of practice in corporate financial management, provide financial leadership, drive standardisation of systems and processes, drive the transition to a high-performance financial organisation, and drive integrated financial planning and reporting for the Group.
<b>Group Technical Working Forum</b>	The forum provides technical support to the Project Appraisal and Monitoring Committee (PAMC), reviews projects before they are tabled at the PAMC and gives assurance that all projects with a significant technical component are adequately evaluated, as such projects can commit significant amounts of capital, and often for lengthy periods of time.
<b>Group Human Resources Forum</b>	This forum, which consists of human capital business partners across the CEF Group, seeks to achieve a common base of practice and elevate the baseline on human capital management. It: <ul style="list-style-type: none"> <li>formulates a collaborative human-capital agenda that will support group operations in a cohesive, relevant manner;</li> <li>aligns the human-capital mandate in the CEF Group through coordination of efforts;</li> <li>identifies and manages areas of convergence; and</li> <li>eliminates duplication of policies and processes.</li> </ul>
<b>IT Steering Committee</b>	<ul style="list-style-type: none"> <li>An IT steering committee is a committee chaired by of the senior executives to direct, review, and approve IT strategic plans, oversee major initiatives, and allocate resources. It is not involved in day-to-day management of the IT organisation. Rather, the steering committee establishes IT priorities for the business as a whole to align with the strategic trajectory of the organisation.</li> </ul>

The image features a large, bold white number '6' in the center. The background is a vibrant green with a complex network diagram overlaid. The diagram consists of numerous white nodes connected by thin white lines, forming a series of concentric, irregular circles and a larger, more complex web-like structure at the bottom. The overall aesthetic is modern and technological.

**6**

**SECTION**

**OPERATIONAL PERFORMANCE**

## AFRICAN EXPLORATION MINING AND FINANCE CORPORATION

### AEMFC Operating Environment

AEMFC currently operates one open cast coal mine named Vlakfontein in the municipality of Ogies, in the Mpumalanga province (120 kilometres east of Gauteng). The mine has been in production since 2011. In April 2020, AEMFC signed a coal supply agreement with Eskom for a period of four years, supplying coal to Kusile Power Station (and other alternative Eskom power stations at Eskom's discretion).

The entity has two other coal mining rights at feasibility study review stage, both projects have been shortlisted for Eskom for an additional 6Mta for 27 years of life, namely:

- a. T-Project with an estimated resource on seam 4 is 384 million tons with a reserve of approximately 137 million tons. The estimated resource of seam 5 is 113 million tons; and
- b. Klippoortjie with mineable volumes of 46 million tons of high-quality coal for both Eskom and export markets.

Key activities of AEMFC remain as the mining and production (crushing and screening) of coal for Eskom. Further the company continues to conduct exploration of alternative minerals where AEMFC owns mineral prospecting rights to develop a project pipeline and thus commission more operating mines. The company is in the process of assessing potential acquisitions of assets being offloaded by South Africa's major mining companies, invitations to participate in fund raising for equity participation and reviewing joint venture collaborations in coal and other minerals for diversification.

AEMFC employs a headcount total of 375 of which 349 are permanent and 7 are on fixed-term contracts. Total assets as at March 2022 were valued at R1.11 billion, with key assets made up of Property, Plant and Equipment.

### Legislative environment

The company has mining rights to mine and sell coal, and holds a coal supply agreement with Eskom up to 2024. The company has also been allocated 400 000 metric tonnes in the DMRE RBCT Quattro Scheme. AEMFC is trading export coal with its associate partner called African Royalty Minerals. The business is in the process of acquiring a diamond trading license, in anticipation of acquisitions in the diamond space.

### Strategic trust

AEMFC's purpose, supported by the State mandate, is:

- a. to ensure that South Africa's energy-producing and beneficial mineral resources (namely coal, battery minerals, rare earths, manganese, iron ore, PGMs, copper, zinc, lithium, silica sands, etc.) are secured to allow economic and social benefits for the Republic of South Africa and other DMRE collaborative efforts towards a better Africa in the development mineral resources; and
- b. to drive the transformation of the South African mining industry, utilising the guidelines from the Employment Equity, Broad Based Black Economic Empowerment and the Preferential Procurement Policy Framework Acts, including the Mining Charter.

### Financial performance

**Turnover:** R696.1 million  
**EBITDA:** R79.9 million  
**ROCE:** 8.1%

Measures of Financial Sustainability	
Profitability	Revenue is at R656 million, 34% behind the R1.1 billion target. Gross profit is at 27% which met the budget target of 26%. Net profit is at 18%, way beyond 1% budgeted. The sale in the disposal of the associate Mzikhulu shares contributed positively.
Liquidity	Cash is at R331.5 million, an increase of 264.6% from the prior year (R125 million). The current ratio is at 1.41.
Solvency	The total assets are at R1.1 billion with the net asset value at R529.8 million.

### Non-Financial Performance

The main focus for the business in FY22 has been to stabilise production out of Vlakfontein's operating asset which has seen a significant improvement on equity production, where the 1 570 992 actual tons were equity coal. This is a significant improvement from FY21's 770 000 actual tons. In Q4 there was a regression in the operating asset due to poor adherence to Eskom procedures, and lower machinery utilisation as the machinery strategy was not adequately implemented,

coupled with poor coal qualities. As a result, at the end of the 2021/22 financial year the sales volumes are trailing budget by 1 038 003 tons (1 570 992 actual tons versus 2 608 995 budgeted tons).

The focus for the business in FY22 became stabilisation operations at the only operating asset. That is going back to basics and these initiatives paid off by the full year. Actual profit after tax of R127.1m is 1 009% higher than the budgeted profit of R11.4m.

The company was liquid as at 31 March 2022 with a cash and cash equivalents balance of R328 million (note however, this balance is made up of restricted cash of R101m, short-term deposits of R185m and cash on hand of R42m). The cash reserves have been boosted by the proceeds from the sales of the investment in associates.

The total asset base was R1.112 billion and the return on assets was 26.1%. The current assets were R469.2m versus current liabilities of R131.1m as at 31 March 2022, yielding a current ratio of 3.58:1.

The company had an improvement on the current year's audit opinion, from a qualified to an unqualified report. Our social license to operate stands the risk of being impacted by the backlog in rehabilitation work at Vlaktefontein. Management is working with the newly established Health, Safety, Environment and Community (HSEC) Board Committee to address this risk. Due to the non-existence of the Enterprise Supplier Development (ESD) strategy and late submission of ESD report and initiatives, the company has regressed to B-BBEE level 8, from a level 4 status. This is largely due to a less than adequate execution of the corporate services function.

On projects, the team will be working with the CEF Group's projects valuation team to advance the Vlaktefontein Life Extension projects. The aim is to approach Board Investment Committee (BIC) and the Board once a go-forward case has been built. The T-project is advancing as planned.

AEMFC would look to advance the Klippoortjie project, with the aim to produce coal for both Eskom and the export market as a matter of priority in FY2022/23.

Engagements afoot to extend the Vlaktefontein Life Extension Project, and the close off on CSA for T-project and Klippoortjie.

### Progress on the Reduction of Fruitless and Wasteful Expenditure

The fruitless and wasteful expenditure are sitting at R1.1 million. Consequence management is implemented on employees implicated and also strengthening the internal controls to avoid penalties and interest on late payments.

### Material Projects Commissioned and Completed During the Year

No projects were commissioned or completed during the year.

### Material Projects Under Study

This is for both South Africa and outside the country and includes other Group cross cutting initiatives.

1. Uranium project at Beaufort West
2. Lithium project in Koppies
3. Phosphate project in Venda
4. REE project in Limpopo
5. Manganese and iron ore in Northern Cape
6. Coal in Mpumalanga (Klippoortjie project)

## Entity Top Five Key Risks and Mitigation Tracking

Risk Type	Description of Risk	Probability	Impact	Risk Response	Status
Cultural	Poor Business Culture	Almost certain	Major	High	Risk is being actively managed and monitored.
Information Technology	Inadequate IT system	Likely	Moderate	High	Risk is being actively managed and monitored.
Fraud and Corruption	Fraud and Corruption	Possible	Major	High	Risk is being actively managed and monitored.
Business Continuity	Business Continuity Concerns	Possible	Catastrophic	High	Risk is being actively managed and monitored.
Health and Safety	Safety, Health and Environment Concern	Almost certain	Catastrophic	Extreme	Risk is being actively managed and monitored.



## Summary Business Score for the period

	Key performance Areas	Weight	2021-2022 target
1	Sales	20%	2.5 mt sold (45 927 074 Gigajoules)
2	Acquisitions	5%	Coal Asset Acquisition for Eskom and Export Market and Concessions in Rest of Africa
3	Commercial Sustainability	26%	Build cash reserves for investment
4	Clean Audit	7%	Reduce Irregular Expenditure from previous audit to <0.3% Revenue
5	Section 54 Approvals	1%	Securing outstanding Section 54 Approvals from DMRE
6	Social and labour Plan Implementation	2%	Implementation of SLP projects
7	Safe Operations	4%	<0.91 Less than the latest published provincial LTIFR
8	Quality of Production and Environmental Sustainability	2%	Commence the process of certification
9	Project execution efficiency	11%	Improved project execution for Vlakfontein extension, T-project, DD on growth projects and Prospecting rights.
10	An efficient operating model and organisational design	11%	Review the current business operating model to achieve an efficient and sustainable organisation
11	Transformation	7%	Maintain B-BBEE scoring at a minimum level 4
	Overall Score	96%	

Not Assessed 0	Not Achieved 1	Below Target 2	On Target 3	Above Target 4	Exceptional / Ceiling 5
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- The weight of the corporate scorecard has been reduced by 4%, this is after the Board resolved to suspend the Klippoortjie project which is delayed by the transfer of the Ogies crude oil storage containers and SFF bunkers. The bunkers are based around the strategic planning of the South African Government during the early 1970s. The concept behind the design was to have a strategic oil reserve stored underground that could be readily extracted on demand to feed the national refinery grid in the case of any significant implementation of an oil embargo or sanctions restricting the import of crude oil. The intent was to keep the country fully functional and independent of any crude shortage for more than one year. The Vlakfontein mining area is made up of a portion of this affected area, where 52 Mt of Vlakfontein's coal resource has been sterilised by the delayed transfer of the bunkers. A significant portion of the Klippoortjie project is also made up of the SFF bunkers and the transfer process has not commenced, as a result the AEMFC growth at the Klippoortjie project has been suspended, pending resolution of the matter.
- Sales are impacted by delays in securing a third-party wash plant, Eskom's delays in approving the rectification plan and higher-grade coal source, and the delayed implementation of the quattro scheme lease agreement. Persistent rain over the Mpumalanga coal fields, poor adherence to Eskom procedures, and poor machinery utilisation due to no maintenance have impacted coal deliveries to Eskom.
- The focus for the business in FY22 has been to stabilise production of the Vlakfontein operating asset which has seen a significant improvement on equity production where the 1 570 992 actual tons were equity coal. This is a significant improvement from FY21's 770 000 actual tons.
- In Q4 there was a regression at the operating asset due to poor adherence to Eskom procedures, and lower machinery utilisation as the machinery strategy was not adequately implemented coupled with poor coal qualities. As a result, at the end of the 2021/22 financial year the sales volumes are trailing budget by 1 038 003 tons (1 570 992 actual tons versus 2 608 995 budgeted tons).

Actual Q4	Q1	Q2	Q3	Q4	Target
1 570 992 tons or 231 490 605 Gigajoules	2	1	1	1	5
De prioritized	4	1	1	0	5
Above budget ratios	4	5	5	5	5
a. Audit Tracker developed and Annual Risk Workshop conducted with Exco and BARC b. ERM Framework reviewed c. GRC Committee report tabled at BARC	0	2	1	2	5
Reported status to Board	1	3	3	3	5
The SLP draft is finalised and was shared with the forum and local tribal authority for final concurrence. Leaners have been added as per the planned numbers.	0	3	3	3	5
0	5	5	5	5	5
Have concluded the RFP for service provider to do initial assessments	1	0	0	0	5
Projects on schedule. T-project feasibility study review well underway for finalisation within time limits.	3	3	4	4	5
Operating model position scenario paper developed.	0	3	3	2	5
BEE Plan and Transformation Strategy Developed for Board approval.	0	3	3	0	5
	2	3	3	3	

5. Growth initiatives with regards to acquisitions and entering joint venture arrangements for entry into the export market have not received enough focus due to internal resource challenges where focus was placed on production and performance against the Eskom contract.
6. Management has reached out to the CEF Group and DMRE on the status of previously submitted Section 54 requests for approval.
7. Amendments to the SLP are well underway, with some of the initiatives already being implemented. Due to the non-existence of the ESD strategy and late submission of ESD report and SED initiatives, the company has regressed to B-BBEE level 8, from a level 4 status. This is largely due to a less than adequate execution of the corporate services function. The Transformation Strategy and B-BBEE plan are still undergoing approval the various approving structures.
8. Vlakfontein continues to ensure that our employees return home safely.
9. The entity plans on having an ISO 14001 Certificate process started this year by appointing a service provider to undertake a baseline study on Vlakfontein's compliance.
10. Project execution has improved significantly since the previous reporting period. This remains an area of focus for management as a means to build a project pipeline for AEMFC's growth.
11. Corporate Services is still consulting internally on the Ideal Operating Model for AEMFC.

## Operational Performance

In order to achieve our vision, AEMFC will focus on growing the organisation to be one of the leading domestic coal producers in South Africa, producing energy and other diversified minerals to contribute towards the beneficiation strategy of the country.

An estimated 80% of the portfolio will be dedicated to diversified coal where we aim to solidify the company's position. An additional 10% will be in other energy minerals and a further 10% to beneficial minerals to create a balanced and diversified sales revenue mix in the medium- to long-term by product and by client.

The desired state of the organisation will be achieved by accomplishing the organisational goals (long-, medium- and short term) being increased market share, organic and acquisitive growth, customer and product diversification. This will be further supported by the critical support elements developed, culminating in the execution of plans in finer details.

The outcomes of a growing AEMFC are aimed at developing an organisation that is commercially viable and thus able to:

- provide a sustainable energy source for the country, thus supporting the existing economy and attracting further investment; and
- provide a social dividend through sustainable job creation and the development of communities in business and other social needs.

## PetroSA

PetroSA SOC Ltd. is one of the major subsidiaries within the CEF Group of companies. The company holds a portfolio of assets that span the petroleum value chain, with all operations run according to world-class safety and environmental standards. The primary functions of the company are:

- Exploration and production of oil and natural gas resources locally and internationally. Locally, we operate the FA-EM, South Coast, and F-O gas fields. In addition, PetroSA has exploration acreage on the west coast of South Africa. Internationally, we have an investment in producing and developing assets in Ghana.
- Participation in, and acquisition of local as well as international upstream petroleum ventures.
- Production of synthetic fuels from offshore gas. The Gas To Liquids Refinery (GTLR) produces ultra-clean, low-sulphur, low-aromatic synthetic fuels and high-value products converted from natural methane-rich gas and condensate using the unique GTL Fischer-Tropsch technology. Key commodities, including unleaded petrol, diesel, kerosene, fuel oil, propane, liquid petroleum gas (LPG), and export distillates are produced.

- Development of domestic refining capacity, liquid fuels logistical infrastructure, and technology.
- Marketing and sales of petroleum products locally and internationally. PetroSA sells most of the fuel and fuel-related products to major oil companies operating in South Africa.

The trading business continued to import finished product for resale at a profit and satisfy contractual commitments during the period under review. Margins for the business were higher than planned. This was driven by higher crude oil prices.

The company has exploration and production acreage in Ghana through its entity PetroSA Ghana. PetroSA Ghana makes a positive financial contribution to PetroSA and aids the organisation's revenue and cash flows.

The GTL refinery is currently not operational due to the lack of affordable feedstock for processing at the refinery. There is a potential for recommissioning of the plant at a later stage, but until then, the onshore facilities will be appropriately preserved.

## PetroSA's Operating Environment

The 2021/22 financial year was a challenging period for PetroSA characterised by numerous strategic challenges including unprofitable operations, the declining financial strength of the balance sheet and the depletion of indigenous gas reserves. PetroSA was exposed to both internal constraints and market exogenous factors that hindered the company's ability to source finished products at optimal prices. The price of oil and gas products increased rapidly when the Russia-Ukraine conflict began in the last quarter of the financial year.

## Legislative Environment

The company trades its petroleum and petrochemical products as regulated by Petroleum Products Act, No 120 of 1077 as amended by the Petroleum Products Amendment Act, No 58 of 2003 and its Regulations. The Mineral and Petroleum Resources Development Act (MPRDA) requires operators to rehabilitate the environment when assets are retired. In terms of the financial provision regulations which were promulgated under the National Environmental Management Act 107 of 1998 (NEMA), PetroSA is required to review, assess and adjust its financial provision and associated plans in accordance with these regulations before 19 February 2024. By that time, the financial provision funds will need to be available. The provision calculation is based on comprehensive technical work conducted by an international decommissioning contractor and thereafter reviewed by an independent specialist.

## Financial Performance

The PetroSA Group recorded a net loss after tax of R1 billion (2021: R1.2 billion) for the current financial year; a decrease of R0.2 billion. The cession of operations at the GTL refinery, substantial losses generated from our South African operations as well as the volatility of the macroeconomic environment have resulted in the loss reported. At a company level, the net loss of R392 million reported was boosted by an impairment reversal of R808 million on PetroSA's investment in PetroSA Ghana Limited.

The Group achieved negative earnings before interest, tax, depreciation, amortisation and fair value of assets and liabilities (EBITDA) of -R272 million compared to -R387 million from the previous financial year.

Gross revenue increased by 39% from R8.7 billion in the previous year to R12.1 billion due to increased sales of imported finished products. Although revenues realised from the sale of imported finished products were higher, they were insufficient to cover the high fixed cost structure of a plant that is in parked mode.

PetroSA continued to maintain stringent cost-containment measures for the Group in the current financial year. In order to strengthen cost-containment measures, a cash flow management and evaluation process has been re-introduced, which is aimed at ensuring that all expenditures are approved at the highest level within the organisation.

The Group's financial position is an area of concern as the current assets exceed the current liabilities by R1.9 billion. A concerted effort between CEF and DMRE is ongoing to ensure that initiatives to turnaround PetroSA are expeditiously implemented under strict monitoring by the PetroSA Board, CEF and DMRE at the tripartite war room. The 2022 –2026 Strategy and Corporate Plan, approved by the Board in February 2022, is supported by a firm funding plan and initiatives to support and implement the Strategy and Corporate Plan.

PetroSA's financial distress position continued in the period under review. The weakened financial strength of the balance sheet has led to several suppliers being reluctant to offer unsecured and/or open favourable credit terms. Nonetheless, there remains a limited number of suppliers who continue to offer favourable credit terms to PetroSA. The company continues to depend on its own cash reserves and utilises stringent working capital management processes to fund trading and marketing operations to fulfil customer contractual obligations and source new customers.

**Turnover: R12.1 billion**  
**EBITDA: -R272 million**

Measures of Financial Sustainability	
Profitability	PetroSA's profitability is severely challenged as the company has reported operating losses over the last few years. The trading of hydrocarbons has proved profitable, however the margins realised are not adequate to cover the high fixed cost structure of PetroSA. The company will continue to trade and supply its core market by extending the month-to-month contracts with the oil industry and longer term contracts for the commercial market. Plans are in place to stabilise the company in the short term, grow revenues in the downstream business and leverage the existing profitable asset, PGL, in the form of dividend income.
Liquidity	The company is experiencing severe liquidity challenges. This situation continues to be monitored on a regular basis to avert a worsening of the financial situation and institute appropriate triggers where appropriate.
Solvency	The company's total liabilities exceed total assets by R7.9 billion and R7.4 billion at Group level, thus rendering the company technically insolvent. At financial year-end, PetroSA was not able to meet some of its obligations. Management has developed short-, medium- and long-term plans, supported and approved by the Board and the Shareholder to continue trading activities and business operations.

## Non-Financial Performance

Detailed below is the summary of the company's non-financial performance for the year.

### **Preservation of the GTL Refinery**

All refinery units were decommissioned and the key focus for the period under review was on the preservation of the GTLR. The refinery remained shut down due to the unavailability of feedstock. A small flow of gas from the FA Platform has been maintained for power production and to sweep the FA and GTLR flare headers. The associated landed condensate was placed in the market for sales.

The majority of onshore facilities are no longer operational due to the depletion of indigenous resources and prevailing unattractive economics for alternative feedstock. There is a potential to recommission the plant at a later stage, but until then, all the refinery units are being preserved.

### **Alternative Feedstock Options Study**

PetroSA appointed an independent service provider to evaluate the most commercial and sustainable feedstock solution for the GTL refinery and the outcomes of the study were presented to the Board in March 2022. The study revealed sub-economical results for the feedstock study options that were evaluated. Management continues to evaluate feedstock solutions influenced by market dynamic changes, including Luiperd Gas from TotalEnergies.

## Upstream: Other African operations

### **PetroSA Ghana Limited (PGL)**

PetroSA Ghana Limited participates in three areas offshore from Ghana: the Greater Jubilee Unitised Area (Jubilee, Mahogany and Teak fields), the West Cape Three Points (WCTP) Block and the Deepwater TANO (DWT) Block.

The actual crude oil production entitlement was 707 762 BBLs (2021: 787 742 BBLs) from the Jubilee Field and 435 253 BBLs (2021: 646 899 BBLs) from the TEN Field. In Jubilee, production performance was higher than projected, averaging 75 kbopd (net: 2 kbopd to PetroSA Ghana Limited). In TEN, production performance was lower than projected, averaging 33 kbopd (net: 1.3 kbopd to PetroSA Ghana Limited).

Ongoing improvements in operating performance can be seen in uptime of more than 97% on both operated Floating Production, Storage and Offloadings (FPSOs) and increased water injection rates and gas processing capacity. The annual gas offtake rate was impacted by overrunning maintenance and subsequent reduced capacity at the Ghana National Gas Company (GNGC) onshore gas processing plant during Quarter 4 of the year. TEN production performance was below forecast largely due to higher production decline rates than expected in some wells.

The drilling campaign which was initiated in March 2018 progressed well with four new wells including a workover (online in January 2022) being successfully completed ahead of schedule. Strong drilling performance over the period achieved both cost and efficiency improvements compared to previous drilling campaigns.

### **Increase Equity through Pre-Emption – PGL**

PetroSA Ghana issued its counter-offer notification of pre-emption in respect of the sale of the total shareholding in the Jubilee Oil Holdings Limited Company and Anadarko WCTP Company in relation to the Deepwater TANO Joint Operating Agreement (DWT JOA) to acquire the participating interest. This acquisition will provide an opportunity to increase revenue and cash that would generate further liquidity support to PetroSA. The funding for the acquisition has been secured through commercial lending and PetroSA will benefit from the transaction by an increased equity in the asset. Management is currently awaiting final approvals of Section 54 of the PFMA from the Ministry as well as Section 66 of the PFMA from National Treasury.

## Upstream: SA Operations

### **Divestment of South and West Coast Assets**

PetroSA concluded a competitive bidding process to find equity participation partners for some of its offshore petroleum rights to bring in technical expertise and financial resources required to fund the forward work programmes associated with these rights, thus limiting PetroSA's technical risk and financial exposure.

For one asset (ER 248 – Block 2C), a farm-out agreement has been signed and completion of the farm-out is expected before March 2023. The draft farm-out agreement for another asset (ER 224 – Blocks 5, 6, 7) was signed and the funds are expected to be received by the end of 2022. These will cover PetroSA's share of the operating costs.

The farm-outs will allow PetroSA to remain active in the upstream activities whilst the "state free carry" envisaged in the Upstream Petroleum Resources Development Bill is undergoing Parliament approval processes.

### **Disposal of Non-Core Assets**

The sale of the ORCA and excess spares no longer required for operations has been concluded and the proceeds from the disposals have been received. It is anticipated that funds from the sale of the subsea Christmas trees will be received in the next financial year. Exogenous factors such as volatility in exchange rates and the Russia/Ukraine conflict could further delay the finalisation and delivery of the asset to the potential buyer. Once this transaction has been concluded and finalised, it will contribute to the forecasted cash flow anticipated to be received.

## Progress on the Reduction of Fruitless and Wasteful Expenditure

PetroSA is committed to sound financial governance through compliance to the PFMA and by preventing irregular, fruitless and wasteful expenditure. As part of corrective measures, PetroSA continues to investigate and take appropriate action to recover any losses, and address areas where weaknesses in the systems have been identified.

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

### Material Projects Under Study

#### **Feedstock Supply for GTL Refinery**

PetroSA is investigating the option of buying gas and condensate feedstock for its GTL Refinery through the development of the Luiperd Field by the TotalEnergies Joint Venture. The TotalEnergies Joint Venture holds an Exploration Right (Block 11B/12B) over the Brulpadda and Luiperd discoveries drilled in 2018/19. These discoveries are approximately 110 km southeast of PetroSA's offshore FA platform installation.

#### **Preservation of GTL Refinery**

The refinery is not operational and is currently being placed under preservation. The goal of the preservation process is to ensure that the plant is retained in a stable condition (i.e. minimum degradation) to ensure costs to restart the facility are minimised, and that process safety events (namely, loss of containment, fire, explosions etc.) do not occur. Minor sections of the plant remain operational to facilitate trading activities and to ensure condensate produced on the FA platform can be brought onshore and sold into the market.

#### **SPM Pipeline Repairs**

The project objective is to restore the mechanical integrity of the subsea SPM diesel and petrol pipelines to enable a seamless operation of the GTL Refinery. The project entails replacement of the last 1 400 metres of the 12" petrol and 14" diesel subsea pipelines. The project cost is estimated at R260 million.

## Entity Top Five Key Risks and Mitigation Tracking

Description of Risk	Probability	Impact	Risk Response	Status
1. Failure of PetroSA to be commercially viable	High	Catastrophic	<ul style="list-style-type: none"> <li>Revenue enhancement opportunities identified and implemented</li> <li>Continuous cost and cash flow management</li> <li>Leverage PetroSA assets and investments</li> </ul>	Ongoing
2. Inability to sustain, grow and diversify PetroSA business	High	Catastrophic	<ul style="list-style-type: none"> <li>Diversify product portfolio</li> <li>Execute strategic partnerships</li> <li>Develop Gas Business Case</li> </ul>	Ongoing
3. Failure to deliver on PetroSA's Transformation Agenda	Likely	Catastrophic	<ul style="list-style-type: none"> <li>Implement the B-BBEE plan</li> <li>Execute Enterprise and Supplier Development (ESD) Programme</li> </ul>	Ongoing
4. Harm to people, property and environment	Moderate	Catastrophic	<ul style="list-style-type: none"> <li>Implement 3-year HSEQ Management Plan</li> </ul>	Ongoing
5. Inability to successfully structure PetroSA to meet its mandate	High	Major	<ul style="list-style-type: none"> <li>Develop a structure aligned to the revised business operating model</li> </ul>	Ongoing

## Summary Business Score for the Period

Key Performance Area	KPI	Rating
Deliver on Transformational Initiatives	Implementation of New Organizational Structure	1
	Improve B-BBEE rating 1.2	1
Improve Profitability	EBITDA as a % of revenue (PetroSA Co. financials)2.1	1
	Gross margin percentage of revenue (PetroSA Co.)2.2	5
Improve Access to Funding	Identification of funding solution 3.1	1
Improve Partnership and Stakeholder Engagement	Develop and implement stakeholder and partnership engagement plan 4.1	3
Governance	Group combined assurance (GCA) 5.1	3
	Improve HSEQ performance 5.2	3
	Zero tolerance for fruitless and wasteful expenditure 5.3	5
Optimise	Improve product offering 6.1	2
	Increase imports of finished product 6.2	2
	Farm-out of South Coast assets 6.3	2
	Finalise disposal of non-core assets 6.4	1
Growth Initiatives	PetroSA commercial sales margin 7.1	2
	New gas market 7.2	1
	Ensure readiness to take up State participation 7.3	3
	Alternative feedstock options study 7.4	3

Not Assessed 0	Not Achieved 1	Below Target 2	On Target 3	Above Target 4	Exceptional/ Ceiling 5
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## Strategic Outlook

The sustainability of PetroSA still remains a top priority. Several key strategic initiatives/interventions aimed at turning around the company for profitable operations are being implemented. Key amongst these are downstream opportunities such as the acquisition of resellers, entry into lubricants and LPG businesses, fuel supply to SoEs and Government departments, cost optimisation, as well as the sourcing of affordable feedstock for the GTL Refinery.

### iGas

#### IGAS Operating Environment

iGAS is the mandated South African State Owned Enterprise (SoE) for gas and gas infrastructure development and is it purposed to develop gas and gas infrastructure in both South and southern Africa. iGAS operations involve the management of its primary asset, the ROMPCO cross-border gas transmission pipeline from Mozambique to South Africa. Other activities include the development of gas related business opportunities to generate alternate revenue streams. This is done with a very lean structure of technical expertise and relying on a Service Level Agreement (SLA) with CEF for the administration of the company.

iGAS generates most of its income via the dividend stream from its investment in ROMPCO. Other revenue is generated via interest from cash held in the money market. iGAS has paid off all its debts pertaining the investment in ROMPCO and has accumulated cash reserves of R1.75 billion. The increase in cash from the previous financial year relates to a net profit of R294 million due to non-iGAS related delays in the execution of planned projects and dividends received from ROMPCO. These project delays as well as reduced human capital costs arising from the planned iGAS SFF PetroSA merger resulted in the spending being below budget.

The economic environment proved to be challenging with both oil and gas prices increasing steadily over the year as demand increased post the COVID-19 pandemic and peaking around the Russian war on Ukraine. Overall, Brent Crude registered a 61% increase in price and the Henry-Hub price of gas increased 114%. Europe and the Far East saw far more severe price increases, with the Japanese-Korea Marker for LNG (JKM) registering a 411% price increase and the Dutch TTF increasing by 425%. This does not bode well for iGAS and South Africa as the country seeks to develop an LNG import business.

## Legislative Environment

iGAS received the PFMA Section 54(2)(c) approval from the Executive Authority to proceed with the ROMPCO share purchase transaction, which was concluded subsequent to year end.

## Strategic Thrust

As the mandated South African State Owned Entity (SoE) for gas and gas infrastructure development, iGAS aims to play a critical role in supporting the broader objectives of the NDP in relation to energy infrastructure development. This will be achieved through strategic gas investments and partnerships for long-term commercial and developmental objectives that support the country's growth prospects. With the mix of fuels used for electricity generation evolving over time, various industry energy experts have forecasted that gas will surpass coal in global electricity generation, driven by environmental regulations and further advancements in technology and the just transition. However, in May 2021, the International Energy Agency (IEA) published a landmark report that called for a complete stop on new investments in fossil fuel (oil, gas and coal) supply projects, and no further final investment decisions for new unabated coal plants have been made. This despite the growing number of countries making net-zero emissions pledges for the coming decades. In November 2021, at COP26, G20 countries signed a statement committing to halt the use of public funding for international fossil fuel energy projects by the end of 2022. Therefore, despite being the transition hydrocarbon energy of choice, gas has a limited horizon in the just transition, evidenced by the surge in environmental legal action in South Africa against new gas development projects.

Nevertheless, CEF SOC is poised to lead the Group in the transition to clean energy sources and iGAS will play a central role in building the necessary national gas infrastructure through strategic partnerships to support the country's transition to cleaner energy sources and reduced carbon emissions within this limited horizon, anticipated to be up to 2050. The gas infrastructure development has the potential to support economic growth and create much needed temporary construction and permanent operational jobs. The promulgation of the IRP2019 provides iGAS with confirmed opportunities to play a meaningful role in the economy through the (i) importation of LNG; (ii) conversion of the current diesel fuel-based power plants into gas; (iii) Sasol acquisitions in the gas space; and (iv) to explore possible opportunities in partnering with Eskom on the ageing coal fleet that is being decommissioned.

## Financial performance

For the period ended 31 March 2022, iGas generated a net profit of R408.4 million, which is higher compared to the prior year of R389.3 million and this is mainly due to the increase in equity accounting of the ROMPCO investments.

The company remains liquid and solvent holding cash balance of R1.74 billion and liabilities of R4.8 million. As of 31 March 2022, the gearing ratio was 99.7% total equity: 0.3% total liabilities. Subsequent to year end, iGas has invested R1.3 billion of its cash to acquire an additional 15% in ROMPCO and has also obtained an external loan of R3.04 billion. iGas is thus highly cash committed and will have limited capacity to undertake major investments in the short-term. However, opportunities still exist for smaller cash investments such as the 2 MGJ/a gas trading joint venture with ENH.



iGas important ratios are as follows:

**Turnover:** R 0.0  
**EBITDA:** R 365.3M  
**ROCE:** 15%

Measures of Financial Sustainability	
Profitability	The company generated a net profit of R408.4 million, which is an increase compared to the R389.3 million reported in the prior year mainly due to the higher share of profits from ROMPCO.
Liquidity	Cash is at R1.7 billion, an increase of 6.5% from the prior year (R1.6 billion). The current ratio is 357:1
Solvency	iGas holds no external debt funding and the liabilities mainly relates to employee provisions and payables.

### Progress on the reduction of fruitless and wasteful expenditure

Fruitless and wasteful expenditure of R2 000 was incurred in the current financial year.

Irregular expenditure of R 24.7 million was also incurred in the current financial year and these relates to tenders awarded to vendors on the CEF Transaction Advisors Panel that was appointed in the prior financial year in which the contract was continuing.

### Material projects commissioned and completed during the year

No material projects were commissioned and completed during the year.

### Material projects under study

#### Purchase of additional ROMPCO shares

The transaction was initiated in April 2020 when Sasol formally indicated to iGAS that it will be selling its shares in ROMPCO. The process that Sasol undertook for the sale of the shares was to seek competitive bids from the open market. As an existing shareholder, iGAS has a pre-emptive right to match any bid selected by Sasol. iGAS therefore appointed EY as transaction advisors to perform the due diligence at a high level, raise capital and negotiate all agreements. iGAS successfully exercised its pre-emptive right in June 2021. The transaction has

progressed with the signing of the Sales and Purchase Agreement (SPA), funding arrangement and other regulatory matters such as the Competitions Commission approval required for the successful conclusion of the transaction, anticipated for conclusion in Q1 of FY23.

#### Purchase of Sasol Gas Pipeline Network

Sasol indicated its intention to sell its Gas Pipeline Network. iGas responded by submitting a non-binding offer at in November 2020. Being successful in the Round 1 of the bidding process, iGas was invited to submit a binding offer in Round 2. iGas then appointed transaction advisors and formed a consortium with Transnet and the Public Investment Corporation (PIC), submitting a binding offer in quarter 1 of financial year 2022. This was also successful, and the consortium was then invited to submit a final and firm offer in Round 3, based on the Gas Transportation Agreements (GTAs) presented by Sasol. However, in the middle of the Round 3 bidding process, Sasol cancelled the sale.

#### 2 million gigajoules per annum (MGJ/a) Gas Trading with ENH of Mozambique

iGas signed a Term Sheet with Empresa Nacional de Hidrocarbonetos (ENH) of Mozambique to enter into a Gas Trading Joint Venture to sell 2 MGJ/a of Mozambican Gas into the South African Market. The intention is to set up the Joint Venture Company in the financial year 2023 and begin trading in the financial year 2024.

## Entity Top Five Key Risks and Mitigation Tracking

Risk Type	Description of Risk	Probability	Impact	Risk Response	Status
Strategic	Mozambican Political Risk	Almost certain	Catastrophic	<ol style="list-style-type: none"> <li>1. Negotiate with other companies operating in Mozambique who have already mitigated this political risk</li> <li>2. When investment opportunities arise, approach Department of International Relations and Cooperation (DIRCO) to negotiate with Mozambique, AU and UN to minimise impact on the investment opportunity</li> <li>3. Political Risk Insurance for new investment opportunities</li> <li>4. Focus on indigenous gas investment opportunities e.g. shale gas and Total-Paddavissie</li> </ol>	Monitor
Operational	Inadequate Human Resources and Skills	Likely	Major	<ol style="list-style-type: none"> <li>1. CEF HR to implement iGAS Board resolution regarding iGAS capacitation</li> </ol>	Ongoing
Strategic	Financial Sustainability	Likely	Major	<ol style="list-style-type: none"> <li>1. Development of investment projects (e.g. Sasol Gas Pipeline Network, 2 MGJ/a gas trading with ENH and Coega LNG with CEF)</li> </ol>	Ongoing
Strategic	Non-Diversification of Opportunities and Income Streams	Likely	Major	<ol style="list-style-type: none"> <li>1. iGAS Strategy and Corporate Plan requires approval by the Executive Authority (Minister of Mineral Resources and Energy)</li> <li>2. Require flexibility to enable response to investment opportunities that arise post Corporate Plan approval by ensuring mid-term updates of the Corporate Plan</li> <li>3. Agree timelines with CEF (Strategy) for CP update</li> <li>4. Progress negotiations for 2MGJ/a GSA and Gas Trading JVCo registration</li> <li>5. Support CEF on CEF-Sasol Memorandum Of Understanding (MOU) to develop new opportunities for access to and use of gas</li> <li>6. Support CEF on CEF-Sasol-ENH collaboration through Memorandum of Cooperation (MOC)</li> </ol>	Ongoing
Operational	CEF not providing required systems and processes for organisational efficiency	Likely	Major	<ol style="list-style-type: none"> <li>1. CEF development of the project execution model</li> <li>2. iGAS to revise and actively manage the CEF SLA and continuously engage CEF on SLA performance and overlaps</li> </ol>	Ongoing

Risk Type	Description of Risk	Probability	Impact	Risk Response	Status
Strategic	Mozambican Political Risk	Almost Certain	Catastrophic	<ol style="list-style-type: none"> <li>Negotiate with other companies operating in Mozambique who have already mitigated this political risk</li> <li>When investment opportunities arise, approach Department of International Relations and Cooperation (DIRCO) to negotiate with Mozambique, AU and UN to minimise impact on the investment opportunity</li> <li>Political Risk Insurance for new investment opportunities</li> <li>Focus on indigenous gas investment opportunities e.g. shale gas and Total-Paddavissie</li> </ol>	Monitor
Operational	Inadequate Human Resources and Skills	Likely	Major	<ol style="list-style-type: none"> <li>CEF HR to implement iGas Board Resolution regarding iGas Capacitation</li> </ol>	Ongoing

### Summary Business Score for the period

List the KPA		Score
1	Profitability: Manage Investment in ROMPCO	5
2	Transformation: Capacitation of ROMPCO Executive Structure	5
3	Evaluate Increase in ROMPCO Shareholding	5
4	Implement merger plan within iGAS	1
5	Additional Mozambique Gas Supply	5
6	Evaluate Acquisition of Sasol Gas Pipeline Network	5
7	LNG Terminal : Pre-Feasibility Study Completed	1
8	Gas Master Plan (GMP) Developed	3
9	Capacitation according to approved Organogram Manage SLA's	1
10	Increase in organisational efficiency and excellence	1
11	Governance Framework Implemented	1
12	Stakeholder Management	5

Not Assessed 0	Not Achieved 1	Below Target 2	On Target 3	Above Target 4	Exceptional / Ceiling 5
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### Strategic Outlook

In FY22, the CEF Group embarked on an environmental scan to underpin its internal strategy analysis and development for the five-year period to 2027. With the world emerging from the second year of the COVID-19 pandemic and ensuing lockdowns that saw the energy sector become the least profitable sector in the period immediately after the easing of lockdown measures (McKinsey), the CEF Group approached planning cycle with caution and commitment to achieving growth, resilience, increased customer focus and cohesiveness of effort in a challenging environment.

In light of the aforementioned, the iGAS strategy analysis and development reviewed several external and internal sources of influence, identifying nine key drivers that must be considered in iGAS' strategy formulation, carrying out a process to validate each strategic objective and review the associated initiatives.

In doing so, the strategic themes from the previous years were reassessed in light of the current environment and reformulated to seamlessly transition into the merged South African National Petroleum Company (SANPC) together with PetroSA and the Strategic Fuel Fund (SFF).

The nine key drivers to be considered in iGAS' strategy formulation are:

1. Security of Supply
2. Energy Transition
3. Financial Sustainability
4. Corporate Citizenship
5. 4IR (Fourth Industrial Revolution)
6. Constrained Funding
7. Governance
8. Economic Development
9. SANPC Enablement

The reformulated Strategic Objectives are:

1. **Commercial sustainability:** Expand and manage existing gas transmission investments.
2. **Strategic growth:** Secure alternative gas supply and drive new infrastructure to enable the Gas Master Plan and diversify revenue by 2025.
3. **SANPC enablement:** Support the establishment and stabilisation of the SANPC to realise synergies and enable growth.
4. **Corporate excellence:** Employ a fit for purpose operating model to enable strategic intent and increase organisational efficiency.
5. **Organisational capacitation and HC performance:** Capacitate iGAS and manage human capital performance to enable strategic ambitions.
6. **Corporate governance and ERM:** Uphold good governance principles and responsibly manage corporate risk.
7. **Stakeholder management and socio-economic transformation:** Promote strong stakeholder relationships and support Government's transformation/sustainability objectives as a responsible corporate citizen.

These reformulated strategic objectives are further broken down into redefined initiatives and associated Key Performance Indicators (KPIs) to be delivered in FY23, as well as targets for the rest of the planning period.

At a high level, in responding to the complex economic and operating environment; pursuing these strategic objectives; and implementing the iGAS strategy for the planning period as articulated through the Corporate Plan, the key activities that iGAS will focus on are:

- a. Management of ROMPCO and the ROMPCO dividend, ensuring financial sustainability.
- b. Additional gas supply from Mozambique, addressing the iGAS growth strategy, financial sustainability, and security of supply.
- c. Supporting CEF for the execution of the Joint Development Agreement (JDA) for the Coega LNG Project and Total Interactions for the Paddavissie discoveries (as required).
- d. Supporting CEF in the execution of the Memorandum of Cooperation (MOC) with Sasol for:

- i. Matola LNG
- ii. Rovuma North-South Pipeline
- iii. Richards Bay LNG
- iv. Coega Industrialisation
- v. Eskom Repowering

## PASA

### PASA Operating Environment

Petroleum Agency SA is a state-owned entity incorporated in 1999. The Agency receives its mandate from the Mineral and Petroleum Resources Development Act, 2002, (Act No. 28 of 2002) (MPRDA). The MPRDA is the principal statute that governs the regulatory function of Government on mineral and petroleum resources and is administered, through presidential proclamation by the Department of Mineral Resources and Energy (DMRE).

Responsible for attracting oil and gas exploration investment to South Africa and for quantifying South Africa's oil and gas resources. The entity other role is evaluating and attempting to quantify the potential of the offshore beyond the reach of current exploration technology, as well as that of the onshore Karoo Basin where very little exploration has taken place to date and existing data is very old, so that the basin's potential requires further analysis.

PASA is also responsible for the archiving and management of the national hydrocarbon exploration database on behalf of the State whilst providing access to existing data, cores, well samples, information and literature on request

### Legislative environment

The Agency will be impacted by the changes in the following legislation under development:

- i. The Upstream Petroleum Resources Development Bill, B13-2021 ("UPRD Bill")
- ii. The New Upstream Petroleum Fiscal Framework.

### The Upstream Petroleum Resources Development (UPRD) Bill

The Minister of Mineral Resources and Energy introduced the UPRD Bill in Parliament in July 2021. The draft UPRD Bill designates the Agency as a Regulatory Authority for the upstream petroleum sector, funded through a hybrid funding model, which reinforces its capacity to execute its mandate effectively. Most importantly, the Bill envisages a regulator that will play a proactive role in ensuring the attainment of the ideals and objectives of the Bill and harness a nascent upstream petroleum industry that will contribute to economic growth and security of energy supply. The successful attainment of the objectives and ideals envisaged in the Bill is dependent entirely on a financially stable regulator that is staffed by competent persons with the requisite technical, regulatory, legal, and environmental skill sets.

The following aspects in the Bill constitute the pillars of the envisaged regulatory framework:

#### **a. Licensing dispensation**

Regulatory processes for the allocation of permits/rights or licensing dispensation must reflect the imperative to accelerate exploration and economic recovery of petroleum resources. As a result, the UPRD Bill provides for a proactive licensing dispensation as opposed to waiting for applications to be made by oil and gas exploration companies. A competitive administrative licensing round is the default licensing dispensation or system for allocation of licenses. The open-door or “first come, first served” licensing round is included in the Bill merely as a last resort in case of repetitive failures to licence areas after competitive licensing rounds. The Agency has accordingly begun the process of developing a comprehensive Diversification and Licensing Strategy to flesh out the mechanics of the new award or licensing system.

#### **b. Regulatory Authority’s role in accelerating exploration**

The Agency will be legislatively empowered to play a proactive role in reducing geological risk and thus increase competition among potential investors by developing and implementing exploration strategy. To that end, the Agency will, through competitive administrative licensing rounds for reconnaissance permits, invite proposals from seismic vendors to acquire, process and interpret seismic data on a non-exclusive multi-client speculative business model. The use of non-exclusive speculative business model ensures speedy acquisition, processing, and interpretation of the geophysical data without using the State’s funds to improve knowledge of the geological potential of petroleum acreage, use such knowledge in licensing rounds and to influence the technical work to be undertaken by operators. Most notably, improved knowledge of the geological potential of petroleum acreage will assist in the development or adjustment of exploration and licensing strategies for petroleum rights, delineation of blocks to be licensed, and formulation of licensing terms that reflect the risk profile of the specific areas.

#### **c. Enhanced decision-making powers by the Agency**

The critical issue of quick turnaround times for the finalisation of applications has been given the impetus in the Bill by conferring limited decision-making powers to the Agency. The Agency will now have the powers to approve-

- i. a successful applicant for a petroleum right that will progress to environmental authorisation and consultation process; and
- ii. applications for progression to successive terms (previously known as renewal applications) or production phase without having to request the Minister’s approval.

Similarly, routine regulatory approvals such as permission to undertake extended well tests and permission to drill, will be approved by the Agency. The move to statutorily confer limited decision- making powers to the Agency will undoubtedly improve turn-around times and ensure quick implementation of work commitments and thus accelerate exploration.

#### **d. Enhancing financial sustainability of the Agency**

The UPRD Bill provides for a hybrid funding model of the Agency which goes a long way towards ensuring its financial sustainability. Funds of the Agency will consist of moneys appropriated by Parliament and regulated fees constituting application and exploration fees. Both the Department and the Agency made proposals for administrative fees which the state law advisor recommended be part of the New Upstream Petroleum Fiscal Framework and not the UPRD Bill. The administrative fees are the costs associated with the regulation of the upstream petroleum industry and it is envisaged that these will be determined by the Agency based on the activity costing framework or any other appropriate costing model, subject to consultation with stakeholders in the upstream petroleum industry and the Minister’s approval.

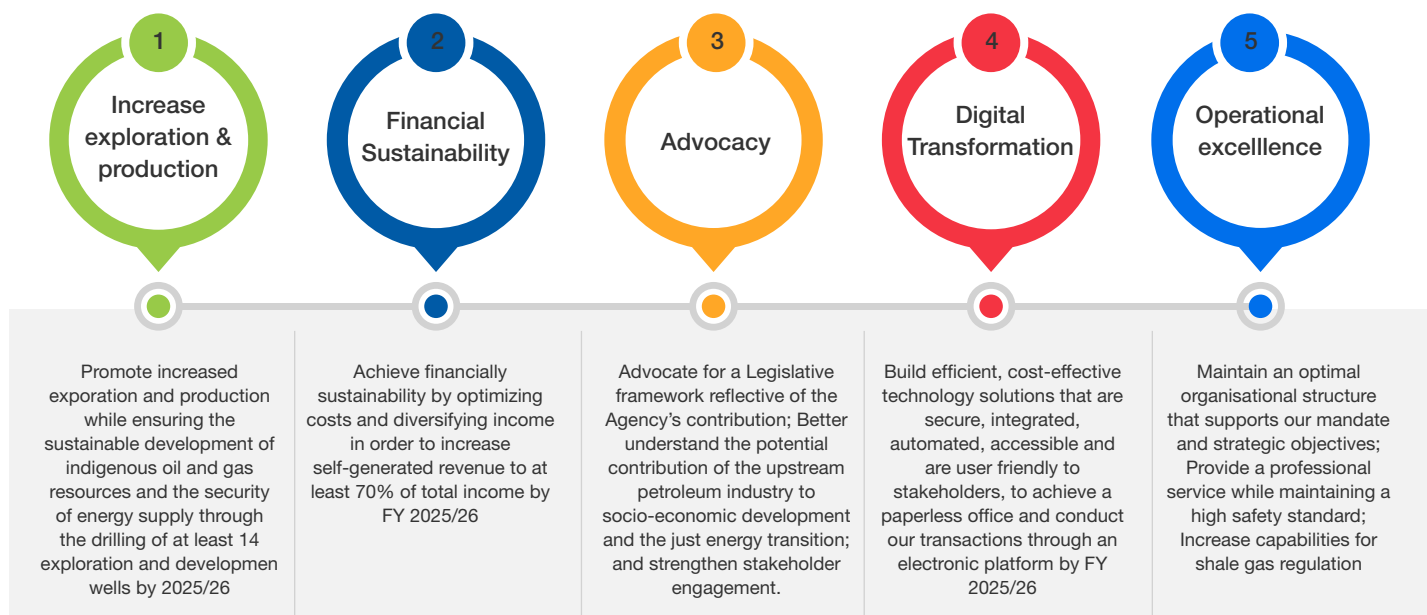


## Strategic Trust

Strategic Driver	Description	Implied Strategic Direction(S)
1. Resources	Ensure sustainable development of energy (petroleum) resources, considering the changing energy mix in South Africa (which favours gas) and recent discoveries which have promoted the country's prospectivity	Promote the sustainable development of local energy resources
2. Growing Energy Demand	Meet the growing domestic energy demand (reducing the country's petroleum imports) and regional obligations	Promote the efficient management and utilization of local energy resources
		Significantly improve the competitiveness of South African energy products in domestic and regional markets
3. Financial sustainability	Economic downturn threatens the Agency's primary source of revenue, the fiscal allocation.	Diversify income sources and optimize the operating model to achieve efficiency and financial sustainability
4. Legislative changes	Legislation changes impact the Agency's financial sustainability, scope of work, and decision-making ability	Participate in advocacy for and review of local energy regulation – ensuring that mandates of other energy regulators are complementary to the Agency's and its role is recognized
5. Global energy transition	Energy transition challenges the ability to increase security of energy supply through conventional means and sources. In addition, South Africa's path to net zero emissions must be through a just transition which arguably includes gas.	Identify opportunities for the Agency to promote a just energy transition, while ensuring future commercial viability of the industry
6. Technology	Limited capabilities exist to leverage the opportunity of new technologies impacting the energy sector	Enable and accelerate the diffusion of transformative technologies throughout the Agency and the energy sector in South Africa
7. The Agency's evolving role	Ensure internal processes are optimized for effective, on-time delivery to all stakeholders, sustaining local and global positioning of the Agency and the South African upstream energy market	Promote operational excellence throughout the organisation
8. Economic development	Reindustrialize the economy through beneficiation of the indigenous resources and create jobs	Support the development and leveraging of specific capabilities required to drive industrialisation and the advancement of society



In response to the above eight strategic drivers the Agency has identified the following five strategic objectives:



## Financial performance

**Turnover:** R19 million  
**EBITDA:** -R6,8 million  
**ROCE:** 4.15%

Measures of Financial Sustainability	
<b>Profitability</b>	Profit increased by 72% year on year. This was largely due to improvement in other income generation with management effort in recovering long outstanding debt and charging interest on those long overdue debts, utilization of fund surplus to fund retirement contributions i.e., holiday contribution, and better management of expenses
<b>Liquidity</b>	The company has a very healthy indicator as our current asset is thrice as much as our current liabilities. This is due to an improved cash position.
<b>Solvency</b>	The company is funded through equity and not debt at all, other than entries created through accounting. The debt-equity ratio is also healthy at 41%. A significant portion of our debt is short-term.

## Non-financial performance

The Agency continues to be a high performing organisation with sustained performance recordings.

Levels of staff engagements also consistently increased over the last three years.

## Progress on the reduction of fruitless and wasteful expenditure

No fruitless and wasteful expenditure.

## Material Projects Commissioned and Completed During the Year

## Material Projects Under Study

Please list these

### 1. Progress on the Shale Gas Strategic Project

Access to site continues to be a serious challenge to the implementation of the shale gas strategic project. Notwithstanding that, 12 out of the 15 planned seismic stations have been installed and seismicity data collection has commenced in FY2021/22. The Agency has secured access to two alternate sites for the remaining three seismic stations.

The legacy well risk assessment progressed as planned and the compilation of the draft technical guidelines for well abandonment and/or decommissioning were completed at the end of the reporting period. The industry will be requested to provide inputs into the draft guidelines in Q1 FY2022/23.

Stakeholder engagements for the groundwater monitoring network work package are still on-going and this work package remains significantly behind schedule. Following several engagements, SANParks has made hydrocensus and water quality data for boreholes located in its parks available to the Agency. This data will contribute to the development of the ground water monitoring design.

All the planned soil geochemistry surveys were concluded ahead of schedule in FY2021/22.

Samples from the new core of the Karoo Deep Borehole were sent to laboratories for analysis and some results were received in February 2022. Unfortunately, the laboratory is experiencing challenges with their new equipment following a lightning strike on their old equipment. A full report of all the soil geochemistry samples is only expected in Q2 FY2022/23

## Extended Continental Shelf Claim Project

In FY2021/22 the Agency submitted the recommendation for the delineation of South Africa's continental shelf to the Minister. The Chairman of Board of Directors of PASA met with the Minister on 30 March 2022 to discuss the recommendation from PASA.

A workshop of the Joint Delegation (South Africa and France) was held on 11 February 2022 to discuss the enquiries and materials received from the Sub-commission following the 53rd Session of the Commission which was held in October to November 2021. A technical response was formulated and transmitted to the Secretariat of the United Nations Division of Ocean Affairs and Law of the Sea (DOALOS) by 18 February 2022 for consideration by the Sub-commission.

The Sub-commission met during the 54th Session of the Commission from 7 to 11 March 2022 to consider the response submitted by the Joint Delegation. During that session, the Sub-commission continued the main scientific and technical examination of the Sub-commission, focusing on the data and information provided by the Joint Delegation. Going forward, the Sub-commission will meet during the 55th Session of the Commission from 1 to 5 and 15 to 19 August 2022. It is envisaged that the Sub-commission will complete the preparation of draft recommendations in the first week of meetings from 1 to 5 August. As a result of this schedule, it is possible that the Joint Delegation may be invited to the 55th Session of the Commission in New York to make its 15.1bis presentation to the full Commission in the week of 8 to 12 August 2022.

The Agency requested JOIDES Resolution Expedition 392 to share the data they will acquire in transit in the Agulhas and Transkei basin during their drilling campaign in February to April 2022. The cruise was very successful, and the Chief Scientist confirmed that the Agency will receive a copy of the navigational, single beam, magnetic and sub-bottom profiler data collected copy of the navigational, single beam, magnetic and sub-bottom profiler data collected.



## Entity Top Five Key Risks and Mitigation Tracking

Risk Type	Description of Risk	Probability	Impact	
Over reliance on state funding	'The Agency continues to rely heavily on an allocation which is inadequate.	High	Regulator unable to execute its mandate efficiently and effectively.  Closure.  Job losses.	
Unsuitable technology infrastructure	The technology infrastructure is incompatible, out of date or not fit for purpose and does not enable work from anywhere.	Moderate	Inefficiency.  Inability to deliver services.  Stakeholder dissatisfaction.  Loss of potential explorers.  Inability to collaborate.  Loss of data.	
Enabling legislative framework not aligned and implementation delays	Legislative framework is not aligned with the regulators proposals. The implementation of the legislative framework is delayed	Moderate	Over-reliance on state funding.  Delay in Amendment of Regulations for online applications.  Legislative environment is not conducive to attract investment / create an enabling environment to accelerate exploration.  Sustainability.  PASA not established by legislation.  Delays in oil and gas exploration.  Unbalanced fiscal framework.	
Global transition to a cleaner energy future	Countries and oil and gas E&P companies adopt net carbon zero policies thereby reducing their investment in petroleum	Moderate	Reduced investment in exploration.  Delays in decision making.	

	Risk Response	Status
	<p>Revise data fees</p> <p>Ongoing stakeholder engagement</p> <p>Ongoing participation in drafting team.</p> <p>Cost containment measures</p>	<p>Data Pricing strategy was approved by EXCO and Board for a 20-percent increase in data products and services with effect from 01 March 2022.</p> <p>DMRE agreed to progress the regulated fee amendments to the MPRD Regulations during FY 2022/23.</p>
	<p>Develop and implement a digital transformation plan</p> <p>Develop and implement a data asset inventory</p> <p>Automate business processes</p> <p>Implement VDI</p>	<p><b>Digital transformation projects were implemented as follows:</b></p> <p>Compliance to Department of Public Service Administration (DPSA) Corporate Governance of Information and Communication Technology Policy Framework (CGICTPF) was assessed by conducting a gap analysis including the review of existing policies and procedures and the ICT governance structure was implemented.</p> <p>Microsoft 365 implementation was started as part of Cloud based solutions with the purchase and installation of 100 Microsoft 365 subscription licenses. The project plan is being defined for the roll-out exercise to all users.</p> <p>The proposal with scope and timelines for the SCM and Finance payment business processes was accepted from supplier and the development of the automated processes is under way with delivery date of 1 July 2022.</p> <p>Phase 1 of the Data asset inventory register for seismic data, well data, gravity, magnetic, aeromagnetic, geochemical data has been completed and published in Laserfiche</p>
	<p>Ongoing stakeholder engagement, particularly with Parliament.</p> <p>Ongoing participation in drafting team.</p>	<p>The Agency continues to engage stakeholders to ensure the new legislation supports the development of the industry</p>
	<p>Ongoing stakeholder engagement</p>	<p>Relevant stakeholder engagement initiatives are being undertaken.</p> <p>PASA now participates in the development of the Gas Master Plan to present the opportunity to use indigenous gas in the transition.</p>

Risk Type	Description of Risk	Probability	Impact
Acceleration of exploration	Inability to increase the pace of exploration	Low	Agency seen as irrelevant. Stakeholder dissatisfaction. South Africa lose the opportunity to exploit potential resources. Lack of economic growth and job creation. Business closure. Reputational loss.
Attraction of appropriate skills	A failure to attract and/or retain the requisite / appropriate skills to support the strategy	Low	Undercapacitated structure. Inexperienced personnel. Strategic plan not fully realised. Reputational damage. Escalating consulting fees. Increased staff turnover.
Unauthorised access to data, information and systems	Inability to prevent and / or detect unauthorised access to data, systems and information	Low	1. Breach of confidentiality 2. Litigation 3. Loss of income 4. Reputational loss 5. Theft of confidential data / information 6. Fruitless and Wasteful Expenditure
Strategic Project objectives not met	'Strategic projects do not meet set / agreed objectives and stakeholder expectations	Moderate	Inability to execute Delays in the progress of the projects Inability to attract further funding for special project Loss of reputation Delays in investment in oil and gas (specifically shale gas) Audit findings Internal control lapses Inefficiencies Loss of data

	Risk Response	Status
	Inability to increase the pace of exploration	<p>The strategy was finalised and submitted to the Board Technical Committee.</p> <p>Exploration and licensing strategy is complete and steps towards implementation have begun. The issue of public negativity towards exploration activity and specifically seismic acquisition, remains.</p>
	<p>Revised organogram to be approved.</p> <p>Recruitment for new positions</p>	Quarter 4 target of 100% recruitment not achieved due to moratorium on filling new positions. Only one position out of 5 was not filled.
	<p>Staff confidentiality agreements</p> <p>POPIA implementation</p>	In progress
	<p>Finalise and implement PM Framework / policy / procedure</p> <p>Appoint project Management Manager</p> <p>PM training and development.</p>	Implemented/administered project management training to the technical team

## Summary Business Score for the period

At the end of the reporting period, the Agency has not achieved two of the twenty strategic KPAs for the FY2021/22.

- a. **The automation of identified business processes** – The Agency had planned to automate 5 business processes but only two were finalised. This was largely because of delays in business process mapping.
- b. **Extended Continental Shelf Claim Project** –. Management’s strategy was to draw Cabinet’s attention to the Project by requesting DMRE Minister to seek Cabinet’s approval for the Minister of Transport to delineate the country’s continental shelf in line with the UN Commissions acceptance of South Africa’s claim for the additional three regions. The Agency submitted the recommendation to the Minister in September 2021 but it has not yet been tabled to Cabinet. In addition, no funding secured for the project. The Hon, Minister should be approached regarding this challenge

List the KPA	Score
South Africa’s oil and gas prospectivity is understood by oil and gas exploration companies and investors	5
Oil and gas exploration activity and diversity amongst explorers is increased	5
Annual increase in exploration work programmes that contain data acquisition commitments	5
Increased revenue from exploration and application fees	5
Approved data sales strategy	5
Cost containment	5
2020/21 Audit findings addressed	5
Improved engagement with stakeholders	5
Improved knowledge of the contribution of upstream petroleum industry, particularly gas, to socio-economic development and energy transition	5
The new Upstream legislation, policy and regulatory framework is reflective of the Agency’s contributions	5
ECSC project is funded	1
A sustainable, secure, efficient, collaborative and effective IT environment that supports work from anywhere	5
A sustainable, secure, efficient, collaborative and effective IT environment that supports work from anywhere	5
Identified business processes are automated for operational efficiency	1
An agreed data asset inventory for all data types is developed and published for use by all internal systems	5
A core processing and analysis facility is established	5
Fully operational Agency organisational structure	5
Improved turnaround times for processing of applications	5
Improved knowledge on regulatory systems for decommissioning offshore facilities and sub-sea infrastructure.	5
Baseline data for shale gas regulation is in place and understanding of shale gas resource potential is enhanced.	5

Not Assessed 0	Not Achieved 1	Below Target 2	On Target 3	Above Target 4	Exceptional / Ceiling 5
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*“Trust gives you the permission to give people direction, get everyone aligned, and give them the energy to go get the job done. Trust enables you to execute with excellence and produce extraordinary results. As you execute with excellence and deliver on your commitments, trust becomes easier to inspire, creating a flywheel of performance*



# OPERATIONAL PERFORMANCE

## Vision

A diverse upstream industry contributing to energy security through sustainable growth in exploration and development of oil and gas.

## Strategic Objectives

### Increase Exploration and Production

### Financial Sustainability

### Additional

#### OKRs

- 80% of planned new blocks ranked & valued by 31/03/23
- 1 speculative seismic survey by 31/03/23
- Block production rights for 11B/12B issued by 31/03/23
- Off-shore and sub-sea decommissioning guidelines submitted by 30/09/2022
- 14 exploration and development wells drilled by 2025/26

- Increase in self generated revenue to at least 70% of total income by 2025/26
- Plan for 10% y-o-y increase in self-generated revenue submitted by 31/03/23
- Unqualified audit with no matter of emphasis

- 1 proposal per policy under d
- Proposed subr submitted to D
- Stakeholder en report submit
- Progress repor committee by

## Strategic Objectives

Promote the sustainable development of indigenous Oil & Gas Resources

Diversify income sources and optimise costs to achieve financial sustainability

Contribute to the development of upstream-related activities to promote a sustainable upstream

## Key Enablers

Support of government and social agendas

Funding & Governance

Environmental

## Mission

To promote, facilitate and regulate exploration and sustainable development of oil and gas contributing to energy security.

## Objectives

### Advocacy

Oil and gas legislation/development by 31/03/23  
Commission on delineation  
MRE by 31/03/23  
Engagement plan progressed to EXCO by 31/03/23  
Submitted to technical  
31/03/23

### Digital Transformation

- Identified infrastructure upgraded by March 2023
- Cyber risk remediation plan completed by 21/03/2023
- All published data assets loaded into PPDM database by 31/03/2023

### Operational Excellence

- Fully operational and capacitated organisational structure
- Improve turn around times for processing of applications

## Strategic plays

Development of legislation  
activity in the  
sector

Digitisation of internal processes and systems to improve efficiencies and reduce costs

Organisational renewal and capacitation to efficiently deliver on mandate and strategic projects

## Enablers

Sustainability

Stakeholder Relationships

Human Capital Development

## SFF Operating Environment

The SFF Association (“SFF”) is the strategic oil reserve agency of the Republic with crude oil storage terminals in Milnerton and Saldanha Bay. SFF’s mandate is to procure and manage strategic crude oil reserves on behalf on the government and is derived from its memorandum of incorporation. All costs incurred in storing and managing the country’s strategic inventory of crude oil is financed from income that SFF derives from leasing, on commercial terms, unutilised capacity in the Saldanha Bay and Milnerton crude oil storage terminals.

The purpose of SFF, as transcribed in SFF’s Memorandum of Incorporation, is to carry on the business of promoting, conducting, establishing, facilitating, guiding and assisting, by the establishment of a fund or funds and/or in any other manner whatsoever, the location, procurement, storage, production and/or exploitation of fuels, materials, products and commodities which are or may become of strategic importance to the Republic of South Africa, not for gain but solely in the communal interests of the general public, and to perform any other acts towards this end.

SFF’s mandate to produce, store, and manage strategic stocks is derived from Ministerial directives that are issued to SFF from time-to-time. The commercial mandate of

SFF of establishing funds, that fund the security of supply mandate, is derived from the company’s memorandum of incorporation.

The vision of SFF is to be a guarantor of strategic fuels for the benefit of the communities the company operates in. Its mission is to secure the supply of strategic fuels through (i) operating efficiently, (ii) collaborating with strategic partners in exploring new opportunities, and (iii) by leveraging agile and empowered people operating responsibly in a compliant manner.

In order to achieve its mission, SFF has five strategic objectives:

- to be prepared for crude oil and petroleum product supply disruptions;
- to be financially independent of State's support;
- to be a valuable corporate citizen striving to exceed stakeholder needs; and
- to develop and implement internal business processes that create shareholder value, promote sustainability, minimise business risk and are rooted on good corporate governance.

## SFF Operating Model and Environment

The SFF Operating Model can be depicted schematically as below

CORE ACTIVITIES	OUTCOME	FOCUS AREA	HOW	MOTIVATION
<ul style="list-style-type: none"> <li>•Promote</li> <li>•Conduct</li> <li>•Facilitate</li> <li>•Guide</li> <li>•Assist</li> <li>•Establish</li> </ul>	<ul style="list-style-type: none"> <li>•Location</li> <li>•Procurement</li> <li>•Storage</li> <li>•Production</li> <li>•Exploration</li> </ul>	<ul style="list-style-type: none"> <li>•Fuels</li> <li>•Materials</li> <li>•Products</li> <li>•Commodities</li> </ul>	<ul style="list-style-type: none"> <li>•Establish fund(s)</li> </ul>	<ul style="list-style-type: none"> <li>•Not for gain but in the communal interest of RSA</li> </ul>

## OPERATIONAL PERFORMANCE

This model is implemented through the programs depicted as follows

Strategic Program	Project or initiative (approved or under consideration)	Project Sponsor
Investment in equity barrels	Nile-Orange Energy Project	CEO
Hydrocarbon trading	G-to-G crude oil allocation	CEO
Storage & logistics infrastructure	Long-term leasing of NATCOS tanks	CEO
	LPG Infrastructure acquisition	CEO
	LNG Terminal development	CEO
	Fuel Storage Infrastructure acquisition	CEO
	SBIDZ Fuel handling Infrastructure development	COO
	Milnerton terminal refurbishment	COO

The SFF Association in Saldanha, Milnerton, Ogies and South Sudan. Through its Corporate Social Investment programs the business has made social an economic impacts in all its areas of operation. Training has been provided to engineers in South Sudan's Nilepet and Ministry of Petroleum in compliance with the Exploration and Production Sharing Agreement.

Domestically, the business has implemented 6 Corporate Social Investment programs throughout the country with a particular focus in the provinces where it operates, namely the Western Cape and Mpumalanga.

These have been achieved despite an unfavourable operating environment which was mostly backwardated. The Business has concluded the Financial Year profitably with a net profit of R783 million against a budget of R546 million and thus R237 million above budget (43%). This performance is as a result of contractual agreements entered into in April 2020 that expire at the conclusion of this Financial Year.

The performance for the period ending March 2022, reflected revenue below budget by R146 million (14%). This was mainly attributable to the fact that revenue from storage tank rentals was below budget by R113m. This was due to the fact that the budgeted exchange rate used was at R17 to the dollar as per the CEF budget guidelines and the BER forecast used. The actual rand to the dollar has seen an exchange rate of between R14 to R16 to the dollar over the year with the latest exchange rate being on average at R14. Revenue achieved year to date was R911.8m

### Legislative environment

- Received the s79 from Minister of Transport to develop and construct an LNG Import Facility in Coega IDZ;
- SFF has been introduced to Nersa as a joint applicant to manage and operate the LNG Import Facility.

- Further concluded 25 year Terminal Operator Agreement with TNPA

### Strategic trust

The strategy adopted by the business, has sought to diversify income streams and its customer base. In pursuit of this strategy, SFF pursued the acquisition of two assets in Cape Town and Saldanha Bay. By the conclusion of the 4th Quarter, the business had concluded the Acquisition of the Avedia LPG Storage facility as well as the BP Montague Gardens Terminal.

This has resulted in SFF becoming a diversified business in line with the strategy and ensuring new income streams for the business. These acquisitions also ensure that SFF is shielded from its reliance on the fluctuation of the contango / backwardated market structures.

### Financial performance

SFF's performance was very solid for the financial year ended 31 March 2022. The contracts secured during 2020 allowed for the good performance in this financial year with a turnover of R909 million and an overall profit of R737m approximately.

Turnover:	R909 million
EBITDA:	R546 million
ROCE:	6%

## OPERATIONAL PERFORMANCE

Measures of Financial Sustainability	
Profitability	Turnover: R909 million EBITDA: R546 million EBITDA margin : 60,06%
Liquidity	Current Assets: R7.001 billion Current Liabilities: R246 million Liquidity ratio: 28,45 The liquidity ratio is significantly above the norm of 2 : 1
Solvency	Total Assets: R11.165 billion Total Liabilities: R1.204 billion Total Equity: R9.961 billion Solvency ratio: 9.27 Debt to equity ratio 12,09%

### Non-Financial Performance

SFF appointed a verification agency to conduct its B-BBEE verification. SFF managed to achieve a total B-BBEE score of 48.06 points and a non-compliant status. An action plan will be embarked to improve the rating in the 2022/23 financial year.

### Progress on the Reduction of Fruitless and Wasteful Expenditure

The business has established a functional Loss Control Committee which managed to resolve a significant number of fruitless and wasteful expenditure.

### Material Projects Commissioned and Completed During the Year

- Pre-feasibility study into South Sudan refinery
- Pre-feasibility study into South Sudan pipeline
- Acquisition of Montague Gardens Terminal
- Acquisition of Avedia Energy
- Feasibility study into the refurbishment of Milnerton

Tank Farm

### Material Projects Under Study

- Coega LNG Import Terminal
- Exploration of Block B2 in South Sudan

### Entity Top Five Key Risks and Mitigation Tracking

Outline of key entity risks and how we are tracking these to close the gap



## OPERATIONAL PERFORMANCE

Risk Type	Description of Risk	Probability	Impact	Risk Response	Status
Being prepared for energy disruptions	Unable to commence with the refurbishment of the Milnerton tanks by 31 March 2022	H	H	This risk will require re-evaluation which should include the strategy for SFF to identify and contract off-takers for at least 5 years.	Ongoing
Being independent from state financial support	Inability to commence with Gravity Magnetic Data studies	H	H	H MOP Approved the execution of the Work program in South Sudan	Ongoing
Advance transformation imperatives of the government	Inability to employ Female recruits to reach 60% Target for SFF	H	L	Recruitment Tracker in place and tracking Female Recruitment for all vacancies. Review of All Social Media Platforms for advertising in progress Intern Advertisements placed and recruitment will give preference to Female, Persons with Disability and Youth	Ongoing
Being prepared for energy disruptions	Unable to commence with the Feasibility Study of the LNG Importation Terminal	H	H	Obtain all regulatory approvals ito: 1. Obtaining a directive from the State which will mandate SFF to hold servitude for this LNG Terminal. 2. NERSA application	Ongoing
'Being prepared for energy disruptions	Inability to increase the strategic stocks inventory from the current 10.05 mil barrels to 10.3 mil barrels.	H	L	The legal issues relating to the 300 000 barrels are yet to be resolved and therefore the risk remains high that these volumes will remain disputed	Ongoing

# OPERATIONAL PERFORMANCE

## Summary Business Score for the period 1 April 2021 – 31 March 2022

STRATEGIC GOALS	KPI	Score
1. To be prepared for supply disruptions of crude oil and petroleum products	Security of Strategic Supply	2
2. To be independent from state financial support	Financial Profitability / sustainability	3
3. To advance transformation imperatives of the government	B-BBEE	3
4. Being a valuable corporate citizen striving to exceed stakeholder needs.	Stakeholders / CSI	2
5. To develop and implement business processes that create shareholder value, promote sustainability, minimise business risk and are rooted on good corporate governance principles	Operational Excellence	3

The performance of the business is assessed on a 5-point scale as outlined	Not Assessed 0	Not Achieved 1	Below Target 2	On target 3	Above Target 4	Exceptional / Ceiling 5
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### Strategic Outlook

The SFF business reflects a healthy financial position and on track in implementing the approved strategy and corporate plan. The successful acquisitions have ensured that the business has managed the revenue-stream concentration risk and has successfully diversified the income streams.

This however leaves much work to be done in the next financial year to ensure efficient integration of these acquisitions into the SFF business. The areas where the business has not reached its target have mostly rolled over into the corporate plan and the targets have been reviewed for the following financial year

### CEF SOC

CEF SOC Ltd. (CEF) is a state-owned company mandated by the Central Energy Fund Act of 1977 (the CEF Act) and acts as the holding company of subsidiaries through which it conducts its business, and together constitutes the CEF Group of Companies. The CEF Act mandates the company to support security of energy supply throughout the value chain comprising exploration, production and supply of coal, gas, liquid fuels, and other primary energy sources. CEF also has a renewable energy division and a liquid fuels storage/infrastructure business. Further, CEF SOC contributes to the national energy agenda through the DMRE in an advisory and/or facilitation role. CEF SOC also administers the Equalisation Fund for the DOE (CEF is the implementing arm of the DMRE).

### Strategic Thrust

As part of a holistic approach in addressing the Group strategic internal challenges and the forces of our evolving sector CEF SOC has had to redefine its value proposition and reposition itself as a as a critical player in the energy landscape. Failure to reposition will put CEF SOC's relevance under question, and the Group's commercial presence at risk. Collective consideration of all critical inputs and insights from in-depth assessment and benchmarking has led to defining CEF SOC's trilateral role to ensure its relevance in the energy market. The three roles are (1) Strategic Parent, (2) Strategic Investor and (3) Developmental Agent. As strategic parent CEF SOC will support subsidiaries across multiple dimensions and as strategic investor CEF SOC will position itself as a viable & credible energy investment partner whilst also playing a demarcated developmental agency role. As critical focus for the relevance of CEF SOC we benchmarked other strategic investors to identify key success factors. The organisational scorecard is underpinned by the following strategic objectives/themes with the corresponding weighting signalling priority of execution.

Commercial Sustainability (30%): Strategic initiatives around value creation through portfolio management and asset optimisation.

Consolidation and Turnaround (20%): Execution of the merger of iGas, PetroSA and SFF through a targeted merger archetype as well as the stabilisation and turnaround of legacy PetroSA.

## OPERATIONAL PERFORMANCE

Operational Efficiency (10%): Automation and adoption of best practices and systems and enhancements of operating asset performance.

Strategy & Long-term Growth (30%): Strategy execution to enable the Group growth agenda through targeted acquisitions and strategic partnerships to diversify income streams.

Human Performance & Organisational Alignment: Creation of a high performance organisation to create a competitive edge and drive a culture biased towards performance.

### Financial Performance

For the FYE 2021/22, CEF SOC achieved a summary performance score of 3.69 out of 5.00 on the Strategic Themes. This very good performance reflects the organisational effort at delivery on the strategic projects,

the merger imperative from the shareholder, and the pursuit of turnaround initiatives across the Group.

CEF SOC has achieved a net loss of R110.5M for the FY21/22. It must be noted that the loss is from the impairment of loans to PetroSA, there is continuing expenditure threat of failing to breakeven due to, escalating head office costs, low recovery of head office costs from subsidiaries, decreasing interest income and the lingering financial support to PetroSA. In the overall the performance of current financial year is to be a turning point in the financial performance of CEF towards the future.

Turnover: R18.2M

EBITDA: R205.5M

ROCE: -2%

Measures of Financial Sustainability	
Profitability	Net loss for the year -R110.5M
Liquidity	The current ratio is 2.3
Solvency	Total debt : Equity is 45%:55%

### Non-Financial Performance

CEF SOC performed very well in the areas of new business development with the conclusion of the acquisition of 15% Sasol Shares in ROMPCO making CEF through iGas and the CMG the majority shareholder. Advancing the greenfields ACWA Redstone CSP renewable energy project, where CEF has a stake of 25% to construction phase. CEF is busy with a number key investments as acquisitions. (CEF) has completed its due diligence on its R1-billion investment in emerging integrated energy producer Renergen's Virginia gas project

### Progress on the reduction of fruitless and wasteful expenditure

The Company is in the process of strengthening the internal controls in order to prevent and recover fruitless and wasteful expenditure incurred as well as enforce

consequence management. Some of the controls put in place include the establishment of the loss control which monitors, investigate and recommend consequence management. The Company's action has been developed is monitored on a monthly basis for implementation.

### Material projects commissioned and completed during the year

100 MW Concentrated Solar Power (CSP) Plant

### Material projects under study

- Tetra4/Renergen Phase 2
- Project Strawberry- acquisition of crude refinery
- Coega LNG Terminal- LNG importation and aggregation terminal

# OPERATIONAL PERFORMANCE

## CEF Top Five Key Risks and Mitigation Tracking

No	CEF SOC TOP FIVE RISK	Proposed Mitigations
1.	Financial instability might result in being insolvent. Non-performance of subsidiaries due to sharing capital and assets	<ul style="list-style-type: none"> <li>PetroSA War-Room designed to improve decision making and fast track key initiatives.</li> <li>Strategic partnership</li> <li>Disposal of non-core assets</li> <li>Optimisation of asset allocation</li> </ul>
2.	Inability to Grow and diversify revenue streams could result in loss of sustainability and relevance.	<ul style="list-style-type: none"> <li>Prioritisation of and capacitation of Group Business Development initiatives.</li> <li>Strategic partnership</li> <li>CEF SOC repositioning as Strategic Energy Investor.</li> </ul>
3.	Inability to recruit, train, capacitate and retain requisite talent might lead to poor business performance	<ul style="list-style-type: none"> <li>Execution of Group High Performance Organisation Strategy.</li> <li>Leadership Pipeline Development</li> <li>Integrated Business Performance Management systems</li> <li>Group Training and Development Strategy execution</li> </ul>
4.	Misalignment with shareholder which might lead to loss of confidence by shareholder	<ul style="list-style-type: none"> <li>Group Shareholder and Stakeholder engagement framework development.</li> <li>Shareholder engagements prioritisation by the Board</li> <li>Structured feedback and engagements.</li> </ul>
5.	Loss of Strategic Relevance and emphasis might lead to bad reputation.	<ul style="list-style-type: none"> <li>CEF SOC Repositioning</li> <li>Shareholder strategic alignment</li> <li>Group Commercial sustainability to drive key national imperatives</li> <li>Revision of Group operating model</li> </ul>

## Summary CEF SOC Business Score for the period 1 April 2021 – 31 March 2022

Theme	Goal / Objective	FYE Score
Commercial sustainability	Improve profitability to achieve a return equivalent to the cost of capital	5
Consolidation & Turnaround	Lead the reorganisation effort, improve economies of scale, synergies, and increased value efficiencies of consolidation through returns enhancement and cost savings.	5
Operational Efficiency	Increase in organisational efficiency and productivity through the improvement of business processes and systems to ensure competitive advantage.	5
Strategy & Long-term Growth	Lead the development of an Integrated Strategy & Growth to drive scale and footprint for long-term commercial sustainability. The output of this objective will be improved reputational value for CEF SOC & Group	5
Human Performance & Organisational Alignment	Sustained superior business performance in the marketplace and the achievement of competitive advantage	4
Socioeconomic Transformation & Reputational Management	Improve CEF Brand reputational value	5
Corporate Governance & Enterprise Risk management (ERM)	Minimise risk exposure and cost of doing business	5

The performance of the business is assessed on a 5-point scale as outlined	Not Assessed 0	Not Achieved 1	Below Target 2	On target 3	Above Target 4	Exceptional / Ceiling 5
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# OPERATIONAL PERFORMANCE

## Strategic Outlook

During the period under review, the external environment strongly impacted the delivery of strategic projects: The Russia-Ukraine conflict which is still in progress and has led to steep increases in the price of energy commodities and upending a number of key global macroeconomic assumptions and necessitated a review of some of our strategic initiatives. The overall business performance for the FY21/22 was modest especially when considered against the prevailing operating environment challenges, severe resource constraints, and the volatility in the energy landscape.

Looking ahead, CEF SOC will continue with the execution of key strategic initiatives with a view of progressing the following focus areas:

**The Turnaround of PetroSA:** Provide oversight and support on the critical initiatives planned for the new financial period for continuities turnaround of PetroSA and bringing the refinery back into production.

**Phase2 of the merger project:** Advance the merger of iGas, PetroSA and SFF to form the SANPC to pursue R95BN Market opportunities identifies and R3.5BN in synergy optimisation. Phase 2 will entail the incorporation of the SANPC and a number critical transitional initiatives.

**Legacy Entity Oversight:** As an outcome of the merger archetype, some components of the merging entities will not move across immediately and such will need to be managed as legacy entities to enable certain legal processes to unfold.

**Growth Projects:** Continue to drive the Group growth agenda and progress and number of key investments being considered or undergoing a due diligence process.

**CEF SOC Repositioning:** Finalisation of the CEF SOC Repositioning to achieve the execution outcomes of the CEF SOC parenting strategy in respect of the three identified new roles of CEF SOC.

## EQF

The EQF was established by the Central Energy Fund Act, (Act No. 38 of 1977) to impose a levy based on sales of petroleum products since 1977 and to be utilised in terms of the provisions of the said Act, for example equalising fuel prices, financing the crude oil price premium and for tariff protection afforded to the synthetic fuels industry. In addition to the administration of levies applicable on fuels, the EQF has the sole responsibility of calculating the daily Basic Fuels Price (BFP) of petrol, diesel, IP, and LP Gas

The EQF is regulated by directives issued by the Minister of Mineral Resources and Energy, in some instances, in concurrence with the Minister of Finance, as required by the provisions of the CEF Act and by Regulations

promulgated in terms of the provision of the Petroleum Products Act, 1977 (Act No.120 of 1977). The purpose of EQF is to administer, invest, collect, and pay funds as in some instances, in concurrence with the Minister of Finance, as required by the provisions of the CEF Act.

The fund is not consolidated with the CEF Group

## Financial Performance

The surplus for the year amounted to R992.9 million compared to a deficit of R544.8 million.

EQF reported a total revenue from exchange transactions amounting to R17.5 million compared to the prior year of R38.3 million. This is due to the cumulative slate balance being more than negative R250 million in which reimbursements were made to the oil industries and less cash was being invested.

Total revenue from non-exchange transactions amounted to R4.7 billion compared to a prior year amount of R142 million. The variance is due to a slate levy implemented in the price structures of petrol and diesel that continued from the prior year and a once off income from the sale of feedstock from the subsidiary in CEF as per the CEF Act.

Levies payments of R3.7 billion was incurred compared to the prior year of R720 million. The variance is due to the oil companies cumulative slate balance being more than negative R250 million in which reimbursements were made to the oil industries during the year.

General expenses of R4.8 million was incurred compared to the prior year of R5.2 million. The variance was mainly due to the lower treasury fees incurred due to lower funds invested.

## GROUP CFO'S REPORT FOR THE YEAR ENDED 31 MARCH 2022

### INTRODUCTION

The financial statements are prepared in accordance with International Financial Reporting Standards. The CFO report is meant to supplement the financial statements that are on page 115 to 253 and will, therefore, highlight the material items that had an impact on the 2021/22 financial performance.

The CEF Group is classified as a Schedule 2 public entity in terms of the PFMA, which means that it is a quasi-commercial entity as it is expected to be self-sufficient and not receive funding allocation from the fiscus to fund its operations. For this reason, the CEF Group is expected to earn a profit from its operations to fund its commercial activities and developmental mandate.

# OPERATIONAL PERFORMANCE

## FINANCIAL PERFORMANCE HIGHLIGHTS



Figure 20: Overview of performance highlights

The Group has seen an improvement in its performance as the world's recovers from the severe economic environment which was aggravated by the COVID-19 restrictions. The high level achievements for the year ended 31 March 2022 include the Group's R62.5 million net profit after tax, and the unqualified audit opinion. The Group is on its path to financial sustainability with various strategic initiatives to improve operational performance underway.

The positive results are attributable, in the main to:

- Favourable revenue performance mainly attributable to our purchased petroleum products trading unit at PetroSA and the coal mining business at AEMFC.
- Impairment reversals due to the increase in the oil price and the decrease in the R/US\$ exchange rate
- Cost containment and cash preservation initiatives implemented during the year particularly at PetroSA through the tripartite war room.

### MACRO-ECONOMIC FACTORS AFFECTING THE GROUP FINANCIAL PERFORMANCE

Our business performance is highly affected by macroeconomic factors such as the oil price, exchange rates and interest rates.

#### Crude oil prices

The average oil price has increased from \$44.5 in the prior year to \$100.4 per barrel in 2022. The higher average price is mainly attributable to the Russia-Ukraine conflict which caused the prices to rise to as high as \$148 per barrel, before declining to around \$100 per barrel. The crude oil price volatility has a significant impact in the following businesses:

- Petroleum products business: Generally the oil price is one of the key variables that influence the selling price of the petroleum products and cost price for sourcing feedstock and finished products.
- Crude oil storage business: The oil price is the key factors that affect the demand for crude oil storage space. The lower price of crude oil encourages traders to store products at the storage facilities with the intention to sell the products when prices increase.

The Brent crude oil closed at \$107.5/Bbl compared to the lower \$63.5/Bbl reported at the end of the 2020/21 financial year.

#### Exchange rates

The average Rand/ US dollar exchange rate has slightly strengthened from R16.4 to the \$ in the prior year to R15.3 to the \$ in the year under review as the South African economy recovered from the COVID impact from the prior year. The rand/US dollar volatility has a significant impact in the following:

- Petroleum products business: The rand/US dollar exchange rate is one of the key variables that influence the selling price of the petroleum product and cost price for sourcing feedstock and finished petroleum products. This also affects the valuation of the rehabilitation provision.
- Foreign operations and investments on translation of the reported performance and balances to rand.

The Rand/US\$ closed slightly stronger at R14.6 at 31 March 2022 compared to the R14.8 reported at 31 March 2021

# OPERATIONAL PERFORMANCE

## Interest rates

The year under review started off with the South African Prime rate at 7% which later increased to 7.25 % in the 3rd quarter of 2021/22, 7.5% in January 2022, and further increased to 7.75% in the March 2022. Fluctuations in interest rates has an impact on the following:

- Returns on the Cash and cash equivalents invested in the money market as 48% of the Group' s assets are in cash.
- Interest expense on the finance lease liabilities as well as the Group loans.

High level Impact on the CEF Group Operating environment

- The High oil prices resulted in less product being stored in SFF tanks which translated to less revenue being generated for the 2022 financial year.
- The interest rate increases resulted in an increase in the cost of borrowing as well as investment income. However, the latter was countered by reduced cash reserves following the payment of the Strategic stock Traders in the prior year.
- Since the Russia-Ukraine conflict began, the market has remained tight with premiums for products rising to very high levels thus making it difficult to secure cargoes below BFP for both petrol and diesel. Thus impacting the cost of sales of PetroSA.



# FINANCIAL PERFORMANCE SUMMARY

## Profitability

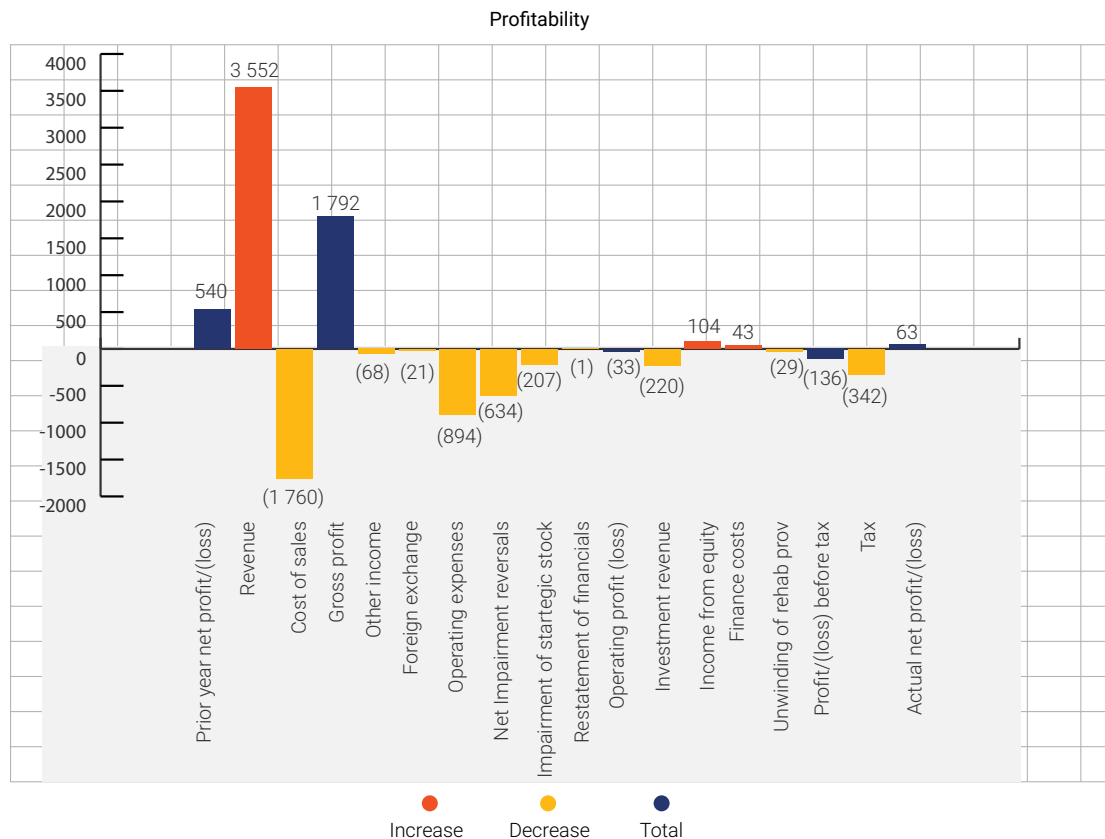


Figure 22: CEF profitability prior year vs current year net loss

The Group has reported a net profit of R63 million compared to the net profit of R540 million reported in the prior period. The decline in profits was mainly due to the following:

- Higher operating expenses of R3.2 billion compared to the R2.2 billion reported in prior year;
- Lower impairment reversals of R 408 million compared to net reversals of R1 billion in the prior year;
- Reduced fair value gain on the Strategic stock of R79 million compared to R286 million in the prior year;
- A decrease in investment income of R594 million versus the R813 million reported in prior year; and
- An increase in the tax expense to R265 million compared to the 2021 tax credit of R76 million.

# OPERATIONAL PERFORMANCE

## Gross profit

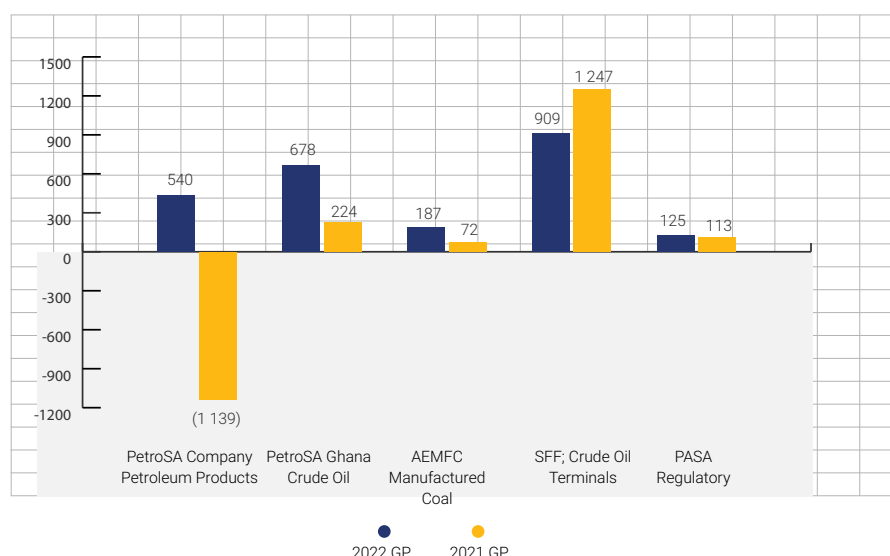


Figure 23: Gross profit/(loss) by business segment

The Group reported a gross profit of R2.3 billion, which is an improvement compared to the prior year gross profit of R541 million. The positive movement emanates mainly from the increased sales of Petroleum products, higher gross profit from the sale of crude oil as well as the higher revenue generated by the coal mining business.

### PetroSA Company- Petroleum products

The PetroSA company operations reported a gross profit of R435 million (margin of 4%), which is an improvement from the -R1, 1million (margin of -15%) generated in the prior year. The improvement is mainly due to the reallocation of R1.2 billion of costs relating to the PetroSA GTL refinery from cost of sales to operating expenses. The GTL refinery was severely impacted by the depleted gas and the operations at the refinery were stopped during December 2020.

### PetroSA Ghana crude oil sales

A gross profit of R678 million (margin 64%) which is an increase from the R224 million (margin of 20%) generated in the prior year. The increase is mainly driven by the high crude oil prices.

### AEMFC coal mining

The coal mine segment generated gross profit of R187 million (margin of 27%) an improvement from the gross profit generated in prior year of R72 million (margin of 24%) this was mainly due to the high focus on stabilizing the production out of Vlakfontein operations.

### Crude oil terminals

The crude oil storage business generated a gross profit of R909 million (2021: R1.2 billion). The SFF business was affected negatively by the market being in backwardation with oil prices skyrocketing to over \$100 dollars per barrel. The high oil prices resulted in reduced demand for storage

as the business model is one in which lower crude oil prices attract oil traders to rent storage space at the SFF tank farms with the intention to sell the crude when the oil prices are high. This was worsened by the loss of an anchor tenant during the year under review.

### Operating profit/ (Loss)

The Group continued to generate and operating loss with R103 million in the financial year under review compared to the R70 million reported in the prior year. The operating loss mainly emanates from the GTL refinery expenses that were reallocated from cost of sales to operating expenses (mainly employee costs) and the lower impairment reversals and fair value gains recognised in the current year as a result of the macroeconomic indicators.

### Net profit/ (Loss)

In spite of the operating loss of R103 million generated in the financial year under review, the Group reported a net profit after tax of R62.5 million (2021: R540 million), mainly due to net interest income earned on cash investments, and income earned from equity accounted associates.

### Investment income

The Group reported investment income of R593 million compared to R813 million reported in the prior year. The deterioration is mainly from the reduced cash balance invested market as the cash reserves

### Income from equity accounted associates

In the financial year under review the Group reported income from equity accounted associates of R452 million compared to the R348 million reported in the prior year. The increase is mainly due to the increase in earnings from our ROMPCO and African Royalty Minerals investments.

## CEF GROUP CAPITAL ALLOCATION

**Table 17: CEF Group capital allocation**

Capital allocation in R'000			Returns in R'000		
Asset class	Assets	Allocation	Net Returns	Allocation	Blended Return
Cash	14 091 678	48%	590 205	4%	2.0%
Operating assets	9 069 689	31%	1 061 602	-12%	-3.6%
Associates	1 612 374	6%	454 334	28%	1.6%
Non-operating assets	4 480 950	15%	79 620	2%	0.3%
<b>Total</b>	<b>29 254 691</b>	<b>100%</b>	<b>62 557</b>	<b>0.2%</b>	<b>0.2%</b>

As at 31 March 2022, the Group held assets of R29 billion comprising of the following:

- 48% of the assets are cash mostly invested in the money market. Cash is expected to generate a return equivalent to the money market return. The average return on cash held was 4%
- 31% of the assets are operating assets with the bulk invested in the oil and gas cluster and the remainder in coal mining. The oil and gas operating business segment consist of the PetroSA GTL refinery and trading, oil blocks in Ghana, and crude oil terminals. The oil and gas cluster is confronted with daunting challenges emanating from depleted gas reserves thus generating a return far less than the cost of capital.
- 6% of the assets are invested in associate companies with the bulk invested in gas infrastructure and the remainder in coal mining and renewable.
  - The investment in the gas infrastructure is comprised of the shareholding in ROMPCO and the investment is currently generating a return that is above the cost of capital. ROMPCO is currently making profits and has paid dividends of R301.2 million in the financial year under review.
  - At the beginning of the financial year the investment in coal mining comprised of the shareholdings African Royalty Mining “ARM” and Mzimkhulu Mining. ARM is currently making profits and paid a dividend of R20 million in the current year. The investment in Mzimkhulu was making losses and was subsequently sold in the current year at a loss of R5 million at Group level, however at company level a R107 million profit was recognised.
  - The investment in the renewable energy is made up of the shareholding in and loans to Ener-G Joburg and ACWA Redstone. Ener-G is currently generating losses due to the suboptimal performance of the plant but has managed to pay some of the interest on the loan in the financial year under review, while ACWA has not reached financial close yet.
- The non-operating assets constitute 15% of the total Group assets. Non-operating assets mainly comprise the Strategic stock, linefill in the New-Multi-Product-Pipeline of Transnet and exploration costs. Currently, these assets are not generating any income and are unlikely to generate income in the foreseeable future; therefore, this will suppress the Group returns. The return of R79.6 million relates to the fair value adjustments for the linefill due to the changes in the oil price.



# GROUP CASH GENERATION, UTILISATION AND FINANCING

## Gross profit

The Group's cash balance increased by 3% from R13.7 billion in the prior year to R14.1 billion in the current year, mainly due to cash generated from operations. The following is an analysis of the Group's cash flow movement in the 2022 financial year.

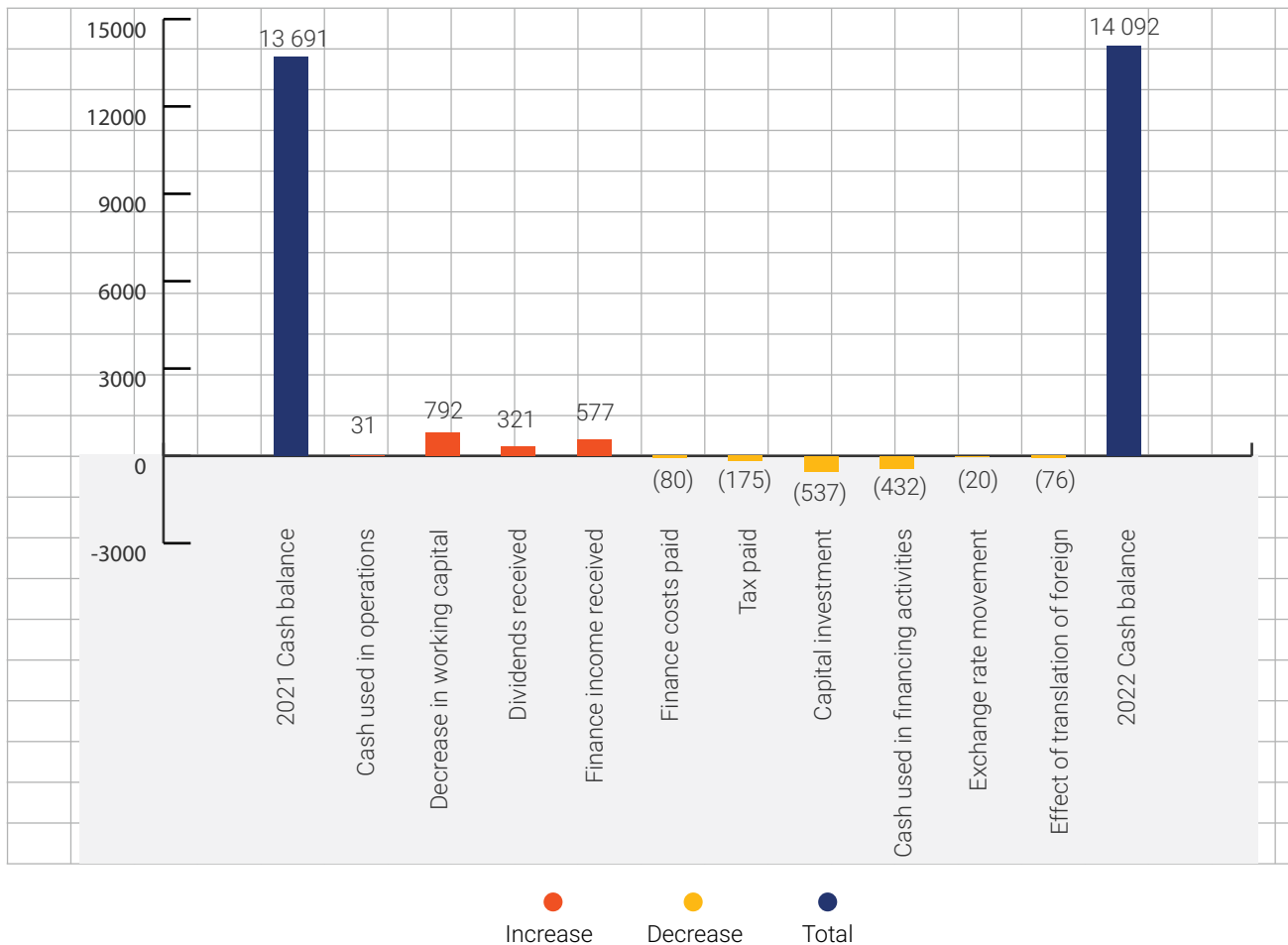


Figure 26: CEF Group cash flow



## FINANCIAL PERFORMANCE SUMMARY

### Cash generated from operating activities

In the financial year under review the Group generated a total of R 1.5 billion from operating activities compared to the R4.3 billion utilized in the prior year. This was made up of cash generated from the core operations of R822 million, interest income of R577 million and dividends received from associates of R321 million. This was reduced by the finance costs paid of R80.3 million and tax paid of R 175 million. The R822 million generated from operations is mainly our Crude oil tank storage business.

### Cash utilised in investing activities

During the year, the Group invested R728.4 million (2021: R265.7 million) towards sustenance and growth. The capital investment mainly relates the investment in ACWA

Redstone of R459 million, PetroSA Ghana development and maintenance projects, PetroSA company maintenance projects as well as expenditure relating to the T Project and Vlakfontein North block mine construction work. The Group also received proceeds of R111 million from the sale of uMzimkhulu Mining.

### Cash flows from financing activities

The capital spending is currently funded through retained cash and external interest bearing debt. There were no additions to external loans during the period. PetroSA fully paid its RBL facility (R328 million) and also made repayments of R65 million towards the finance lease liability. AEMFC repaid R25 million towards the finance lease.

The external interest bearing debt for the Group is outlined in Table 18.

Figures in R'000	Actual 2022	Actual 2021
Petro SA Ghana finance lease	774 314	854 182
PetroSA Ghana Reserve based lending facility "RBL"	-	277 152
Vlakfontein coal mine finance lease	18 039	86 074
Right of use Lease liability	252 254	220 982
<b>Total external debt funding interest bearing</b>	<b>1 044 607</b>	<b>1 438 390</b>
Short term	102 295	393 001
Long term	942 312	1 045 389
<b>Total external debt funding interest bearing</b>	<b>1 044 607</b>	<b>1 438 390</b>

Table 18: CEF Group external interest bearing debt

### Effect of exchange rate movement on cash balance

The movement of R 19.5 million relates to the exchange rate movement effects on the investment held for the sale of strategic stock and R75. Million relates to the translation of PetroSA Ghana cash held in US\$ denominated accounts.



# OPERATIONAL PERFORMANCE

## LIQUIDITY AND SOLVENCY

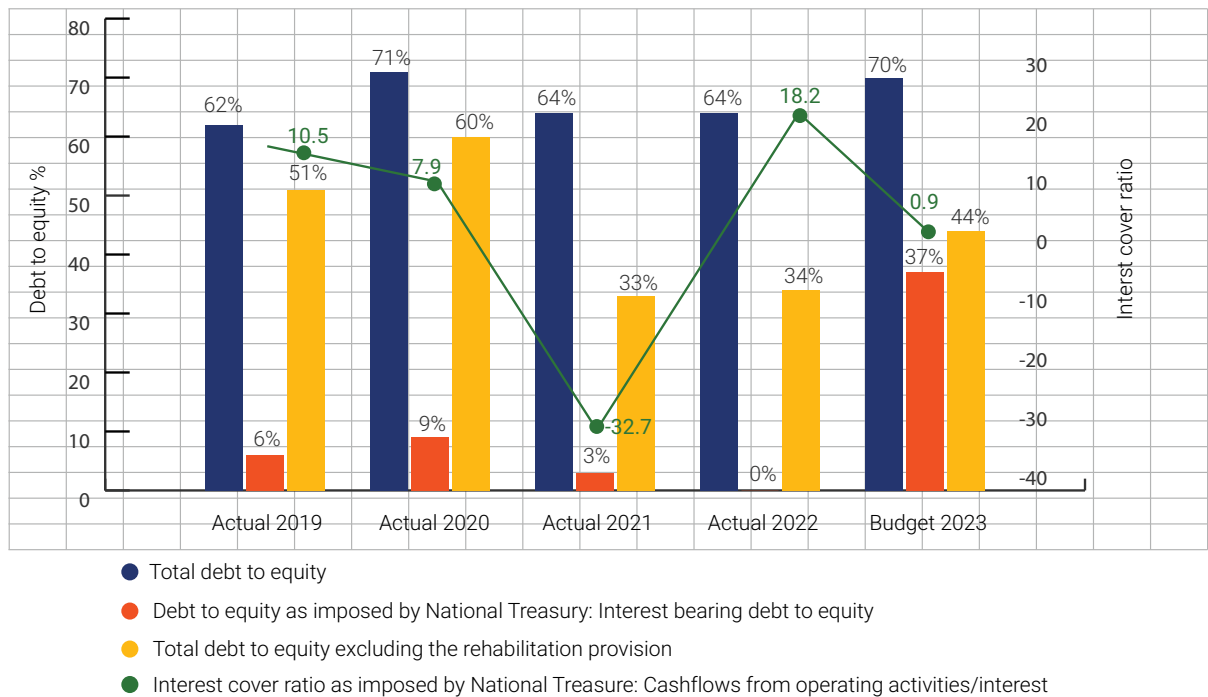


Figure 27: CEF Group solvency

### Liquidity

At the end of the financial year the Group had sufficient cash resources to fund its short-term debt and working capital requirements through cash generated from operations, banking facilities and retained cash. The liquidity ratio is high at 5:5, this means the Group’s ability to settle its current liabilities or those that become due in one year is 5 times and the operating cash flow ratio is 0.47:1, which measures the number of times the Group can pay off current debts with cash generated from operations within the same period. The cashflow generated from operating activities is sufficient to cover the short-term debts and maintenance costs, as a result the Group’s cash reserves have increased by 3% in the financial year under review.

### Solvency

The Group’s gearing ratio is within the target set by National Treasury as a condition for the approval of the Reserved Based Lending and Trade Finance Facility, which was 60% equity and 40% interest bearing debt as the ratio is 100% equity: 0% interest bearing debt. The normal total debt to total equity ratio is 64% total debt: 36% total equity; the total debt exceeds total equity due to the high balance for the rehabilitation provision and accumulated losses incurred by PetroSA. The total debt to total equity excluding the rehabilitation provision

is 44% debt: 56% equity. The PetroSA Group liabilities continue to exceed the assets by R7.4 billion due to the accumulated losses over the years and the rehabilitation provision balance.

The CEF Group liabilities mainly comprised of the rehabilitation provision (R13.4 billion), trade and other payables (R2.1 billion), deferred tax liability (R1.1 billion), finance lease liability (R1 billion) and other payables.

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

## FINANCIAL GOVERNANCE

The Group is committed to sound financial governance through compliance with the PFMA and by preventing irregular, fruitless and wasteful expenditure. Initiatives such as review of business applications and automating the contract management process are underway which will further improve the controls.

## OPERATIONAL PERFORMANCE

The Group incurred irregular expenditure of R209 million during the year and R18 million of the prior year balance was condoned, increasing the cumulative balance of irregular expenditure to R1.1 billion. The irregular expenditure incurred in the current year mainly relates to expenditure in contravention of the procurement regulations, where the procurement process was not fully followed but the Group did not incur material losses.

In the current year the Group incurred fruitless and wasteful expenditure of R1 million, R50 000 was recovered and R393 000 was written off taking the cumulative balance to R 20.3 million. The fruitless and wasteful expenditure incurred in the current year mainly relates to SARS interest and penalties.

As part of corrective measures, we will continue investigating and taking appropriate action to recover any losses and address areas of weaknesses in our systems. The Group has also established loss control functions/committees across its subsidiaries to prevent irregular, fruitless and wasteful expenditure, conduct investigations, recover losses suffered by the Group related to such expenditure, as well as enforcing consequence management.

Some disciplinary processes were undertaken during the year and consequence management was implemented, it must be noted that the process of consequence management is lengthy and management and the Board are committed to ensuring compliance.

### KEY CHALLENGES AFFECTING THE CEF GROUP

#### Profitability/financial sustainability

The Group profitability continues to be severely challenged as the returns are currently below the cost of capital. The returns are further exacerbated by the GTL refinery that is placed under care and maintenance. Further to the above, the Group continues to experience coal quality issues causing it to underperform against the Eskom contract, however a rectification plan is under negotiation and the improvement plans to ramp up saleable volumes to contractual volume are implemented.

#### Funding of the decommissioning liability provision

In terms of the Financial Provision Regulations promulgated under the National Environmental Management Act 107 of 1998, the PetroSA Company is required to have the rehabilitation liability fully funded by February 2024. At year-end, PetroSA had an obligation to provide for the rehabilitation and abandonment of its offshore and onshore facilities valued at R12.4 billion, which is currently not fully funded, as there is a shortfall of approximately R9.4 billion. The Group has to work with various stakeholders to ensure the regulations do not have an adverse impact on the liquidity of the Group when these come into effect. The Group has a total Rehabilitation provision of R13.4 billion, the balance of which does not fall within the provisions of the NEMA Act.

#### Strategic crude oil court case

On the 20th of November 2020 the Western Cape High Court ruled that the disposal of the strategic crude oil stocks contracts should be set aside on basis that CEF and SFF should repay all proceeds received and also be responsible for out-of-pocket expenses (those are interest earned by SFF on proceeds and on Storage fees as well as hedging costs) that the Buyers would have suffered. During the 2021 financial year SFF paid back the proceeds amounting to R4.7 billion

The Boards of SFF and CEF then resolved to appeal the out-of-pocket and the matter was heard by the Supreme Court of Appeal on the 24th of February 2022 with the judgement handed down electronically on the 13th April 2022. The Supreme Court of Appeal upheld the decision made by the Western Cape High Court which states that SFF is responsible for out-of-pocket expenses, interest compounded and including costs of counsel for some of the traders.

The SFF Board has decided that the matter would be appealed at the Constitutional Court. The Constitutional Court may confirm the judgement of the Western Cape High Court and Supreme Court of Appeal and therefore SFF would be expected to further incur an amount of approximately R2.35 billion for out-of-pocket expenses, however at year end the Group only had a cash balance of R1.5 billion set aside in a USD denominated account relating to the sale of strategic stock.

# OPERATIONAL PERFORMANCE

## OUTLOOK

### Financial performance and position

The CEF Group has budgeted for a net loss of R321 million for the 2022/23 financial year and a net profit of R1.3 billion by the end of the planning period. The planned growth initiatives that will be implemented are expected to grow the Group's market share and diversify revenue streams. As a result, total Assets are expected to increase from R29 billion to R33 billion.

### Financial governance

In respect of financial governance, the Group continues to monitor irregular expenditure and fruitless and wasteful expenditure. The Group is in the process of strengthening the internal controls and implementing consequence management to deter repeat transgressions.

## CONCLUSION

Notwithstanding the severe economic environment caused by the COVID-19 pandemic and the Russia-Ukraine conflict, the Group ended the 2021/22 financial year with higher revenue, a higher cash balance and managed to increase its investments in growth projects. The revised Group's strategic initiatives of improving business performance and rationalising its subsidiaries are geared towards ensuring that the Group move to an improved financial performance in future.

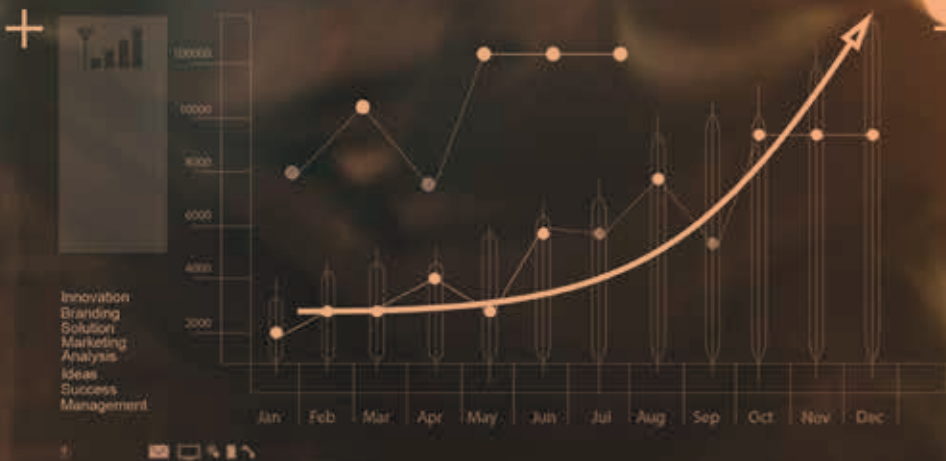


**Ms D Morabe**  
Group Chief Finance Officer

Innovation  
 Branding  
 Solution  
 Marketing  
 Analysis  
 Ideas  
 Success  
 Management

### Technology Innovation SYSTEM

Mail, Monitor, Search, Print, Refresh





# SECTION

**FINANCIAL STATEMENTS**

## GENERAL INFORMATION

<b>Country of incorporation and domicile</b>	South Africa
<b>Nature of business and principal activities</b>	The CEF Group mandate is to provide energy security through Exploration of energy minerals, development of energy infrastructure and supply of energy.
<b>Directors</b>	Ms. A Noah(Pr.Eng) (CEF Group Chairperson) Mr. J. Besnaar CA (SA) Ms G Leketi Adv. P. Hassan Mr. T. Maqubela Mr. N Mompoti Dr. I. Poolo Mr N Poya Ms N Sondlo CA (SA)
<b>Registered office</b>	Block C, Upper Grayston Office Park 152 Ann Crescent Strathavon Sandton 2031
<b>Business address</b>	Block C, Upper Grayston Office Park 152 Ann Crescent Strathavon Sandton 2031
<b>Postal address</b>	P O Box 786141 Sandton 2146
<b>Website</b>	<a href="http://www.cefgroup.co.za">http://www.cefgroup.co.za</a>
<b>Ultimate holding company</b>	The South African Government represented by the Minister of Mineral Resources and Energy
<b>Bankers</b>	Absa Bank Limited Standard Bank of South Africa Limited
<b>External Auditors</b>	Auditor-General of South Africa
<b>Company Secretary</b>	Mr A Haffejee

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

## Report on the audit of the consolidated financial statements

### Opinion

1. I have audited the consolidated financial statements of the Central Energy Fund (CEF) SOC Limited and its subsidiaries (the group) set out on pages 170 to 278, which comprise the consolidated statement of financial position as at 31 March 2022, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, as well as notes to the consolidated financial statements, including a summary of significant accounting policies.
2. In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the CEF SOC Limited and its subsidiaries (the group) as at 31 March 2022, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act 1 of 1999 (PFMA) and the Companies Act 71 of 2008 (the Companies Act).

### Basis for opinion

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

### Emphasis of matters

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

### Contingencies - litigations/claims

7. With reference to note 37 to the financial statements, the group is the defendant in various claims. The ultimate outcome of these matters could not be determined and no provision for any liability that may result was made in the financial statements.

### Contingencies - guarantees

8. With reference to note 37 to the financial statements, the group has guaranteed the fulfilment of various obligations in terms of contractual agreements and has also guaranteed the banking arrangements of certain subsidiaries. The total guarantees disclosed in the note amount to R1 538 734 000.

### Events after the reporting period

9. With reference to note 44 to the financial statements, subsequent to year-end, the iGas ROMPCO acquisition as disclosed in the commitments note was concluded for R4,1 billion, resulting in an increase in Investments in associates, loans to external: external borrowings, as well as a decrease in the cash reserves.
10. With reference to note 44 to the financial statements, subsequent to year-end, following the joint media statement made by the ministers of Finance and Energy on 31 March 2022 on short-term relief measures to address the fuel price increases, the minister of Mineral Resources and Energy proposed that the revenue foregone for the months of April and May 2022 would be recouped through the sale of strategic crude oil reserves held by the group and that the sale would be required to raise around R6 billion.

11. With reference to note 44 to the financial statements, which deals with PetroSA's events after reporting period and specifically the possible effects of cash flows of the PetroSA Rehabilitation NPC. The entity received a significant investment repayment of R131,4 million on 10 May 2022. Furthermore, the PetroSA Ghana Ltd Board approved a dividend on 19 April 2022 and 17 May 2022 amounting to R156,6 million and R160,6 million respectively.
12. With reference to note 44 to the financial statements, subsequent to the financial year-end, PetroSA concluded its voluntary severance process and also commenced activities such as PetroSA Ghana Limited (PGL) pre-emption and its related bridge loan as well as a pre-export finance facility and related share buy-back.

### Other matter

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

### Unaudited supplementary schedules

14. The supplementary information set out on pages 279 to 289 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

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

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

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

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

## REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

### Introduction and scope

19. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected strategic themes presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
20. My procedures address the usefulness and reliability of the reported performance information, which must be based on the public entity's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the public entity enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected strategic themes presented in the public entity's annual performance report for the year ended 31 March 2022

Strategic theme	Pages in the annual performance report
Strategic theme 1 - commercial sustainability	165
Strategic theme 4 - Strategy and long-term growth	168

21. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
22. The material findings on the usefulness and reliability of the performance information of the selected strategic themes are as follows:

### Strategic theme 1 - commercial sustainability

#### Monitoring and evaluation of commercial sustainability initiatives

23. The source information, evidence and method of calculation for measuring the planned indicator was not clearly defined, and related systems and processes were not adequate to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions. Furthermore, achievements were reported against the indicator and its planned target of Net loss of R200 million that are unrelated to the planned indicator and target and its predetermined measurement processes. As a result, limitations were placed on the scope of my work and I was unable to audit the reliability of the achievement(s) reported against the target Net loss of R200 million in the annual performance report.

Indicator title	Planned annual target	Reported achievement(s)
Monitoring and evaluation of commercial sustainability initiatives	Net loss of R200M	<p>CEF reports a net loss of R110 million, EXCO approved the sourcing strategy in March 2022. Implementation to begin in this new financial year.</p> <p>Lower Employee costs of R83M due to various vacant positions have not been filled resulting in lower employee costs and the salary increase of 4.5% effected is lower than budgeted 8%.</p> <p>Savings on Travel and subsistence for local and foreign of R8M:</p>
		Savings on Travel and subsistence for local and foreign of R8M:

Indicator title	Planned annual target	Reported achievement(s)
		<p>A profit of R107 million was realised on the sale of the 26% share in Mzimkhulu Mining.</p> <p>Chilwavirusiku due diligence continues to be work in progress to establish the full asset value. In the meantime, a dividend of R20 million was received for the 40% share in Chilwavirusiku Colliery</p> <p>More than 3 investment transactions are in progress</p> <ul style="list-style-type: none"> <li>• Business cases are being developed to aid Final Investment Decision (FID) for National Solar Park, Total Gaz, and COEGA LNG prefeasibility.</li> <li>• BPSA Storage Terminal is at FID</li> <li>• The pipeline has more than 12 other projects at varying stages of development</li> </ul> <p>AE loan has been re-negotiated as AE is now experiencing operational challenges, after deciding to pay their loan</p> <p>Dividends of R172.9M was received by CEF from iGas during the year.</p> <p>CEF cash is tied-up on long outstanding debts of 488 days; this is mainly the SFF, PAMDC, PetroSA, SANEDI, AEMFC and DMRE long-outstanding debt of management fees and recovery fees.</p> <p>Underspending on operating expenditure of R468M: due to delays with the implementation of support function projects and of the planned strategic projects. At the Group strategy sessions for FY 2022/23, in Nov and Dec 2021, emphasis was made to all Group entities to optimize costs. This fact is addressed in revised corporate plans as submitted in Feb 2022.</p>

## Strategic theme 4 - strategy and long-term growth

### Various indicators

24. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information, evidence and method of collection or that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement for the indicator. This was due to a lack of and insufficient measurement definitions and processes. I was unable to test whether the indicator was well defined and verifiable by alternative means. Furthermore, achievements were reported against the indicators and its planned targets of ROI >6%, R60 million from new business that are unrelated to the planned indicators and targets and its predetermined measurement processes. As a result, I was unable to audit the reliability of the achievements of reported against targets in the annual performance report.

Indicator title	Planned annual target	Reported achievement(s)
ROI New Business Development conversation rate of 5% Diversified income streams for CEF SOC of R600M Commercial scale implementation of 2 clean technological solutions	ROI >6% R60M from new business	<p>Progress made with regard to the following:</p> <ul style="list-style-type: none"> <li>• Group investment approval process is developed and socialized with Group entities</li> <li>• Strengthening of the project pipeline, and the advancing of key project milestones beyond prefeasibility. The pipeline has more than 12 projects at varying stages</li> <li>• A CEF R1 billion subscription to progress development of phase 2 of the</li> <li>• Virginia gas project of Tetra4. a subsidiary of Renergen. This is a major and strategic project.</li> </ul> <p>Key projects have passed key milestones for example:</p> <ul style="list-style-type: none"> <li>• Construction of the ACWA Redstone project is in progress, with CEF having a 15%.stake. Funding is being arranged for an additional 10% stake to make it 25%</li> <li>• The share of the asset for CEF is &gt; R2.5 billion.</li> </ul> <p>Decisions are reached for additional substantial strategic projects at a level beyond prefeasibility for each of a refinery acquisition (SAPREF stake), and ROMPCO Gas pipeline. Each project is for more than R1 Billion revenue potential once it comes online.</p>

### Other matters

25. I draw attention to the matter below.

### Achievement of planned targets

26. Refer to the annual performance report on pages 165 to 169 for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 24 to 25 of this report.

## REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

### Introduction and scope

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

### Annual financial statements

29. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework, as required by section 55(1)(b) of the PFMA. Material misstatements were identified by auditors on commitments and contingent liabilities, which were subsequently corrected. This resulted in the financial statements receiving an unqualified audit opinion.

### Strategic planning and performance management

30. An annual shareholder's compact was not concluded in consultation with the executive authority, as required by treasury regulation 29.2.1.
31. The key performance measures and indicators included in the shareholder's compact were not agreed between the accounting authority and the executive authority, as required by treasury regulation 29.2.2.
32. The corporate plan did not include the strategic objectives and outcomes as identified and agreed on by the executive authority in the shareholder's compact, as required by treasury regulation 29.1.1(a).

### Expenditure management

33. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R6 311 000, as disclosed in note 40 to the annual financial statements of CEF SOC Limited, as required by section 51(1)(b)(ii) of the PFMA. The majority of the irregular expenditure was caused by non-compliance with section 51(1)(a)(iii) of the PFMA.

### SOEs governance and oversight

34. An audit committee was not established by the accounting authority, as required by section 51(1)(a)(ii) of the PFMA. The audit committee was not constituted in accordance with the PFMA as the minimum number of persons were not in place fourth quarter of the financial year.
35. Approved audited financial statements were not filed with the annual return, as required by section 33(1)(a) of the Companies Act and section 30(2) of the Companies Regulations. The group financial statements were not yet concluded at the date of filing the annual return.

## OTHER INFORMATION

### Other information

36. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the directors' report, the audit committee's report and the company secretary's certificate, as required by the Companies Act. The other information does not include the consolidated financial statements, the auditor's report and those selected strategic themes presented in the annual performance report that have been specifically reported in this auditor's report.
37. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.

38. In connection with my audit, my responsibility's to headteacher information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements and the selected strategic themes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
39. I was unable to conclude whether the other information is materially misstated because I was unable to obtain sufficient appropriate audit evidence of the reported performance information presented in the annual performance report of strategic theme 1 - commercial sustainability and strategic theme 2 - strategy and long term growth.

### Internal control deficiencies

40. I considered internal control relevant to my audit of the consolidated financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted the findings on the annual performance report and the findings on compliance with legislation included in this report.
41. The accounting authority did not exercise adequate oversight responsibility over the internal controls relating to compliance with key laws and regulations, and reliable financial and performance reporting, as well as the related internal controls. This resulted in material non compliance with laws and regulations and material findings on the annual performance report.
42. Senior management did not ensure that adequate monitoring controls were in place to prevent non-compliance with laws and regulations. In addition, senior management did not implement adequate review controls to ensure that the annual performance report and annual financial statements are free from material misstatements.
43. The public entity developed an action plan to address prior year audit findings, but adherence to the plan was not adequately implemented and monitored on a timely basis by the appropriate level of management, resulting in material findings relating to the annual financial statements, annual performance report and compliance with laws and regulations.

*Auditor General*

Johannesburg

29 September 2022



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

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

### Financial statements

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

### Communication with those charged with governance

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also provide the accounting authority with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

## DIRECTORS' RESPONSIBILITIES AND APPROVAL

The Board is required, in terms of the Companies Act No. 71 of 2008 and the Public Finance Management Act No. 1 of 1999 to maintain adequate accounting records and is responsible for the content and integrity of the consolidated annual financial statements and related financial information included in this report. It is their responsibility to ensure that the consolidated annual financial statements fairly present the state of affairs of the Group as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the consolidated annual financial statements.

The consolidated annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies and supported by reasonable and prudent judgments and estimates.

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

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

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

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

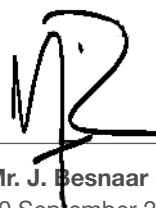
The Board has reviewed the Group's cash flow forecast for the year to 31 March 2022 and, in the light of this review and the current financial position, is satisfied that the Group has, or has access to, adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the Group's consolidated annual financial statements. The consolidated financial statements have been examined by the Group's external auditors and whose report is presented on page 128 to 135.

The consolidated annual financial statements set out on page 170 to 278, which have been prepared on the going concern basis, were approved by the Board on 30 September 2022 and were signed on its behalf by:



**Ms. A Noah (CEF Group Chairperson)**  
30 September 2022



**Mr. J. Besnaar (Independent Non-Executive)**  
30 September 2022

# DIRECTOR'S REPORT

## 1. Introduction

The Board has pleasure in submitting its report on the consolidated annual financial statement for the Group for the year ended 31 March 2022.

## 2. Nature of business

### Our business

The principal activities of the CEF Group are:

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

### The CEF administers the Central Energy Fund and the Equalisation Fund on behalf of the Department of Mineral Resources and Energy.

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

## 3. Shareholder's compact

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

The Shareholder's Compact represents the agreement between the Minister of Mineral Resources and Energy and the Board. It is a reflection of the expectations of each party, expressed in terms of outcomes and outputs that need to be achieved. It documents the mandated key performance measures and indicators to be attained for the planning period as agreed between the Minister and the CEF Board.

## 4. Board of directors

The composition of the Board at 31 March 2022, abridged curricula vitae of each director, key activities and decisions of the Board and its committees, and performance evaluation are set out in the Governance section of the Integrated Report. The remuneration and fees paid to directors are set out in note 40 to the consolidated annual financial statements.

**Directorate** – The Board members of the Group during the reporting period were as follows:

Directors	Designation	Changes
Ms. A Noah (Chairperson)	Non-Executive	
Mr J Besnaar CA(SA)	Non-Executive	Term ended end of December 2021
Ms G Leketi	Non-Executive	
Adv P Hassan	Non-Executive	
Mr L Makhuba CA(SA)	Executive	Employment ended 31 January 2022
Mr T Maqubela	Non-Executive	
Mr N Mompoti	Non-Executive	Term ended end of December 2021
Dr I Poolo	Executive	
Mr N Poya	Non-Executive	
Ms N Sondlo CA(SA)	Non-Executive	
Ms D Morabe	Executive	Appointed 01 August 2022

## DIRECTOR'S REPORT (continued)

### 4. Board of directors (continued)

#### Meeting attendance

Name of Director	31-Mar-21	29-Apr-21	11-May-21	31-May-21	18-Jun-21	25-Jun-21	20-Aug-21	28-Sept-21	30-Sept-21	29-Oct-21	12-Dec-21	28-Jan-21	24-Feb-22	09-Mar-22
	SB	B	SB	B	SB	SB	SB	SB	SB	B	SB	SB	B	B
Ms A Noah (Chairperson)	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Mr J Besnaar CA(SA)	Y	Y	Y	Y	Y	Y	N	N	Y	Y	N	N	N	N
Ms G Leketi	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Adv. P Hassan	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Mr L Makhuba	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Mr T Maqubela	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N	N	Y
Mr N Mompoti	Y	N	N	Y	N	Y	N	Y	Y	Y	N	N	N	N
Dr I Poolo	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Mr N Poya	N	N	N	Y	Y	Y	N	Y	Y	Y	Y	N	Y	Y
Ms N Sondlo CA(SA)	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y

#### Notes:

B – Board

AGM – Annual general meetings SB – Special Board meeting

Y – Attended meeting

N – Did not attend meeting A – Apology

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

NB. The challenges faced by the Group, at mainly PetroSA and SFF as well as the need for a revised strategy, necessitated Special Board meetings.

**Board Audit and Risk Committee** – The committees consisted of the following members:

Name	Designation	Changes
Mr J Besnaar	Non-Executive (Chairperson)	Term ended end of December 2021 and renewed subsequent to year end
Mr N Mompoti	Non-Executive	Term ended end of December 2021 and renewed subsequent to year end
Mr N Poya	Non-Executive	
Ms N Sondlo	Non-Executive	

## DIRECTOR'S REPORT (continued)

### 4. Board of directors (continued)

#### Meeting Attendance

Name of Director	28-Apr-21	28-May-21	04-Jun-21	20-Aug-21	30-Sep-21	28-Oct-21
Mr J Besnaar (Chairperson)	Y	Y	Y	Y	Y	Y
Mr N Mompoti	N	Y	N	Y	Y	Y
Mr N Poya**	Y	N	N	N	N	Y
Ms N Sondlo	Y	Y	Y	Y	Y	Y

\*\* Mr. N. Poya was the Group Interim Chairperson from 01 January 2021 until 31 March 2022.

#### Notes:

Y – Attended meeting

N – Did not attend meeting

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

The committee meets at least twice per annum. The Chief Audit Executive of the Internal Audit Function, the external auditors and such members of management as are deemed necessary also attend these meetings. The committee is responsible for the internal controls and risk management of the Group delegated by the Board. In order to meet these requirements, the committee review the findings of both internal and external auditors. In addition, it reviews important accounting issues, material pending litigation if applicable, the Group's insurance, risk management and disclosure requirements in the consolidated annual financial statements. The responsibilities of this sub-committee of the Board are set out in the report of the Board Audit and Risk Committee which forms part of the consolidated annual financial statements.

**Board Human Resource, Remuneration and Nominations Committee** – The committee consisted of the following members:

Name	Designation	Changes
Mr N Poya	Non-Executive (Chairperson)	
Mr N Mompoti	Non-Executive	
Mr T Maqubela	Non-Executive	
Adv. P Hassan	Non-Executive	

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

## DIRECTOR'S REPORT (continued)

### 4. Board of directors (continued)

#### Meeting Attendance

Name of Director	05 May-21	27-Aug-21	18-Nov-21
Mr N Poya (Chairperson)	Y	Y	Y
Mr N Mompoti	N	Y	Y
Mr T Maqubela	Y	Y	Y
Adv. P Hassan	Y	Y	Y

#### Note:

Y- Attended meeting

N – Did not attend meeting

**Social , Ethics and Governance Committee** – The committee consisted of the following members:

Name	Designation	Changes
Ms. A. Noah(Chairperson)	Non-Executive	
Ms. P. Hassan	Non-Executive	
Mr. I. Poolo	Executive	

#### Meeting Attendance

Name of Director	24- June-21	14-Aug-21
Ms. A. Noah(Chairperson)	Y	Y
Ms. P. Hassan	Y	Y
Mr. I. Poolo	Y	Y

**Finance and Procurement committee** – The committees consisted of the following members:

Name	Designation	Changes
Adv. P Hassan (Chairperson)	Non-Executive	
Mr J Besnaar	Non-Executive	
Ms N Sondlo	Non-Executive	

## DIRECTOR'S REPORT (continued)

### 4. Board of directors (continued)

#### Meeting Attendance

Name of Director	20-Apr-2021	22-04-21	28-04-21	19-Aug-21	28-Sept-21	28-Oct-21
Adv. P Hassan (Chairperson)	Y	Y	Y	Y	Y	Y
Mr J Besnaar	Y	Y	N	N	Y	Y
Ms N Sondlo	Y	Y	Y	Y	Y	N

#### Note:

Y- Attended meeting

N – Did not attend meeting

### 5. Performance for the year

#### Financial summary

Below is a summary of the Group's financial performance, reflected as high-level key ratios:

Consolidated R'000	2022	2021
Profit/(Loss)	62,557	540,232
Revenue	13,891,250	10 338 944
EBITDA	80 448	-674 976
EBITDA margin %	0.6	-6.5
Net asset value	10 422 156	10 580 133
Return on capital employed %	0.21	-2
Return on equity (ROE) %	0.60	5
Cash generated from operations	822 477	-4 954 417

The Group has reported a net profit of R62,6 million compared to R540 million profit reported in the prior period. The group performance is mainly due other income that decreased by 57% (R378 million reversal) and this was mainly driven by PetroSA as the reversal of impairment was R1.4 billion in the previous year. This was countered by a 34% increase in revenue, mainly attributable to PetroSA and AEMFC. Operating expenses also increased by 35%, mainly attributable to PetroSA (83% increase, 2022: R2.1 billion, 2021: R1.2 billion).

As a result of the above, the Group reported an EBITDA of R80.4 million (margin: 0.6%) compared to the negative R676 million (margin: -6.5%) in the prior year.

Revenue has increased by 34% compared to prior years

The cash generated from operations improved in the current year compared to prior year, R822.5 million (inflow) and R5.0 billion (outflow) respectively, this was mainly due to the R5.5 billion payment to the traders in relation to the sale of strategic stock in the prior year.

The Group capital structure is consists of 35.6% equity and 64.4% liabilities. The Group capital structure is tenuous and is likely to deteriorate due to the suboptimal performance of PetroSA, which is technically insolvent.

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

#### High level entity performance

**AEMFC** The company achieved a revenue of R696 million, a 117% increase from the prior year. However the company performance against the Eskom coal supply agreement is still lower due to poor coal qualities from the mine and congestion at designated Kusile Power Station. AEMFC finished the year in shortfall position with Eskom, a rectification plan is currently under negotiation with Eskom and efforts are being put in place to ramp up saleable volumes to contractual volume. The financial year closed off with a profit before tax of R164.9 million. The profits were boosted by the declaration of dividends from Associates to the value of R20 million as well as profit on disposal of shares in Mzimkhulu Mining of R107 million. Headline earnings after tax were R45.8 million. The Return on Capital Employed of 8.2% is an improvement of 13 percentage points in comparison to the prior year resulting from improved Operating Income.

**iGas** The company has reported a net profit of R280.5 million compared to the R440.6 million reported in the prior year. The extraordinary dividend received in the previous year was due to the expatriation of cash from Mozambique. The budgeted dividend based on Gas Transportation Agreements was approximately R250 million. As ROMPCO pays off the outstanding debt more there is an expectation of additional dividends flowing to shareholders. ROMPCO's future performance will also continue to be challenged by depleting gas PPA gas reserves.

The decrease in the profits is due to the lower dividends received from ROMPCO of R252 million compared to R317.5million received in the prior year.

Interest received from cash reserves decreased to R69 million compared to R82 million received in 2020, This is a return less than 5% on the cash reserves.

**PetroSA** che group reported a net loss after tax of R1 billion (2021: R1.2 billion) for the current financial year; a decrease of R0.2billion. However, the gross loss of R915 million from the prior year, has swung into a gross profit of R1.1 billion. However, the gross loss of R915 million from the prior year, has swung into a gross profit of R1.1 billion.

The positive movement in gross margin emanates from the reallocation of R1.2 billion in costs, relating to the GTL refinery, from cost of sales to operating expenses due to the cession of operations. Notwithstanding the positive gross margin, the group continues to make losses due to:

- the cession of operations at the GTL refinery;
- substantial losses generated from South African operations; and
- macro-economic changes affecting the abandonment provisions.

At a company level, the net loss was boosted by an impairment reversal of R808 million on PetroSA's investment in PetroSA Ghana Limited, while at a group level, revisions were seen on the abandonment provision of R275.1 million.

Other line items such as Other income, Investment income and Finance costs remained stable during the current financial year.

Full details of the financial position, results of operations and cash flows of the group are set out in these consolidated and separate financial statements.

**SFF** SFF's performance in a backwardated market with oil prices skyrocketing to over \$100 dollars per barrel was reasonable. The company recorded a net profit for the year ended 31 March 2022 of R 736,937,000. This represented a decrease of 52% from the net profit of the prior year of R1,555,628,000.

Company revenue decreased by 52% from R1,920,551,000 in the prior year to R909,232,000 for the year ended 31 March 2022.

The SFF model is one in which lower crude oil prices attract oil traders to rent storage space at the SFF tank farms with the intention to sell the crude when the oil prices reach higher rates. At present, the market remains backwardated and this is expected to continue for the next few years.

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

The above, as well as the loss of an anchor tenant required the company to consider alternative revenue streams and to diversify into streams outside of the current business model. To this end, SFF has embarked on the acquisition of a refined product storage terminal in Cape Town. It is envisaged that the company will be operating terminals in both the west and east coast of the country. This ensures that revenue is diversified whilst ensuring security of supply for the country.

Furthermore, the Terminal Operator license of SFF to operate in the Port of Saldanha has been amended and SFF thereby enables the company to be able to handle gas. SFF is pursuing an opportunity acquire a Liquid Petroleum Gas (LPG) terminal along with the west coast.

Interest income of approximately R200m was realised for the year. Company cash flows from operating activities increased by R1 billion for the year ended 31 March 2022. Following the joint media statement made by the Ministers of Finance and Energy on Thursday, 31 March 2022, on short-term relief measures to address the fuel price increases, the Minister of Mineral Resources and Energy proposed that the revenue foregone for the months of April and May 2022 would be recouped through the sale of strategic crude oil reserves held by the company and that the sale would be required to raise around R6 billion.

The legislative requirements for the sale of the strategic oil reserves requires authorisation by the Minister of Mineral Resources and Energy, with the concurrence of the Minister of Finance, in terms of the Central Energy Fund (CEF) Act (Act No. 38 of 1977). Funds from the sale must be deposited into the Equalisation Fund at the Central Energy Fund. The Minister of Finance and the Minister of Mineral Resources and Energy have the authority to approve the release of funds from the Equalisation Fund into the National Revenue Fund in terms of the Act. They are expected to do so during the 2022/23 fiscal year.

**PASA** The company's surplus for the year amounted to R 11.6 million (2021: R 6.7 million) due to an increase in other income by 162%, however grant allocation decreased and operating expenses increased.

The company received an operational allocation of R90.6 million from the DMRE through the MTEF process. The company received an additional ring-fenced amount of R45.6 million for the shale gas research project.

### 6. Accounting policies

The accounting policies applied in the preparation of the annual consolidated financial statements for the year ended 31 March 2022 are in accordance with IFRS and are consistent with those applied in the prior year. Judgments and estimates made by management in the application of IFRS that have a significant impact on the consolidated annual financial statements are disclosed in the accompanying notes.

### 7. Share capital

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

### 8. Dividend distribution

#### Dividend Policy

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

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

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

### 9. Investments

The Group comprises a mix of investments, from simple financial assets, joint ventures and joint operations, to associates and subsidiaries. The details are contained in note 6, 7 and 8 of the consolidated annual financial statements.

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

Due to the depleting gas reserves feeding the GTL refinery, fluctuating oil prices and reassessment of CGUs, an

impairment assessment was conducted as required by IAS 36, resulting in an impairment reversal (refer to note 3 of the financial statements). In light of the current commodity prices and the significant reduction in reserves, the West Cape Three Points block and Deepwater Tano block held by PetroSA Ghana Limited were assessed for impairment, also resulting in a small impairment reversal. The decommissioning provision (refer to note 23) increased significantly. The change to the abandonment provision resulted in a change in estimate, and had a positive impact on the performance. These significant items can be summarized as follows:

	2022 R'million	2021 R'million
Mossel Bay GTL refinery impairment	10	4
Ghana blocks	(30)	338
Increase /(Reduction) in decommissioning provision	(275)	(666)
SFF unpumbale crude oil reversal	-	(201)
	<b>(295)</b>	<b>(173)</b>

## DIRECTOR'S REPORT (continued)

### 11. Capital expenditure and commitments

Details regarding capital expenditure and commitments are reflected in the cash flow from investing activities and note 36 of the consolidated annual financial statements.

#### Authorised capital expenditure

##### Already contracted for but not incurred

	2022 R'million	2021 R'million
AEMFC	21 878	14 038
PASA	24 281	525
iGas	4 310 000	–
SFF	1 010 568	645 323
PetroSA	293 838	155 735
	<b>5 660 565</b>	<b>815 621</b>
<b>Not yet contracted for and authorised by directors</b>		
CEF SOC- Authorised by directors' resolution	200 000	575 822
AEMFC SOC Ltd -Total authorised capital budget	147 345	141 570
PASA- Shale gas project	–	31 498
CEF Carbon	488 899	–
<b>Other authorised major commitments</b>		
CEF SOC - Sponsorship - Solar Water Heaters - Contracted for	50 977	62 835
CEF SOC - Sponsorship-Solar Water Heaters - Not yet contracted for	43 475	81 469
<b>Capital expenditure in Statement of Cash Flow</b>		
Purchase of property, plant and equipment	238 437	211 379
Purchase of other intangible assets	31 099	54 360
Investment in associates/joint ventures	458 921	–
	<b>728 457</b>	<b>265 736</b>

## 12. Funding

### Capital structure

The capital structure of the Group consists of equity invested by the shareholder, retained earnings and debt funding. At year-end our equity amounted to R10.4 billion, with no debt borrowing.

Consolidated R'000	2021	2020
External borrowings (Existing)	–	1 434 643
Gearing ratio	0%	69%
Gearing ratio % (Interest bearing debt / Equity and Reserves) as per NT	0%	3%

### Funding of the decommissioning and rehabilitation provision

At year-end the Group had an obligation to provide for the rehabilitation and decommissioning of its offshore and onshore facilities valued at R13.4 billion made up of the follows:

	2021	2020
PetroSA Group	12 692 079	12 639 956
Strategic Fuel Fund	670 441	563 696
African Exploration and Mining Finance Corporation	55 498	44 382
	<b>13 418 018</b>	<b>13 248 034</b>

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

### PetroSA Group

The decommissioning provision represents the present value of decommissioning costs relating to oil and gas interests, the majority of which are expected to be incurred up to 2027. The assumptions are based on the current economic environment and provide a reasonable basis for estimating the future liability. The program also assumes the decommissioning will be executed in one campaign in aid of managing logistical costs. These estimates are reviewed annually to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market conditions. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

PetroSA utilizes in-house expertise to assess the quantum and scope of the abandonment provision. PetroSA has undertaken to submit all plugged and abandoned legacy well packages to the regulator as part of the efforts to justify the exclusion of these wells from the provision. No provision has been made for the plugged and abandoned legacy wells.

The base cost of the provision remained unchanged. Although there was a strengthening of the Rand against the US Dollar and an increase in the USD risk free rate from 1.74% to 2.34%, the benefit of these changes were offset by the increase in local and international inflation rates. Major assumptions included in the calculation of local provisions is a discount rate of 9.97% (2021: 9.45%). A sensitivity analysis indicates that a R1 weakening of the Rand against the US Dollar translates into R850 million (2021: R657 million) increase in the provision. It is assumed that each well will take an average of 15 days to abandon.

For international provisions, the discount rate used is 1.55% (2021: 1.23%) with an expected realisation date of 2036 for Jubilee, Teak and Akasa and 2032 for TEN and Wawa.

Changes in cost estimates are driven by revisions to the Operator's cost assumptions and estimates.

## DIRECTOR'S REPORT (continued)

### 12. Funding (continued)

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

	2022 R'million	2021 R'million
Cash deposits	477	477
Cash in PetroSA Rehabilitation NPC	2 408	2 282
Financial guarantee	180	180
	<b>3 065</b>	<b>2 939</b>

### 13. Events after reporting date

#### CFO Appointment

Appointment of the new Group CFO, Ms J Morabe on 01 August 2022.

#### RENERGEN PROJECT

The board resolved to invest in the Gas project, however, this process is still being assessed and concluded.

#### PetroSA

On 19 April 2022, the PetroSA Ghana Limited board approved a dividend of R156.6 million which was paid on 25 April 2022.

On 29 April 2022, the PetroSA Europe Board approved a dividend of R16.8 million which was paid on 4 May 2022.

On 10 May 2022, PetroSA Rehabilitation (NPC) received an investment repayment of R131.4 million from Land Bank. Subsequent to this payments, the capital value of the investment was R342.9 million.

#### Rompco acquisition

Subsequent to year-end the iGas ROMPCO acquisition as disclosed in note 36 commitments note was concluded for R4.1 billion resulting in an increase in Investments in associates, Loans to external: CMG and external borrowings as well as a decrease in the cash reserves. As the transaction was concluded on 29 June 2022 this is a non-adjusting event after reporting date and will not affect the disclosure made in the current financial year.

#### SFF

Following the joint media statement made by the Ministers of Finance and Energy on Thursday, 31 March 2022, on short-term relief measures to address the fuel price increases, the Minister of Mineral Resources and Energy proposed that the revenue foregone for the months of April and May 2022 would be recouped through the sale of strategic crude oil reserves held by the company and that the sale would be required to raise around R6 billion.

The legislative requirements for the sale of the strategic oil reserves requires authorisation by the Minister of Mineral Resources and Energy, with the concurrence of the Minister of Finance, in terms of the Central Energy Fund (CEF) Act (Act No. 38 of 1977). Funds from the sale must be deposited into the Equalisation Fund at the Central Energy Fund.

The Minister of Finance and the Minister of Mineral Resources and Energy have the authority to approve the release of funds from the Equalisation Fund into the National Revenue Fund in terms of the Act. They are expected to do so during the 2022/23 fiscal year.

The above announcement also affects the Demand Side Management Levy of 10 cents per litre collected by CEF and paid over to National Revenue Fund. This levy is terminated with effect from 1 June 2022.

### 13. Events after reporting date (continued)

#### AEMFC

AEMFC and Innovent reached an agreement to settle the litigation matter on the Finance lease, on a settlement of R18 million. The financial lease liability moved from R65 million to R18 million.

AE is in a process of restructuring where S189 retrenchment and S84 VSP in terms of labour relation Act are followed. The process is in progress, the process started in May 2022. The financial effect of the restructuring cannot be estimated at the moment.

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

### 14. Going concern

The Board is confident that the going concern assumption is appropriate in the preparation of the Group Consolidated Annual Financial Statements for the year ended 31 March 2022. While difficult economic conditions persist, the Board and management continuously review the operational and financial risks of the Group and ensure that appropriate initiatives, strategies and controls are in place to mitigate the risks and their impact on business.

#### PetroSA

The directors believe that the company has adequate financial resources to continue in operation for the foreseeable future and accordingly the consolidated and separate financial statements have been prepared on a going concern basis. The directors have satisfied themselves that the company is in a sound financial position and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements. The directors are not aware of any new material changes that may adversely impact the company. The directors are also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the company.

In determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the group can continue in operational existence for 12 months from approval of the financial statements.

In determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the group can continue in operational existence for 12 months from approval of the financial statements.

The PetroSA group current assets exceed current liabilities by R1.9 billion, whilst at company level, current liabilities exceed current assets by R0.3 billion. PetroSA will continue to trade and supply its core market by extending month to month contracts with industry and term contracts for the commercial market. PetroSA does not intend to decommission any of the existing wells in the coming 12 months and consequently does not expect that the associated liability will be realised in the reporting period. In addition, the PetroSA Board has commissioned an independent study to review the decommissioning estimates, which will inform future estimates as the legislative framework for decommissioning in South Africa is yet to be formulated by the regulator for petroleum exploration. Accordingly, the decommissioning liability utilises the best estimates available at reporting date and has resulted in the company's total liabilities exceeding total assets by R7.9 billion and R7.4 billion at group level, rendering the company technically insolvent. The scenario of technical insolvency has resulted in PetroSA not meeting some of its obligations at financial year-end, however the company and the Board supported by shareholder does not intend to cease operations, as management has developed short, medium and long-term plans, supported and approved by the Board and shareholder to continue trading activities and business operations. These plans aim to stabilise the company in the short term, grow revenues in the downstream business, leverage the existing profitable asset, PGL, in the form of dividend income, capital raising or funding of working capital which will aid the liquidity of PetroSA whilst enabling growth and longer-term initiatives to realise. Albeit the plans to turnaround the company, PetroSA continues to face a number of key strategic challenges, perpetuated by the following factors both at company and group level:

### 14. Going concern (continued)

- PetroSA has been experiencing operating losses for more than 3 successive years;
- Indigenous gas reserves are close to depletion and reached technical cut off point for supply to the GTL refinery in December 2020;
- GTL Refinery is currently in parked mode since December 2020 due to poor market product cracks. The processing of condensate in a depressed market environment will result in negative yields and is not commercially viable;
- The Trade, Supply & Logistics Division continues to import finished product for resale at a profit and satisfy contractual commitments. The trading of hydrocarbons has proved profitable, however not adequate to cover the high fixed cost structure of PetroSA working capital management initiatives such as extended payment terms with suppliers and early payments from customers have afforded PetroSA an opportunity to manage cost and honour its obligations;
- The prioritisation of payment to suppliers, in relation to the available funds, remains an ongoing monthly assessment;
- The precarious financial position negatively impacting the organisation's credit rating status; and
- PetroSA remains vulnerable to exogenous factors such as fluctuations in the crude oil price and volatility in foreign exchange rates (a devaluation in the ZAR/USD has resulted in an increase in the Rand value of the decommissioning liability).

In the circumstance, a material uncertainty exists regarding the entity's ability to honour obligations as they fall due. A concerted effort with CEF, DMRE and Ministry is ongoing to ensure that initiatives to turnaround PetroSA are expeditiously implemented under strict monitoring by the PetroSA Board, CEF and DMRE at the Tri-partite War Room.

The 2022 – 2026 Strategy and Corporate Plan, developed and approved by the Board on the 16th February 2022 is supported by a funding plan/initiatives to support and implement the Strategy and Corporate Plan. The CEF Group corporate plan relating to 2022/23 was approved by the Minister of DMRE on 23 June 2022 and requires implementation and execution of the activities codified in the plan.

Despite the headwinds faced by the company in this financial year, the resilience and positive returns of PetroSA Ghana Limited (PGL) contributed positively to the liquidity of the company. In addition, increased importation and sales of finished products and strenuous cost containment measures positively contributed to the high revenues and positive gross profit realised. Whilst these measures provided much relief to the company, the financial distress position continues to threaten sustainability of the company, in the absence of the GTL refinery production. Due to the weakening financial strength of the balance sheet, some suppliers have become reluctant to offer unsecured and/or open favourable credit terms.

Nonetheless, there remains a limited number of suppliers who continue to offer favourable credit terms to PetroSA. PetroSA continues to depend on its own cash reserves and utilise stringent working capital management processes to fund trading and marketing operations to fulfil customer contractual obligations and source new customer.

Furthermore, management continues to explore possibilities of establishing Letters of Credit (LCs) utilising the PGL balance sheet, in the absence of the adequate cash reserves that were held with Standard Bank and utilised as collateral for raising LCs. The LC to be established utilising PGL, will be up until the envisaged funding instrument from the market is finalised to ensure that both these funding instruments do not run concurrently. In addition, conversations are ongoing to establish whether the balance sheets of entities within the CEF group (eg SFF), can be utilised for the purchase of finished product, subject to meeting legislative requirements and obtaining approvals from DMRE and National Treasury.

With the GTL refinery ceasing operations and production in December 2020, the insufficient revenues realised from the sale of imported finished products were insufficient to cover the high fixed cost structure of a plant in parked mode, resulting in the company realising a net loss of R392 million. Management continues to evaluate feedstock options and studies, to resuscitate the GTL refinery. Whilst the GTL refinery is in parked mode, management is exploring initiatives to increase revenues including increasing finished product volumes and diversification of molecules for placement in the market, entering the lubricants business and utilising funding support through a stream of dividend income from PetroSA Ghana Limited and other funding strategies codified in the funding plan.

### 14. Going concern (continued)

According to management's projected cash flows, the company will show positive cash flows from April 2022 to March 2023. Once the funding plan initiatives materialises, the company will continue with the improved positive cash flows for the remainder of the year. The implementation of the funding plan initiatives and strategies in the corporate plan will result in the company's cash position ending March 2023. The projected cash flows assume a gradual increase in revenue effective from September 2022. These projections are based on management best estimates and judgement codified through a road map developed for the revenue generation initiatives, to increase revenue to achieve the targeted 3.5 billion litres. Furthermore, a number of cash injections at varying intervals including, farm out projects to diversify the risk through partnering initiatives; this initiative however will be subject to approval from the Ministry in terms of section 54 of the PFMA, 1999. In instances where the approvals are not secured during the 2022/23 financial year, cash flow projections will be adjusted accordingly. Non- execution of the share buy-back would result in negative cash flows ending March 2023. The proceeds on the disposal of non-core assets as demonstrated by the sale of the ORCA and inflows associated with the transaction in the current financial year as well as leveraging funding through the PetroSA Ghana asset.

On 18 February 2020, SARS issued a Letter of Demand for R1 billion with respect to exports from unlicensed depots for the period May 2015 to March 2017. PetroSA responded to SARS outlining the process undertaken for a suspension of the payment amount, which was previously denied by SARS. Subsequently, PetroSA lodged a DA96 notice with SARS, notifying the Commissioner of its intention to approach the High Court for an urgent interdict against SARS. PetroSA was successful and the next steps are for SARS to obtain a court date to take the matter further. During the current financial year, PetroSA approached SARS' attorney advising them that their failure to file an answering affidavit, left PetroSA with no option but to enrol the matter. SARS had subsequently requested an extension for the filing of their answering affidavits, therefore the matter is still pending.

#### **Initiatives on the corporate plan**

CEF and DMRE have been working closely with PetroSA in the formulation of the corporate plan. To counter and respond to PetroSA's financial and operational challenges, this process ensures stability during the pre-merger phase and provide the funding gap as PetroSA is aggressively pursuing the following initiatives, short-term and medium to long term to ensure a commercial and sustainable company:-

#### **SHORT-TERM INITIATIVES**

##### **Increased Purchase and resale of finished products**

The current corporate plan is premised on aggressive returns from the purchase and resale of purchased products up to 3.5 billion litres. These volumes will be realised throughout and beyond the planned period. The current contractual agreements allows for achievement of 1.3 billion litres, in line with the cash flow forecast. The volumes, as included in the corporate plan will be achieved through aggressive business development initiatives including the acquisition of existing market players to support PetroSA's current operating model, in the absence of production at the GTL refinery. The acquisition will be executed on a self-funding asset basis and will also utilise funds sourced through the funding initiatives as embodied in the funding plan. It is further anticipated that capital expenditure will be incurred in order to place these volumes in the market.

It is further anticipated that the increase in demand will continue during the planning period and the economic forecast is that South Africa needs finished product due to limited local refining capacity, whilst four of the existing refineries in the country are not producing for the foreseeable future. Furthermore, PetroSA continues to explore and attract new business for the supply of finished products, particularly with state-owned entities, which will further improve the downstream business and related margins. As demonstrated in the prior financial year, the aggressive yields on increased purchase and resale of finished products is providing much relief in the source of income for PetroSA. Furthermore, PetroSA is exploring several funding options during the year such as establishment of LC's through PGL and other CEF group entities balance sheets, for the procurement of finished product in order to achieve the budgeted volumes of 3.5 billion litres as codified in the approved corporate plan.

### 14. Going concern (continued)

#### **Dividend income and PGL**

PetroSA received dividends of R461 million from PGL to support the operational liquidity needs of the company. PetroSA has expectations of future dividends in the ensuing year. The tax assessment of R708.7 million issued by Ghana Revenue Authority (GRA), which was later withdrawn, has been assessed as low risk and not a threat to the company's income stream. PetroSA will continue to leverage PGL in the ensuing financial year by exploring additional dividend income.

#### **Cost optimisation**

PetroSA continued to maintain stringent cost-containment measures for the group in the current financial year. In order to strengthen cost containment measures, a cash flow management and evaluation process has been reintroduced, which is aimed at ensuring that all expenditures are approved at the highest levels within the organisation, being GCEO, GCFO and COO. In certain instances, the approval is sought at the highest echelons being, the Chairperson of the Board. These austerity cost management measures have resulted in the company incurring only business critical expenditure being supported and incurred. This is to ensure that only costs critical to maintain and support the current operating model are incurred throughout the organisation.

#### **Financing instruments**

##### **Increase equity through pre-emption - PGL**

PGL issued its counter offer notification of pre-emption in respect of the sale of the total shareholding in the Jubilee Oil Holdings Limited Company and Anadarko WCTP Company in relation to Deepwater Tano Joint Operating Agreement (DWT JOA) to acquire the Participating Interest. This acquisition will provide an opportunity to increase revenue and cash that would be generate further liquidity support to PetroSA. The funding for the acquisition has been secured through commercial lending and PetroSA would benefit from the transaction by an increased equity in the asset. PetroSA has received approval from Standard Bank on the bridge loan of R666.3 million to facilitate the payment acquisition of preempted shareholding, on the back of approval from the shareholder. Management is currently awaiting final approvals of section 54 of the PFMA from the Ministry as well as section 66 of the PFMA from National Treasury to access the funds as these approvals were still outstanding at the time of finalising the financial statements. Management is confident that all the approvals will be obtained as this is a strategic initiative not only for PetroSA as the national oil company, but a footprint for South Africa in the African continent.

##### **Funding instrument**

PetroSA has approached the market for several funding instruments utilising Ghana and/or production volumes as a form of security. Positive feedback received from the market indicates an appetite to support PGL, which invariably, will support PetroSA. It is envisaged that funding of up to US\$200 million will be realised. Consistent with the strategy of leveraging PGL, this will allow funds to be made available to PetroSA to a maximum of US\$80 million through a share buy-back structure subject to approvals from the board of CEF. Concurrence in relation to approval of the corporate plan with the embedded funding plan has already been received from the Ministry, and management together with the CEF Board will further pursue the process to obtaining section 66 approval from the Minister and the fiscal liability committee of the National Treasury during the current financial year.

##### **Right sizing of the business**

The s189 consultation process with labour, relating to voluntary severance packages (VSPs), consisted of three phases which was concluded at the beginning of the new financial year. The total number of VSP applications approved to exit the organisation was 228, with realisable savings of R203 million per annum. The employees approved during the last phase were released at the end of May 2022. The payment for the VSPs of R67.6 million was funded through the company's balance sheet. Furthermore, PetroSA will be implementing a new organisational structure during the year, aligning to the business model and ensuring that critical skills required are retained. Once the new organisational structure has been implemented, it is envisaged that PetroSA will realise further savings on the fixed cost.

### 14. Going concern (continued)

#### Disposal of non-core assets

PetroSA received the proceeds from the disposals of non-core assets, which included the ORCA and excess spares no longer required for operations. It is anticipated that the proceeds from the disposal of Xmas trees would also be received in the current financial year once the contract with the buyer has been finalised and signed by both parties. Exogenous factors such as volatility in exchange rates, war outbreak in Russia/Ukraine could further delay the finalisation and delivery of the asset to the potential buyer. Once this transaction has been concluded and finalised, it will contribute to the forecasted cash flow anticipated to be received during this financial year. Additional proceeds from the disposal of the office building is anticipated to be received through a sale and lease back arrangement in order to accommodate Cape Town based employees.

#### Medium to long term initiatives

##### Feedstock for the refinery

PetroSA appointed an independent service provider to evaluate the most commercial and sustainable feedstock solution for the GTL refinery and the outcome was presented to the Board in March 2022. The study revealed sub-economical results for the feedstock study options that were evaluated. Management continues to evaluate feedstock solutions influenced by market dynamic changes, including Luiperd Total Gas. No capital expenditure is anticipated to be incurred during the current financial year except those relating the maintenance of the facility in usable status for future operations.

##### Divestment and farm-outs

PetroSA concluded a competitive bidding process to find equity participation partners for some of its offshore petroleum rights to bring in technical expertise and financial resources required to fund the forward work programmes associated with these rights, thus limiting PetroSA technical risk and financial exposure. For one asset (Exploration Right 248 – Block 2C) a farm-out agreement has been signed and completion of the farm-out is expected before March 2023. Farm-out negotiation for another asset (ER 224 – Blocks 5,6,7) have commenced and the funds are expected to be received by the end of 2023 and will cover PetroSA's share of operating cost capped at US\$1 million. The farmouts will allow PetroSA to remain active in the upstream activities whilst the "state free carry" envisaged in the UPRD Bill is undergoing Parliament approval processes. This process will be completed and finalised once the conditions precedent per the signed farm-out agreement are fulfilled, including the approval of the farm-out agreement by the board of directors of PetroSA, CEF and the Minister.

#### Conclusion

Management acknowledges that material uncertainties remains over group's ability to continue operate as a going concern due to liquidity constraints. In considering the uncertainties described above, and weighing these against interventions by the shareholder, the board and management has a reasonable expectation that the group has adequate financial resources and support from both the shareholder and the Executive Authority to continue operations for the foreseeable future and therefore continues to adopt the going concern basis of accounting to prepare the financial statements.

#### AEMFC

The ability of the company to continue as a going concern is dependent on a number of factors. The most significant of these is that the directors continue to procure funding for the ongoing operations of the company and that the subordination agreement referred to in note 7 these financial statements will remain in force for so long as it takes to restore the solvency of the company. The current ratio and net profit after tax have improved to 3.6 and by 446% respectively.

The Board confirms that it has assessed the key sustainability risks and there is no reason to believe the business will not be a going concern in the year ahead.

### 15. Litigations

#### Sale of strategic stock

A Court case (arbitration) is currently under way for an alleged breach of storage contract relating to SFF's refusal to allow a customer to uplift 300,000 barrels of crude oil in Saldanha Terminal that were loaned by SFF to a service provider who later on- sold the crude oil barrels to the Court Applicant.

#### Metering System

An interim arbitration award (in which SFF is the respondent) has been finalised whereby the parties agree that the arbitration is postponed sine die and the costs of the arbitration are reserved. An independent expert has been appointed to establish whether the metering system operate within the specification agreed to by the parties. The independent expert has requested that additional work should be undertaken to bring the flow meters to a position where they are operating, before they can proceed with the agreed scope of work. The parties have agreed to share the costs of remedial work on an equal basis and the metering system has been taken overseas by the claimant for remedial work. Costs of the remedial work will be shared by the parties on an equal basis.

Should the expert conclude that the system operates as intended, SFF shall be liable for R7.67 million plus mora interest (calculated at 9.5% per annum on the capital sum from 1 April 2014 to date of payment), 50% of the independent expert's costs and the legal costs of the arbitration proceedings paid by the claimant. Together with legal costs and interest, the legal department estimate the total value of the claim to be R12 million.

During the reporting period the expert ruled against SFF and as SFF was raising disputes on the evaluation of expert the other party approached the court seeking to make the arbitration award a court order.

#### Demurrage Claim

A crude oil storage customer is claiming demurrage costs (approximately USD 1.3 million, translated to R18.9 million as at 31 March 2022 paid to Transnet National Port Authority from SFF. SFF is disputing this claim on the basis of force majeure. SFF's legal advisors are of the opinion that the customer's case is less than likely to succeed.

#### Strategic stock sales transaction

On 12th of March 2018 the company (SFF), together with the holding company (CEF SOC Ltd) had lodged an application in the Western Cape High Court to set aside the disposal of the strategic crude oil stocks on the grounds that these disposals were unlawful, invalid and unconstitutional. On the 20th of November 2020 the Western Cape High Court has ruled that the contracts should stay or be set aside on basis that CEF and SFF should repay all proceeds received and also be responsible for out-of-pocket expenses (those are interest earned by SFF on proceeds and on Storage fees and as well as hedging costs) that the Buyers would have suffered.

The Boards of SFF and CEF have resolved to appeal everything but paying back proceeds received from sale of Strategic Stock and the Storage Income that SFF received which both amount to about R5,5 billion.

The matter was heard by the Supreme Court of Appeal on 24 February 2022 and the judgement was handed down electronically on 13 April 2022. The Supreme Court upheld the decision made by the Western Cape High Court that SFF is responsible for out-of-pocket expenses, interest compounded and including costs of counsel for some of the traders. The SFF Board decided that the matter would be appealed at the Constitutional Court. The Constitutional Court may confirm judgement of the Western Cape High Court and Supreme Court of Appeal and therefore SFF would be expected to further incur an amount of about R2.35 billion which is the amount of the out-of-pocket expenses, interest compounded and legal fees.

### 15. Litigations (continued)

#### Security cameras claim

A supplier has lodged a claim amount to R0.8 million against SFF relating to non-payment for the supply, installation and commissioning of security cameras as well as an intruder detection system at the Saldana Terminal. The non-payment by the company is due to the fact that the camera system delivered was not in accordance with the specifications of the contract.

#### Strategic stock sale

On the 31 March 2022, an announcement was made that the general fuel levy on petrol & diesel would be reduced by R1.50/litre for April & May 2022 to mitigate the impact of escalating fuel prices on the South African economy.

Correspondence from the Minister of Mineral Resources & Energy confirms the effective date to be the 6 April 2022. Revenue foregone due to aforementioned will be recouped through the sale of some of the strategic crude oil reserves held by SFF authorised by the Minister of Mineral Resources & Energy. In terms of S1A(3A)(c) of the Central Energy Fund Act, 1977 (Act No. 38 of 1977), monies obtained from the sale of crude oil by SFF shall be paid to the Equalisation Fund as determined by the Minister of Mineral Resources & Energy with concurrence of the Minister of Finance. The quantity of strategic stock to be sold must generate sufficient funds that will be utilised at a later date to replenish the amount of strategic stock sold.

#### AEMFC

Legal actions were taken against the company by former employees and labour unions. These cases are currently being heard at the CCMA. Should these matters be decided against the company, the costs to settle is estimated at R78.7million.

#### CEF

The company is currently involved in four labour disputes which all related to dismissals of employees. CEF is engaging with the lawyers and attending CCMA proceedings to have the disputes resolved. The proceedings are at an early stage and the outcome along with any possible settlements cannot be reliably estimated at this time.

#### Duties At Source (DAS) payable to SARS

Due to financial constraints, PetroSA was unable to settle DAS, payable to SARS, on a timely basis. This resulted in penalties and interest levied of R39 million. PetroSA is currently engaging with SARS to have the penalties and interest waived.

On 18 February 2020, SARS issued a Letter of demand for R1 billion with respect to exports from unlicensed depots for the period May 2015 to March 2017. On 28 February 2020, PetroSA requested for a suspension of the payment amount but the application for suspension was denied by SARS. On 17 April 2020, PetroSA lodged a DA96 notice with SARS, notifying the Commissioner of its intention to approach the High Court for an urgent interim interdict, interdicting SARS from taking any enforcement and/or collection steps against PetroSA until the merits of the SARS audit assessment are heard in the High court. PetroSA was successful in this regard.

On 30 June 2020, the DA96 application to litigate was submitted to SARS. The next step is for SARS is to submit a replying affidavit and SARS have far exceeded the time period afforded to it in terms of the Uniform Rules of Court to file its affidavit. On 18 March 2021, PetroSA sent notice indicating PetroSA's amenability to mediation. PetroSA still await SARS' response as to whether they are amenable to mediation and to file their answering affidavit by 16 May 2022.

### 15. Litigations (continued)

#### Ghana Revenue Authority

The Ghana Revenue Authority (GRA) conducted an audit of PetroSA Ghana Limited (PGL) in respect of 2014-2018 years of assessment and on 31 March 2021, issued the final audit assessment of R708.7 million in respect to corporate tax, withholding tax and branch profits tax. PetroSA Ghana sent notice of objection to the GRA on 26 April 2021. On 21 May 2021, EY Ghana on behalf of PGL issued notice of dispute to the Minister of Energy and Minister of Finance requesting consultation and negotiation with the State. Subsequent to the prior year end, on 26 October 2021, GRA sent a notice withdrawing their audit assessment.

### 16. Compliance and legislation

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

#### PFMA

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

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

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

The Board has a materiality framework, which was approved by the Shareholder Representative. The Shareholder has approved that the materiality Group limit for reporting in terms of sections 55(2)(b)(i), (ii) and (iii) of the PFMA is R759,840 million per transaction.

## DIRECTOR'S REPORT (continued)

### 16. Compliance and legislation (continued)

#### Approval levels in terms of section 54

All amounts are based on Audited financial statement at 31 March 2019.

Figures R'000	Group	PetroSA	CEF	PASA	AE	I-Gas	SFF	OPC	CCE	ETA
Public Entity's Board Levels	<745 932	<287 871	<133 895	<6 791	<21 766	<43 658	<283 873	<731	<1	<8
CEF Board to Approve	<745 932	>287 871	<745 932	>6 791	>21 766	>43 658	>283 873	>731	>1	>8
Obtain DoE approval and inform National Treasury via the top-most Holding company	>745 932	>745 932	>745 932	>745 932	>745 932	>745 932	>745 932	>745 932	>745 932	>745 932

#### Irregular expenditure and fruitless and wasteful expenditure

For the list of the transgressions and management actions, refer to note 45 and 46 of the Consolidation Annual Financial Statements.

### 17. Auditors

The Auditor General of South Africa continued in office as auditors for the Group and its subsidiaries for 2022. At the AGM, the shareholder will be requested to re-appoint the Auditor General of South Africa as the independent external auditors of the Group and to confirm Mr Dumisani Cebekhulua is the designated lead Business Executive for the 2022/23 financial year.

### 18. Annual general meeting

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

## DIRECTOR'S REPORT (continued)

### 19. Company secretary

The Group secretary is Mr A Haffejee.

Postal address                      P O Box 786141  
Sandton  
2146

Business Address                      Block C, Upper Grayston OfficePark  
152 Ann Crescent  
Strathavon  
Sandton 2031

### 20. Acknowledgments

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

The Consolidated Annual Financial Statements set out on pages 170 and 278 which have been prepared on the going concern basis; were approved by the Board on 30 September 2022; and were signed on its behalf by:



**Ms A Noah (Chairperson)**  
Johannesburg  
30 September 2022



**Dr I Poolo (Group CEO)**  
Johannesburg  
30 September 2022

# Report of the Board Audit and Risk Committee

This report is provided by the Board, Audit and Risk Committee appointed in respect of the 2022 financial year for the CEF Group.

## 1. Charter

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

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

## 2. Purpose

The Committee's purpose and responsibilities arise from the Companies Act No.71 of 2008 Section 94(7), The Public Audit Act No. 25 of 2004, Public Finance Management Act of 1999; Section 76 (4)(d) and Treasury Regulations 27.1. In performing its responsibilities, the committee has reviewed the following:

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

## 3. Membership

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

Name of Director	28-Apr-21	28-May-21	04-Jun-21	20-Aug-21	30-Sep-21	28-Oct-21
Mr J Besnaar (Chairperson)	Y	Y	Y	Y	Y	Y
Mr N Mompoti	N	Y	N	Y	Y	Y
Mr N Poya**	Y	N	N	N	N	Y
Ms N Sondlo	Y	Y	Y	Y	Y	Y

### Notes:

Y – Attended meeting

N – Did not attend meeting

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

### 4. External audit

The Committee, in consultation with executive management, agreed to the engagement letter, terms, nature and scope of the external audit plan as presented by the Auditor-General of South Africa. The audit committee has reviewed the Auditor-General of South Africa's Strategic Audit Plan for the 2020/21 financial year and have approved the fees. The audit committee has satisfied itself that the Auditor-General of South Africa exercised their duties in an independent and objective manner.

### 5. Corporate governance

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

### 6. Internal Audit

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

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

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

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

### 7. Financial statements

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

Together with the going concern assessment, the Committee reviewed the Company's policies on risk assessment and risk appetite as they pertain to financial reporting, and reviewed the Group policy related to establishing the extent of insurance cover required, and found them to be sound.

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

## Report of the Board Audit and Risk Committee (continued)

### 8. Accounting practices and Internal control effectiveness

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

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

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

### 9. Risk management

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

### 10. Significant matters considered by the committee

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

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

## Report of the Board Audit and Risk Committee (continued)

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

Key Issues	Judgements in Financial Reporting	Audit Committee Review	Conclusions
Impairment and recoverability of assets carrying values	<ul style="list-style-type: none"> <li>Judgements and assumptions are applied by management in calculating the recoverable amount of the Cash Generating Units ("CGUs") and determining the ongoing appropriateness of the CGUs being used for the purpose of impairment testing.</li> <li>These include assumptions such as discount rates.</li> <li>Judgements are also required in assessing the recoverability of loans and overdue receivables and in deciding whether a provision is required.</li> </ul>	<ul style="list-style-type: none"> <li>The Committee reviewed the discount rates for impairment testing as part of its annual process and examined the assumptions</li> <li>Key impairment assessments reviewed by the Committee include: <ul style="list-style-type: none"> <li>Mossel Bay GTL refinery impairment (R10 million)</li> <li>Ghana blocks impairment reversal R30 million)</li> <li>decrease in decommission provision (R275 million)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>The committee is satisfied with the judgements and assumptions used in the calculation of impairments</li> </ul>
Accounting for provisions	<ul style="list-style-type: none"> <li><b>Post-retirement benefit obligations</b> - Valuation of the postretirement benefit obligation provision requires the use of assumptions in relation to uncertain future factors i.e. inflation rates, discount rates, salary increases and mortality rates. Judgement is also required in the measurement of the fair value of certain pension assets.</li> <li><b>Rehabilitation provisions</b> – Provisions are recognised for the full future restoration and rehabilitation of production facilities to the end of its economic lives. The majority of these activities will occur in the long-term and the requirements that will have to be met in future might be uncertain. Judgement is required in estimating future cost and cash outflows, discount rates, settlement dates, technology and legal requirements.</li> </ul>	<ul style="list-style-type: none"> <li>The Committee received an update on the status of funding, investment and governance of pensions and other retirement benefits provided to current and former employees of CEF. In addition, the Committee examined the assumptions used by management as part of its annual reporting process.</li> <li>The Committee received briefings on the Group's rehabilitation provisions and asset retirement obligations, environmental remediation strategies, including the key assumptions used, the governance framework applied (covering accountabilities and controls), discount rates and the movement in provisions over time.</li> </ul>	<ul style="list-style-type: none"> <li>The Committee reviewed the net post-retirement benefit assets. The valuations are performed by independent third parties.</li> <li>The Committee reviewed the rehabilitation provisions for compliance with legislation and consistent application of the accounting policy.</li> <li>The Committee requested that an external review be performed every two years to confirm the completeness of the rehabilitation provision.</li> <li>The Committee took into account the reviews and re-computations undertaken by the external auditors which supported the accounting for</li> </ul>

## Report of the Board Audit and Risk Committee

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

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

## Report of the Board Audit and Risk Committee (continued)

### 11. Conclusion

We therefore recommend that the Board approve the Consolidated Annual Financial Statements for 2021/22.

### 12. Appreciation

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

On behalf of the Board Audit and Risk Committee



**Mr. J. Besnaar CA(SA)**

Chairperson of the Board Audit and Risk Committee

21 September 2022

## Statement from Company Secretary

In my capacity as CEF Secretary, I hereby confirm, except where otherwise mentioned in the Consolidated Annual Financial Statements, for the year ended 31 March 2022, that the Group has lodged with the Companies and Intellectual Property Commission all such returns as are required of the Group in terms of the Companies Act of South Africa of 2008 and that all such returns are to the best of my knowledge and belief, correct and up to date.



**Mr A Haffejee**  
Group Company Secretary  
30 September 2022

## Group Report on Performance Against Objectives

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

Strategic Theme	Goal/Objective	Measure / KPI	Strategic Initiatives	Weight	Actual Performance	(Scaled)
Commercial Sustainability	Improve Profitability to achieve a return equivalent to the cost of capital	ROIC Margins Organic Growth Plant utilisation rate	Portfolio management entities, associates & surplus cash Strategic partnerships Diversify short term investments Feedstock: Backward integration / Equity crude finished product Plant utilisation rate: Preventative maintenance Production targets and quality management	7,5%	Net loss: R325M	5,00
				7,5%	Gross Margin of 18%	5,00
				7,5%	<b>AEMFC:</b> 1 571 kT/2609kT which is 60.2% of Q4 budget cumulative SFF: (34 MBIs / 45 MBIs) is rented out which is 75.5%	1,00
				7,5%	<b>AEMFC:</b> Q3 Sales of 1571 vs budget of 2609 (60.2%). Profit is 659% better than budget at R89.3M <b>Petrosa:</b> Sales is 20% lower than budget at 237 840m <sup>3</sup> Actual Loss is better than budget at (R1,433B)	3,00

## Group Report on Performance Against Objectives (continued)

Strategic Theme	Goal/ Objective	Measure /KPI	Strategic Initiatives	Weight	Actual Performance	(Scaled)
Consolidation and Turnaround (COO)	Reorganise the CEF Group and turn its performance around	Execute and monitor the Group reorganisation plan	PetroSA Turnaround Plan Execution Change Management & Stakeholder Management Target Operating Model Design Refinery conversion: GTL to Crude TL Divestments: Upstream- Midstream and noncore assets Organisational rightsizing Merger of PetroSA, SFF and iGAS Embark on strategic partnerships	10,0%	Validation of merger is completed. Phase 2 is expected to start in the new FY ROMPCO acquisition advanced to next stage. Key approvals in place, for concluding the transaction. These are from the SA Reserve Bank and from the Competition Commission. SAPREF acquisition advancing to the stage of Final Investment Decision Conclusion of the Sale and Purchase negotiations of Montague Gardens Liquid fuel Terminal. Construction starts and progress for the ACWA Redstone CSP renewable energy project The last hurdle for phase 1, the <i>validation report</i> was tabled at Board before 31st March 2022 and is ready for Cabinet Sub-Committee. This paves the way for progress with the merger project to the next steps.	5,00

## Group Report on Performance Against Objectives (continued)

Strategic Theme	Goal/Objective	Measure /KPI	Strategic Initiatives	Weight	Target (FY20 /21)	Score
Operational Efficiency (COO)	Increase in organisational efficiency and productivity	Overheads / Gross Profit Automation Rate	Business Process Management Consolidation, rationalisation, and integration of Group enterprise systems	5%	(Overheads / Gross Profit) of 297%. The group effort to save costs, improve expenditure, improve operating efficiencies and maximizing on revenue synergistically contribute to this level of achievement.	5,00
				1,5%	Following reprioritisation of budget due to financial constraints, the IT process improvement projects were deferred to next financial year. All these projects were deferred while making better than target progress.	3,00
				1,5%	Baseline assessment completed for PetroSA, SFF, and iGas/CEF. Thereafter, initiatives were deferred due to budgetary constraints	3,00
		Support services cost/ GP Digital Proficiency	Consolidation, rationalisation, and integration of Group enterprise systems Shared Services Outsourcing of non-core activities	2,5%	Initiatives were deferred due to budgetary constraints	2,00
				2,5%	The Competition Tribunal has approved the acquisition of the ROMPCO stake. This represents a major step-forward with a major project	4,00

## Group Report on Performance Against Objectives (continued)

Strategic Theme	Goal/ Objective	Measure /KPI	Strategic Initiatives	Weight	Actual Performance	(Scaled)
Strategy & Long-term Growth (COO)	4% Market Share	ROIC New Business Development conversation rate Market share	Develop and Execute Group Growth and Funding Strategy Acquisition of operating assets Petroleum (-Downstream entry Gas (LNG and shale gas) New Mine Development/ Acquisition Fuel storage (Storage in Durban, Cape Town, and Gauteng) New energy (Biofuel and energy storage) Group Master Brand strategy to position CEF Group Continental Shelf Claim and Upstream Marketing initiatives	7,5%	New opportunities were identified namely Reneger stake and SAPREF stake. Funding is being arranged 10% stake in ACWA Redstone is being. There are new initiatives in the pipeline such as <ul style="list-style-type: none"> <li>• MRM Biodiesel</li> <li>• Boikarabelo Coal</li> <li>• ACWA Dao Solar PV 100MW</li> <li>• Battery Storage 50W</li> <li>• Coega LNG Terminal*</li> <li>• Coalco2-XTM Program</li> <li>• Swayana Biofuels</li> <li>• National Solar Park</li> </ul>	4,00
				7,5%	Several acquisitions are in progress, SAPREF, ACWA, ROMPCO, Montague Gardens	4,00
				7,5%	Excellent progress is achieved in the development of the Group Brand strategy; this extends to even developing the brand for the SA NPC. The SA NPC component was not part of the initial scope and was added later, to accommodate shareholder requirements	4,00
				7,5%	There were Committee level tabling and higher of COEGA LNG Prefeasibility, Reneger, SAPREF, ACWA, and Montague Gardens. Each of these projects has a NPV greater than R1 Billion.	4,00

## Group Report on Performance Against Objectives (continued)

Strategic Theme	Goal/ Objective	Measure /KPI	Strategic Initiatives	Weight	Actual Performance	(Scaled)
Human Performance & Organisational Alignment (GM Corporate Services)	Sustained superior business performance in the marketplace and the achievement of competitive advantage	Increased employee engagement by 10% yoy. Improved organisational business performance by 5% YoY. Increased employee retention ratio Average revenue per employee (Productivity)	Fit for Purpose Holding Company and New Merged Company Org Structure development Change and Transformation Pillar and adaptation to New Normal Transformation Culture and 4IR Integrated Talent Management Strategy Group HR Strategy Framework including EVP, Policy Review and Harmonisation Group Values and Culture Shared Services Delivery Model	2,5%	Drafting of Group HR strategy still in progress, delayed by considerations of the merger project. The project was deferred while not meeting target.	1,00
				2,5%	This project is in abeyance due to imminent rollout of Phase 2 of merger. The project was deferred while not meeting target.	1,00
				2,5%	This project is in abeyance due to imminent rollout of Phase 2 of merger. The project was deferred while making satisfactory progress in line with the scoring system above.	2,00
				2,5%	Shared Services Model approved, but not yet implemented.	4,00

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

**3.69 /5.00**

**73.8%**

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2022

Figures in Rand thousand	Note(s)	2022	2021
<b>Assets</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	3	5 855 430	6 432 365
Intangible assets	4	1 276 310	1 274 419
Investments in subs	5	-	-
Investments in JV's	6	-	-
Investment in associate	7	1 219 687	1 200 345
Loans to group companies	8	392 687	47 516
Other financial assets	9	191 907	180 401
Trade and other receivables	16	216 371	295 048
Contract assets	10	-	-
Investments at fair value	11	871	844
Deferred tax	12	376 014	571 672
Prepayments	13	311	414
Strategic Stock	14	1 821 926	2 769 164
		<b>11 351 514</b>	<b>12 772 188</b>
<b>Current Assets</b>			
Inventories	15	761 238	626 091
Loans to group companies	8	-	153
Trade and other receivables	16	1 788 269	1 746 615
Prepayments	13	77 591	178 540
Current tax receivable		18 130	18 123
Strategic inventory	14	1 006 700	-
Cash and cash equivalents	17	14 091 678	13 691 048
		<b>17 743 606</b>	<b>16 260 570</b>
Non-current assets held for sale and assets of disposal groups	18	159 571	-
<b>Total Assets</b>		<b>29 254 691</b>	<b>29 032 758</b>
<b>Equity and Liabilities</b>			
<b>Equity</b>			
<b>Equity Attributable to Equity Holders of Parent</b>			
Reserves		792 604	982 584
Retained income		9 636 722	9 604 572
		<b>10 429 326</b>	<b>10 587 156</b>
Non-controlling interest		(7 166)	(7 021)
		<b>10 422 160</b>	<b>10 580 135</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

AS AT 31 MARCH 2022

Figures in Rand thousand	Note(s)	2022	2021
<b>Liabilities</b>			
<b>Non-Current Liabilities</b>			
Lease liabilities	22	942 312	1 045 389
Retirement benefit obligation	21	212 516	203 123
Deferred tax	12	994 323	1 105 096
Provisions	23	13 418 369	13 252 486
Deferred income	24	13 418	24 037
		<b>15 580 938</b>	<b>15 630 131</b>
<b>Current Liabilities</b>			
Trade and other payables	25	2 736 730	2 105 693
Other financial liabilities	20	114 813	389 931
Lease liabilities	21	102 295	115 849
Retirement benefit obligation	22	4 743	4 194
Current tax payable		7 488	1 981
Provisions	23	181 285	194 181
Deferred Income	24	104 239	10 663
		<b>3 251 593</b>	<b>2 822 492</b>
<b>Total Liabilities</b>		<b>18 832 531</b>	<b>18 452 623</b>
<b>Total Equity and Liabilities</b>		<b>29 254 691</b>	<b>29 032 758</b>

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2022

Figures in Rand thousand	Note(s)	2022	2021
Revenue	26	13 891 250	10 338 944
Cost of sales	27	(11 558 081)	(9 797 940)
<b>Gross profit (loss)</b>		<b>2 333 169</b>	<b>541 004</b>
Other operating income	28	751 317	1 660 614
Other operating expenses		(3 187 633)	(2 271 816)
<b>Operating loss</b>	29	<b>(103 147)</b>	<b>(70 198)</b>
Investment income	30	593 496	813 408
Finance costs	31	(614 447)	(627 809)
Income from equity accounted investments		451 985	348 132
<b>Profit (loss) before taxation</b>		<b>327 887</b>	<b>463 533</b>
Taxation	32	(265 330)	76 699
<b>Profit (loss) for the year</b>		<b>62 557</b>	<b>540 232</b>
<b>Other comprehensive income:</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Remeasurements on net defined benefit liability/asset		(13 748)	(42 241)
<b>Items that may be reclassified to profit or loss:</b>			
Exchange differences on translating foreign operations		(75 858)	(484 004)
Share of comprehensive income of equity accounted investments		(114 122)	-
<b>Total items that may be reclassified to profit or loss</b>		<b>(189 980)</b>	<b>(484 004)</b>
<b>Other comprehensive income for the year net of taxation</b>	33	<b>(203 728)</b>	<b>(526 245)</b>
<b>Total comprehensive income (loss) for the year</b>		<b>(141 171)</b>	<b>13 987</b>
<b>Profit (loss) attributable to:</b>			
Owners of the parent		62 702	540 394
Non-controlling interest		(145)	(162)
		<b>62 557</b>	<b>540 232</b>
<b>Total comprehensive (loss) income attributable to:</b>			
Owners of the parent		(141 026)	14 149
Non-controlling interest		(145)	(162)
		<b>(141 171)</b>	<b>13 987</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2022

Figures in Rand	Foreign currency translation reserve	Cash flow hedging reserve	Retained income	Total attributable to equity holders of the group / company	Non- controlling interest	Total equity
Opening balance as previously reported	1 466 588	–	9 174 744	10 641 332	(6 859)	10 634 473
<b>Balance at 01 April 2020 as restated</b>	<b>1 466 588</b>	<b>–</b>	<b>9 174 744</b>	<b>10 641 332</b>	<b>(6 859)</b>	<b>10 634 473</b>
Profit for the year	–	–	540 394	540 394	(162)	540 232
Other comprehensive income	(484 004)	–	(42 241)	(526 245)	–	(526 245)
<b>Total comprehensive income for the year</b>	<b>(484 004)</b>	<b>–</b>	<b>498 153</b>	<b>14 149</b>	<b>(162)</b>	<b>13 987</b>
Other adjustments on retained earnings	–	–	(67)	(67)	–	(67)
Prior period errors	–	–	(68 258)	(68 258)	–	(68 258)
<b>Total contributions by and distributions to owners of company recognised directly in equity</b>	<b>–</b>	<b>–</b>	<b>(68 325)</b>	<b>(68 325)</b>	<b>–</b>	<b>(68 325)</b>
Opening balance as previously reported	982 584	–	9 604 570	10 587 154	(7 021)	10 580 133
Adjustments						
Prior period errors	–	–	(16 802)	(16 802)	–	(16 802)
<b>Balance at 01 April 2021 as restated</b>	<b>982 584</b>	<b>–</b>	<b>9 587 768</b>	<b>10 570 352</b>	<b>(7 021)</b>	<b>10 563 331</b>
Profit for the year	–	–	62 702	62 702	(145)	62 557
Other comprehensive income	(75 858)	(114 122)	(13 748)	(203 728)	–	(203 728)
<b>Total comprehensive income for the year</b>	<b>(75 858)</b>	<b>(114 122)</b>	<b>48 954</b>	<b>(141 026)</b>	<b>(145)</b>	<b>(141 171)</b>
<b>Balance at 31 March 2022</b>	<b>906 726</b>	<b>(114 122)</b>	<b>9 636 722</b>	<b>10 429 326</b>	<b>(7 166)</b>	<b>10 422 160</b>
Note(s)	19&33	33	33			

## CONSOLIDATED STATEMENT OF CASH FLOWS

OR THE YEAR ENDED 31 MARCH 2022

Figures in Rand thousand	Note(s)	2022	2021
<b>Cash flows from operating activities</b>			
Cash generated from/(used in) operations	34	822 477	(4 954 417)
Interest income		576 845	749 342
Dividends received		321 255	294 886
Finance costs		(80 359)	(130 187)
Tax paid	35	(174 945)	(223 203)
<b>Net cash from operating activities</b>		<b>1 465 273</b>	<b>(4 263 579)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	3	(238 437)	(211 379)
Sale of property, plant and equipment	3	1 695	2 241
Purchase of other intangible assets		(31 099)	(54 360)
Sale of other intangible assets	4	1	11
Loans advanced to group companies		(458 921)	–
Movements in financial assets		78 485	(96 446)
Proceeds from the sale of an associate		111 000	–
<b>Net cash from investing activities</b>		<b>(537 276)</b>	<b>(359 933)</b>
<b>Cash flows from financing activities</b>			
Net movement in other financial liabilities		(326 480)	(697 464)
Repayment of loans to group companies		–	(11 194)
Proceeds from Loans to group companies		2 608	34 680
Net movement in lease liabilities		(107 980)	(101 797)
<b>Net cash from financing activities</b>		<b>(431 852)</b>	<b>(775 775)</b>
<b>Total cash movement for the year</b>		<b>496 145</b>	<b>(5 399 287)</b>
Cash at the beginning of the year		13 691 049	20 822 759
Effect of exchange rate movement on cash balances		(19 658)	(1 248 420)
Effect of translation of foreign entities		(75 858)	(484 004)
<b>Total cash at end of the year</b>	17	<b>14 091 678</b>	<b>13 691 048</b>

# ACCOUNTING POLICIES

## FOR THE YEAR ENDED 31 MARCH 2022

### 1. Significant accounting policies

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

#### 1.1 Basis of preparation

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

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

The consolidated annual financial statements have been prepared on the historic cost convention, unless otherwise stated in the accounting policies which follow and incorporate the principal accounting policies set out below. They are presented in Rands, which is the Group’s functional currency. Unless stated otherwise, all financial information presented in rand has been rounded off to the nearest thousands (R’000).

These accounting policies are consistent with the previous period.

#### 1.2 Consolidation

##### Basis of consolidation

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

##### Business combinations

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

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

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

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

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

## **ACCOUNTING POLICIES** (continued) FOR THE YEAR ENDED 31 MARCH 2022

### **1.2 Consolidation (continued)**

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

In cases where the group held a non-controlling shareholding in the acquiree prior to obtaining control, that interest is measured to fair value as at acquisition date. The measurement to fair value is included in profit or loss for the year. Where the existing shareholding was classified as an available-for-sale financial asset, the cumulative fair value adjustments recognised previously to other comprehensive income and accumulated in equity are recognised in profit or loss as a reclassification adjustment.

Goodwill is determined as the consideration paid, plus the fair value of any shareholding held prior to obtaining control, plus non-controlling interest and less the fair value of the identifiable assets and liabilities of the acquiree. If, in the case of a bargain purchase, the result of this formula is negative, then the difference is recognised directly in profit or loss.

Goodwill is not amortised but is tested on an annual basis for impairment. If goodwill is assessed to be impaired, that impairment is not subsequently reversed.

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

### **1.3 Joint arrangements**

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

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

#### **Joint operations**

The Group recognises the following in relation to its interests in a joint operation:

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

### **1.4 Investment in associate and joint ventures**

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

## **ACCOUNTING POLICIES** (continued) FOR THE YEAR ENDED 31 MARCH 2022

### **1.5 Significant judgements and sources of estimation uncertainty**

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

#### **Critical judgements in applying accounting policies**

The critical judgements made by management in applying accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognised in the financial statements, are outlined as follows:

#### **Critical judgments in determining the lease term**

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option: or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

#### **Key sources of estimation uncertainty**

##### **Allowance for slow moving, damaged and obsolete inventory**

Net realisable value tests are performed at each reporting date and allowance is made to write stock down to the lower of cost or net realisable value. Management has made estimates of the selling price and production costs and cost to sell on certain inventory items. The write down is included in the operating expenses.

##### **Impairments testing and impairment reversals**

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

##### **Evaluation of useful life of assets**

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

When the estimated useful life of an asset differs from previous estimates, the change is applied prospectively in the determination of the depreciation charge.

##### **Provisions**

Provisions are inherently based on assumptions and estimates using the best information available. Additional disclosure of these estimates of provisions are included in note 23.

## **ACCOUNTING POLICIES** (continued) FOR THE YEAR ENDED 31 MARCH 2022

### **1.5 Significant judgements and sources of estimation uncertainty (continued)**

#### **Income Taxes**

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

#### **Environmental, decommissioning and rehabilitation provision**

The determination of long-term provisions, in particular environmental provisions, remains a key area where management's judgment is required. Estimating the future cost of these obligations is complex and requires management to make estimates and judgments because most of the obligations will be fulfilled only in the future, and contracts and laws are often not clear on what is required. The resulting provisions could also be influenced by changing technologies and political, environmental, safety, business, the exchange rate, inflation, discount rate and statutory considerations. It is envisaged that, based on the current information available, any additional liability in excess of an estimate is based on costs that are regularly reviewed, by internal and external experts, and adjusted as appropriate for new circumstances.

#### **Recoverability of assets**

The Group assesses its cash generating units (CGUs) at each reporting period to determine whether any indication of impairment exists. Impairment tests are performed when there is an indication of impairment of assets or a reversal of previous impairments of assets. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs of disposal (FVLCD) and value in use (VIU).

Management, therefore, has implemented certain impairment indicators and these include movements in exchange rates, commodity prices and the economic environment in which its businesses operate. Estimates are made in determining the recoverable amount of assets, which include the estimation of cash flows and discount rates used. In estimating the cash flows, management bases cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the assets, based on publicly available information. The discount rates used are pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the assets for which the future cash flow estimates have not been adjusted. These estimates and assumptions are subject to risk and uncertainty.

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

#### **Mineral reserve and resource estimates**

Mineral reserves are estimates of the amount of mineral that can be economically and legally extracted from the Group's mineral properties. The Group estimates its commercial reserves and resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the mineral body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of mineral in place, recovery factors and future commodity prices. Future development costs are estimated using assumptions as to the number of wells and drill holes required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs.

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

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

## **ACCOUNTING POLICIES** (continued) FOR THE YEAR ENDED 31 MARCH 2022

### **1.5 Significant judgements and sources of estimation uncertainty (continued)**

#### **Defined benefit plans (pension plans)**

The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

#### **Contingent liabilities**

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

#### **Exploration and evaluation expenditure**

The amount of intangible exploration and evaluation assets represents active exploration assets. These amounts will be written off to the statement of profit or loss and comprehensive income as exploration costs unless commercial reserves are established or the determination process is not completed and there are no indicators of impairment.

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

#### **Fair value of measurement of financial instruments**

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques, including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

#### **Unpumpable crude oil/crude oil sludge**

The part of the crude that is necessary to operate (in technical terms) the plant and cannot be recouped (or can be recouped but would then be significantly impaired as sludge), even when the plant is abandoned, is considered part of non-current assets.

#### **Inventory-coal stocks**

Coal stocks are measured using the survey methods. At reporting date an independent surveyor is employed to perform the stock measurement concurrently with the company and the results are compared for reasonableness.

#### **Operating lease commitment – group as lessor**

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

## **ACCOUNTING POLICIES** (continued) FOR THE YEAR ENDED 31 MARCH 2022

### **1.5 Significant judgements and sources of estimation uncertainty (continued)**

#### **Joint arrangements**

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

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

Specifically, the company considers:

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

#### **Hydrocarbon reserve and resource estimates**

Hydrocarbon reserves are estimates of the amount of hydrocarbons that can be economically and legally extracted from the company's oil properties. The Group estimates its commercial reserves and resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates.

Commercial reserves are determined using estimates of oil and gas in place, recovery factors and future commodity prices. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs.

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

- 1) The carrying value of exploration and evaluation assets and production assets may be affected due to changes in estimated future cash flows.
- 2) Depreciation and amortisation charges in the statement of profit or loss may change where such charges are determined using the Units of Production method.
- 3) Provisions for decommissioning may change, where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities.
- 4) The recognition and carrying value of deferred tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets.

#### **Carrying value of intangible exploration and evaluation assets**

The amount of intangible exploration and evaluation assets represent active exploration assets. These amounts will be written off to the statement of profit or loss as exploration costs unless commercial reserves are established or the determination process is not completed and there are no indicators of impairment.

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

#### **Units of production (UOP) depreciation of oil and gas assets**

Oil and gas properties are depreciated using the UOP method. The actual production for the period is divided by the total proved developed and undeveloped hydrocarbon reserves. This results in a depreciation/amortisation charge (UOP rate) proportional to the depletion of the anticipated remaining production from the field.

## ACCOUNTING POLICIES (continued)

### FOR THE YEAR ENDED 31 MARCH 2022

#### 1.5 Significant judgements and sources of estimation uncertainty (continued)

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

#### Valuation assumptions

The following valuation assumptions were used and are regarded as the best estimates by the board:

2021 assumptions	Unit	2022	2023	2024	2025 – 2026
Brent crude	USD/barrel	57.00	59.00	56.00	58.00
US CPI	Year-on-year	1.80	2.00	2.00	2.20
RSA CPI	Year-on-year	4.60	4.40	4.60	5.00
USD risk-free rate	%	3.30	3.30	3.30	4.00
RSA risk-free rate	%	7.90	8.00	8.00	9.10
ZAR/USD	Rand/USD	17.58	17.85	18.85	18.35

2020 assumptions	Unit	2021	2022	2023	2024 – 2025
Brent crude	USD/barrel	47.00	60.00	60.00	63.00
US CPI	Year-on-year	2.00	2.00	2.00	2.20
RSA CPI	Year-on-year	4.20	4.70	4.40	4.40
USD risk-free rate	%	4.90	4.50	4.50	4.60
ZAR risk-free rate	%	7.80	7.80	7.80	7.80
ZAR/USD	Rand/USD	15.62	15.91	16.11	16.45

#### Going concern

Management considers key financial metrics in its approved medium term budgets, together with its existing term, to conclude that the going concern assumption used in compiling the annual financial statements is relevant.

#### Key management personnel

The CEO's/equivalent for operating subsidiaries and the holding company are the Group's key management personnel.

#### 1.6 Irregular expenditure

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including the PFMA.

Irregular expenditure is recorded in the notes to the financial statements when confirmed. The amount recorded is equal to the value of the irregular expenditure incurred, unless it is impractical to determine, in which case reasons therefore must be provided in the notes.

Irregular expenditure is removed from the notes when it is either condoned by the relevant authority, transferred to receivables for recovery, not condoned and removed or written-off.

Irregular expenditure receivables are measured at the amount that is expected to be recoverable and are derecognised when settled or subsequently written-off as irrecoverable.

Irregular expenditure is recorded in the notes to the financial statements when confirmed. The amount recorded is equal to the value of the irregular expenditure incurred, unless it is impractical to determine, in which case reasons therefore must be provided in the notes.

## **ACCOUNTING POLICIES** (continued) FOR THE YEAR ENDED 31 MARCH 2022

### **1.7 Fruitless and wasteful expenditure**

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

Fruitless and wasteful expenditure is recorded in the notes to the financial statements when confirmed. The amount recorded is equal to the value of the fruitless and wasteful expenditure incurred.

Fruitless and wasteful expenditure is removed from the notes when it is transferred to receivables for recovery, or written-off.

Fruitless and wasteful expenditure receivables are measured at the amount that is expected to be recoverable and are derecognised when settled or subsequently written-off as irrecoverable.

### **1.8 Property, plant and equipment**

The Group's Property plant and equipment is made up of the following:

- Assets used in the production process such as land and buildings, plant machinery, production assets, furniture and fixtures, motor vehicles, office equipment, IT equipment and mine infrastructure.
- Assets under development
- Restoration costs
- Major Maintenance costs (Shutdown)

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

#### **Initial recognition**

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

#### **Initial measurement**

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

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

Expenditure incurred subsequently for major services, additions to or replacements of parts of property, plant and equipment are capitalised if it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. Day to day servicing costs are included in profit or loss in the year in which they are incurred.

#### **Subsequent measurement**

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

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

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

## ACCOUNTING POLICIES (continued)

### FOR THE YEAR ENDED 31 MARCH 2022

#### 1.8 Property, plant and equipment (continued)

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

Item	Depreciation method	Average useful life
Buildings	Straight line	5 – 65 years
Plant and machinery	Straight line	3 – 80 years
Furniture, fixtures and equipment	Straight line	3 – 20 years
Motor vehicles	Straight line	4 – 15 years
IT equipment	Straight line	2 – 10 years
Restoration costs	Straight line	LoM
Mine infrastructure	Straight line	5 – 20 years limited to LoM
Shutdown costs	Straight line	3 – 5 years
Production assets	Straight line	3 – 20 years limited to LoM/UoP
Right-of-use Asset	Straight line	< Lease term/useful life

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

Impairment tests are performed on property, plant and equipment when there is an indicator that they may be impaired. When the carrying amount of an item of property, plant and equipment is assessed to be higher than the estimated recoverable amount, an impairment loss is recognised immediately in profit or loss to bring the carrying amount in line with the recoverable amount.

#### Borrowing Costs

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

#### Unpumpable stock

The part of the strategic crude oil that is necessary to operate (in technical terms) the plant and cannot be recouped (or can be recouped but would then be significantly impaired as sludge), even when the plant is abandoned, is considered as an item of property, plant and equipment. These items are initially measured at historical and subsequently measured at costs less accumulated depreciation and impairment. Depreciation is charged so as to write off the depreciable amount of the assets over their estimated useful lives, using the straight-line method to write off the cost of each asset that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity. The useful life is linked to the life of the Tanks.

#### Shutdown costs

Shutdown costs relates to expenditure incurred for major maintenance and servicing of the Plant. When shutdown costs will be incurred, an estimate of these shutdown costs is included in the carrying value of the asset at initial recognition.

#### Production assets (oil and gas fields)

Oil and gas production assets are the aggregated exploration and evaluation tangible assets, and development expenditure associated with the production of proved reserves.

Subsequent expenditure which enhances or extends the performance of oil and gas production assets beyond their original specifications is recognised as capital expenditure and added to the original cost of the asset.

## **ACCOUNTING POLICIES** (continued) FOR THE YEAR ENDED 31 MARCH 2022

### **1.8 Property, plant and equipment (continued)**

Production assets are depreciated from the date production commences, on a unit of production basis, which is the ratio of oil and gas production in the period to the estimated quantities of proved and probable reserves at the end of the period plus the production in the period, on a field-by-field basis. Costs used in the unit of production calculation comprise the carrying value of capitalised costs plus the estimated future field development costs required to recover the commercial reserves remaining. Units of production rates are based on the proved and probable developed reserves, which are oil, gas and other mineral reserves estimated to be recoverable from existing facilities using current operating methods. Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively.

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

Any impairment identified is charged to profit or loss. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to profit or loss, net of any depreciation that would have been charged since the impairment.

#### **Restoration costs**

Cost of property, plant and equipment also includes the estimated costs of dismantling and removing the assets and site rehabilitation costs.

Estimated decommissioning and restoration costs are based on current requirements, technology and price levels.

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

The amount recognised is the estimated cost of restoration, discounted to its net present value, and is reassessed each year in accordance with local conditions and requirements. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the restoration provision is included as a finance cost.

#### **Development expenditure**

When proved reserves are determined and development is sanctioned, capitalised exploration and evaluation expenditure is reclassified as assets under construction, and is disclosed as a component of property, plant and equipment. All subsequent development expenditure is capitalised and classified as assets under construction, provided commercial viability conditions continue to be satisfied. Development expenditure is net of proceeds from the sale of minerals extracted during the development phase. On completion of development, all assets included in assets under construction are reclassified as mine infrastructure assets.

The cost capitalized includes finance costs incurred until the production facility is completed and ready for the start of the production phase.

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

## ACCOUNTING POLICIES (continued)

### FOR THE YEAR ENDED 31 MARCH 2022

#### 1.8 Property, plant and equipment (continued)

##### Capitalised stripping costs

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

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

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

There are two types of stripping activity:

- Development stripping is the initial overburden removal during the development phase to obtain access to a mineral deposit that will be commercially produced.
- Production stripping begins after the first saleable minerals have been extracted from the component. Development stripping costs are capitalised as a development stripping asset when:
  - It is probable that future economic benefits associated with the asset will flow to the entity; and
  - The costs can be measured reliably.

Production stripping can give rise to two benefits, either the production of inventory in the current period or improved access to the ore to be mined in future periods. Where the benefits are realised in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing the inventory.

Where production stripping costs are incurred and where the benefit is the creation of access to ore to be mined in the future, the costs are recognised as a non-current asset, referred to as 'production stripping asset', if the following criteria are met:

- It is probable that the future economic benefit (improved access to ore) will flow to the entity
- The component of the ore body for which access has been improved can be identified and
- The costs relating to the stripping activity can be measured reliably.

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

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

## **ACCOUNTING POLICIES** (continued) FOR THE YEAR ENDED 31 MARCH 2022

### **1.8 Property, plant and equipment (continued)**

#### **Derecognition**

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use.

Gains or losses on disposal of property, plant and equipment are determined by reference to their carrying amount.

The gain or losses arising from derecognition of an item of property, plant and equipment is included in operating profit or loss.

### **1.9 Intangible assets**

The Group's intangible assets comprise of the following:

- Exploration and evaluation assets
- Project development costs
- Software
- Patents and Licences
- Restoration costs

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

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

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

#### **Project development costs**

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

#### **Patents and licences**

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

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

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

## ACCOUNTING POLICIES (continued)

### FOR THE YEAR ENDED 31 MARCH 2022

#### 1.9 Intangible assets (continued)

##### Exploration, evaluation and development assets

###### - Oil and gas wells

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

Under the successful efforts method, only those costs that lead directly to the discovery, acquisition, or development of specific discrete mineral reserves are capitalised and become part of the capitalised costs of the cost centre. Costs that are known to fail to meet this criterion (at the time of incurrence) are generally charged to the statement of profit or loss as an expense in the period they are incurred.

###### - Coal Mining

Pre-licence costs relate to costs incurred before the Group has obtained legal rights to explore in a specific area. Such costs may include the acquisition of exploration data and the associated costs of analysing that data. These costs are expensed in the period in which they are incurred.

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Exploration and evaluation activity includes:

- researching and analysing historical exploration data;
- gathering exploration data through topographical, geochemical and geophysical studies;
- exploratory drilling, trenching and sampling;
- determining and examining the volume and grade of the resource;
- surveying transportation and infrastructure requirements;
- Conducting market and finance studies.

Expenditure incurred in relation to desktop and concept studies are charged to the statement of profit or loss. The desktop and concept studies are high level studies to estimate tonnage available and potential mine size.

Upon the approval of the concept study competent persons report, (at which point the Group considers it probable that economic benefits will be realised), the Group capitalises any further expenditure incurred for the particular licence as exploration and evaluation assets. Such expenditure consists of an accumulation of direct exploration and evaluation costs incurred, together with an appropriate portion of overhead expenditure. Administration costs that are not directly attributable to a specific exploration area are charged to the statement of profit or loss. Expenditure incurred after technical feasibility and commercial viability of extracting the mineral resource have been demonstrated are capitalised to exploration and evaluation assets.

Capitalised exploration and evaluation expenditure is recognised as an intangible asset and is carried at cost less impairment charges. In determining whether the cost of the exploration and evaluation assets is intangible or property, plant and equipment, consideration is given to the substance and not legal form.

###### Pre-licensing costs

These are costs incurred prior to the acquisition of a legal right to explore for oil and gas. They may include speculative seismic data and subsequent geological and geophysical analysis of this data, but may not be exclusive to such costs. These costs are expensed in the year they are incurred.

###### Exploration and evaluation costs

All costs relating to the acquisition of licenses, exploration and evaluation of a well, field or exploration area are initially capitalised. Directly attributable administration costs and interest payable are capitalised insofar as they relate to specific development activities.

These costs are not depreciated but written off as exploration costs in profit or loss unless commercial reserves have been established or the determination process has not been completed and there are no indications of impairment.

## ACCOUNTING POLICIES (continued)

### FOR THE YEAR ENDED 31 MARCH 2022

#### 1.9 Intangible assets (continued)

##### Assets Pending Determination

Exploratory wells that discover potentially commercial reserves are capitalised pending a decision to further develop or a firm plan to develop has been approved. These are continuously assessed for impairment. If no such plan or development exists or information is obtained that raises doubt about the economic or operating viability then an impairment is recognised. If a plan or intention to further develop these wells or fields exists, the costs are transferred to development costs.

##### Commercial reserves

Commercial reserves are proven and probable oil and gas reserves, which are defined as the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50 per cent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable reserves and a 50 per cent statistical probability that it will be less.

##### Development costs

Costs of development wells, platforms, well equipment and attendant production facilities are capitalised. The cost of production facilities capitalised includes finance costs incurred until the production facility is completed and ready for the start of the production phase. All development wells are not depreciated until production starts and then they are depreciated on the Units of Production method calculated using the estimated proved and probable reserves.

##### Dry wells

Geological and geophysical costs, as well as all other costs relating to dry exploratory wells costs are recognised in the profit and loss in the year they are incurred.

##### Software

Purchased software and the direct costs associated with the customisation and installation thereof are capitalised. Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values.

The useful lives' summary of the Group's intangible assets is as follows:

Item	Depreciation method	Average useful life
External Patents	Straight line	5 – 10 years
Developed Patents	Indefinite	Indefinite useful life
Software licences	Straight line	2 – 10 years
Intangible assets under development	N/A	N/A

#### 1.10 Financial instruments

Financial instruments held by the Group are classified in accordance with the provisions of IFRS 9 Financial Instruments. Broadly, the classification possibilities, which are adopted by the Group, as applicable, are as follows: Financial assets which are equity instruments:

- Mandatorily at fair value through profit or loss; or
- Designated as at fair value through other comprehensive income. (This designation is not available to equity instruments which are held for trading or which are contingent consideration in a business combination).

## ACCOUNTING POLICIES (continued)

### FOR THE YEAR ENDED 31 MARCH 2022

#### 1.10 Financial instruments (continued)

Financial assets which are debt instruments:

- Amortised cost. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is met by holding the instrument to collect contractual cash flows); or
- Fair value through other comprehensive income. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is achieved by both collecting contractual cash flows and selling the instruments); or
- Mandatorily at fair value through profit or loss. (This classification automatically applies to all debt instruments which do not qualify as at amortised cost or at fair value through other comprehensive income); or
- Designated at fair value through profit or loss. (This classification option can only be applied when it eliminates or significantly reduces an accounting mismatch).

Derivatives which are not part of a hedging relationship:

- Mandatorily at fair value through profit or loss.

Financial liabilities:

- Amortised cost; or
- Mandatorily at fair value through profit or loss. (This applies to contingent consideration in a business combination or to liabilities which are held for trading); or
- Designated at fair value through profit or loss. (This classification option can be applied when it eliminates or significantly reduces an accounting mismatch; the liability forms part of a group of financial instruments managed on a fair value basis; or it forms part of a contract containing an embedded derivative and the entire contract is designated as at fair value through profit or loss).

Note 41 Financial instruments and risk management presents the financial instruments held by the Group based on their specific classifications.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

The specific accounting policies for the classification, recognition and measurement of each type of financial instrument held by the Group are presented below:

#### Loans receivable at amortised cost

##### Classification

Loans to group companies (note 8), are classified as financial assets subsequently measured at amortised cost.

They have been classified in this manner because the contractual terms of these loans give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the Group's business model is to collect the contractual cash flows on these loans.

##### Recognition and measurement

Loans receivable are recognised when the Group becomes a party to the contractual provisions of the loan. The loans are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the loan initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

## **ACCOUNTING POLICIES** (continued) FOR THE YEAR ENDED 31 MARCH 2022

### **1.10 Financial instruments (continued)**

#### **Application of the effective interest method**

Interest income is calculated using the effective interest method, and is included in profit or loss in investment income (note 30).

The application of the effective interest method to calculate interest income on a loan receivable is dependent on the credit risk of the loan as follows:

- The effective interest rate is applied to the gross carrying amount of the loan, provided the loan is not credit impaired. The gross carrying amount is the amortised cost before adjusting for a loss allowance.
- If a loan is purchased or originated as credit-impaired, then a credit-adjusted effective interest rate is applied to the amortised cost in the determination of interest. This treatment does not change over the life of the loan, even if it is no longer credit-impaired.
- If a loan was not purchased or originally credit-impaired, but it has subsequently become credit-impaired, then the effective interest rate is applied to the amortised cost of the loan in the determination of interest. If, in subsequent periods, the loan is no longer credit impaired, then the interest calculation reverts to applying the effective interest rate to the gross carrying amount.

#### **Impairment**

The Group recognises a loss allowance for expected credit losses on all loans receivable measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective loans.

The Group measures the loss allowance at an amount equal to lifetime expected credit losses (lifetime ECL) when there has been a significant increase in credit risk since initial recognition. If the credit risk on a loan has not increased significantly since initial recognition, then the loss allowance for that loan is measured at 12 month expected credit losses (12 month ECL).

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a loan. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a loan that are possible within 12 months after the reporting date.

In order to assess whether to apply lifetime ECL or 12 month ECL, in other words, whether or not there has been a significant increase in credit risk since initial recognition, the Group considers whether there has been a significant increase in the risk of a default occurring since initial recognition rather than at evidence of a loan being credit impaired at the reporting date or of an actual default occurring.

#### **Significant increase in credit risk**

In assessing whether the credit risk on a loan has increased significantly since initial recognition, the Group compares the risk of a default occurring on the loan as at the reporting date with the risk of a default occurring as at the date of initial recognition.

The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information.

Irrespective of the outcome of the above assessment, the credit risk on a loan is always presumed to have increased significantly since initial recognition if the contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

By contrast, if a loan is assessed to have a low credit risk at the reporting date, then it is assumed that the credit risk on the loan has not increased significantly since initial recognition.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increases in credit risk before the amount becomes past due.

## **ACCOUNTING POLICIES** (continued) FOR THE YEAR ENDED 31 MARCH 2022

### **1.10 Financial instruments (continued)**

#### **Write off policy**

The Group writes off a loan when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Loans written off may still be subject to enforcement activities under the Group recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

#### **Measurement and recognition of expected credit losses**

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default, taking the time value of money into consideration.

The assessment of the probability of default and loss given default is based on historical data adjusted by forward- looking information as described above. The exposure at default is the gross carrying amount of the loan at the reporting date.

Lifetime ECL is measured on a collective basis in cases where evidence of significant increases in credit risk are not yet available at the individual instrument level. Loans are then grouped in such a manner that they share similar credit risk characteristics, such as nature of the loan, external credit ratings (if available), industry of counterparty etc.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12 month ECL at the current reporting date, and visa versa.

An impairment gain or loss is recognised for all loans in profit or loss with a corresponding adjustment to their carrying amount through a loss allowance account. The impairment loss is included in other operating expenses in profit or loss as a movement in credit loss allowance (note 29).

#### **Credit risk**

Details of credit risk related to loans receivable are included in the specific notes and the financial instruments and risk management (note 41).

#### **Trade and other receivables**

##### **Classification**

Trade and other receivables, excluding, when applicable, VAT and prepayments, are classified as financial assets subsequently measured at amortised cost (note 16).

They have been classified in this manner because their contractual terms give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the Group's business model is to collect the contractual cash flows on trade and other receivables.

##### **Recognition and measurement**

Trade and other receivables are recognised when the Group becomes a party to the contractual provisions of the receivables. They are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the receivable initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

## **ACCOUNTING POLICIES** (continued) FOR THE YEAR ENDED 31 MARCH 2022

### **1.10 Financial instruments (continued)**

#### **Impairment**

The Group recognises a loss allowance for expected credit losses on trade and other receivables, excluding VAT and prepayments. The amount of expected credit losses is updated at each reporting date.

The Group measures the loss allowance for trade and other receivables at an amount equal to lifetime expected credit losses (lifetime ECL), which represents the expected credit losses that will result from all possible default events over the expected life of the receivable.

#### **Measurement and recognition of expected credit losses**

The Group makes use of a provision matrix as a practical expedient to the determination of expected credit losses on trade and other receivables. The provision matrix is based on historic credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current and forecast direction of conditions at the reporting date, including the time value of money, where appropriate.

The customer base is widespread and does not show significantly different loss patterns for different customer segments. The loss allowance is calculated on a collective basis for all trade and other receivables in totality.

An impairment gain or loss is recognised in profit or loss with a corresponding adjustment to the carrying amount of trade and other receivables, through use of a loss allowance account. The impairment loss is included in other operating expenses in profit or loss as a movement in credit loss allowance (note 29).

#### **Trade and other payables**

##### **Classification**

Trade and other payables (note 25), excluding VAT and amounts received in advance, are classified as financial liabilities subsequently measured at amortised cost..

##### **Recognition and measurement**

They are recognised when the Group becomes a party to the contractual provisions, and are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

If trade and other payables contain a significant financing component, and the effective interest method results in the recognition of interest expense, then it is included in profit or loss in finance costs (note 31).

Trade and other payables expose the Group to liquidity risk and possibly to interest rate risk. Refer to note 41 for details of risk exposure and management thereof.

##### **Trade and other payables denominated in foreign currencies**

When trade payables are denominated in a foreign currency, the carrying amount of the payables are determined in the foreign currency. The carrying amount is then translated to the Rand equivalent using the spot rate at the end of each reporting period. Any resulting foreign exchange gains or losses are recognised in profit or loss in the other operating gains (losses) (note 29 )

Details of foreign currency risk exposure and the management thereof are provided in the financial instruments and risk management (note 41).

## ACCOUNTING POLICIES (continued)

### FOR THE YEAR ENDED 31 MARCH 2022

#### 1.10 Financial instruments (continued)

##### Cash and cash equivalents

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

##### Bank overdrafts

Bank overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

##### Derecognition

##### Financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

##### Financial liabilities

The Group derecognises financial liabilities when, and only when, the Group obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

#### 1.11 Hedge accounting

At the inception of the hedge relationship, the company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the company documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the company actually hedges and the quantity of the hedging instrument that the company actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the company adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

The company designates the full change in the fair value of a forward contract (i.e. including the forward elements) as the hedging instrument for all of its hedging relationships involving forward contracts.

The company excludes the time value of options and designates only the intrinsic value of options as the hedging instruments in hedges involving options as the hedging instruments. The change in fair value attributable to the time value of options is recognised in other comprehensive income and accumulated in equity as deferred hedging gains (losses). The company only hedges time period related hedged items using options. The change in the aligned time value is recognised in other comprehensive income and is amortised on a systematic and rational basis over the period during which the hedge adjustment for the option's intrinsic value could affect profit or loss (or other comprehensive income, if the hedged item is an equity instrument at fair value through other comprehensive income). However, if hedge accounting is discontinued the net amount (i.e. including cumulative amortisation) that has been accumulated in the deferred hedging reserve is immediately reclassified into profit or loss.

## **ACCOUNTING POLICIES** (continued) FOR THE YEAR ENDED 31 MARCH 2022

### **1.12 Pre-payments**

Prepayments are recognised when there is a payment in advance for services not yet received. They are subsequently released to profit and loss over the period the services are received.

### **1.13 Tax**

#### **Current tax assets and liabilities**

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

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

#### **Deferred tax assets and liabilities**

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

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

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

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

#### **Tax expenses**

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

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

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

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

#### **Royalty taxes**

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

#### **Value-added tax (VAT)**

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

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

## ACCOUNTING POLICIES (continued)

### FOR THE YEAR ENDED 31 MARCH 2022

#### 1.14 Leases

The Group assesses whether a contract is, or contains a lease, at the inception of the contract.

A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In order to assess whether a contract is, or contains a lease, management determine whether the asset under consideration is “identified”, which means that the asset is either explicitly or implicitly specified in the contract and that the supplier does not have a substantial right of substitution throughout the period of use. Once management has concluded that the contract deals with an identified asset, the right to control the use thereof is considered. To this end, control over the use of an identified asset only exists when the Group has the right to substantially all of the economic benefits from the use of the asset as well as the right to direct the use of the asset.

In circumstances where the determination of whether the contract is or contains a lease requires significant judgement, the relevant disclosures are provided in the significant judgments and sources of estimation uncertainty section of these accounting policies.

#### Group as lessee

A lease liability and corresponding right-of-use asset are recognised at the lease commencement date, for all lease agreements for which the Group is a lessee, except for short-term leases of 12 months or less, or leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense (note 29) on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The various lease and non-lease components of contracts containing leases are accounted for separately, with consideration being allocated to each lease component on the basis of the relative stand-alone prices of the lease components and the aggregate stand-alone price of the non-lease components (where non-lease components exist).

However as an exception to the preceding paragraph, the Group has elected not to separate the non-lease components for leases of land and buildings.

Details of leasing arrangements where the Group is a lessee are presented in note 22 Leases Group as lessee).

#### Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed lease payments, including in-substance fixed payments, less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the Group under residual value guarantees;
- the exercise price of purchase options, if the Group is reasonably certain to exercise the option;
- lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease, if the lease term reflects the exercise of an option to terminate the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability (or right-of-use asset). The related payments are recognised as an expense in the period incurred and are included in operating expenses (note 2229).

The lease liability is presented as a separate line item on the Consolidated Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. Interest charged on the lease liability is included in finance costs (note 31).

## ACCOUNTING POLICIES (continued)

### FOR THE YEAR ENDED 31 MARCH 2022

#### 1.14 Leases (continued)

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) when:

- there has been a change to the lease term, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- there has been a change in the assessment of whether the Group will exercise a purchase, termination or extension option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- there has been a change to the lease payments due to a change in an index or a rate, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- there has been a change in expected payment under a residual value guarantee, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate;
- a lease contract has been modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised payments using a revised discount rate.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognised in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

#### Right-of-use assets

Right-of-use assets are presented within property, plant and equipment on the Consolidated Statement of Financial Position.

Lease payments included in the measurement of the lease liability comprise the following:

- the initial amount of the corresponding lease liability;
- any lease payments made at or before the commencement date;
- any initial direct costs incurred;
- any estimated costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, when the Group incurs an obligation to do so, unless these costs are incurred to produce inventories; and
- less any lease incentives received.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. However, if a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of a lease.

For right-of-use assets which are depreciated over their useful lives, the useful lives are determined consistently with items of the same class of property, plant and equipment. Refer to the accounting policy for property, plant and equipment for details of useful lives.

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate. Each part of a right-of-use asset with a cost that is significant in relation to the total cost of the asset is depreciated separately.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

## ACCOUNTING POLICIES (continued)

### FOR THE YEAR ENDED 31 MARCH 2022

#### 1.14 Leases (continued)

##### Group as lessor

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. Lease classification is made at inception and is only reassessed if there is a lease modification.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described previously, then it classifies the sub-lease as an operating lease.

The various lease and non-lease components of contracts containing leases are accounted for separately, with consideration being allocated by applying IFRS 15.

#### 1.15 Inventories

Inventories are measured at the lower of cost and net realisable value.

Inventories includes a “right to returned goods asset” which represents the Group right to recover products from customers where customers exercise their right of return under the Group returns policy. The Group uses its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method. A corresponding adjustment is recognised against cost of sales

Inventories are valued at the lower of cost and net realisable value. These are the various types of inventory held by the Group:

##### Strategic inventory

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

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

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

##### Petroleum products

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

##### Coal inventory

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

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

## **ACCOUNTING POLICIES** (continued) FOR THE YEAR ENDED 31 MARCH 2022

### **1.15 Inventories (continued)**

#### **Spares, catalysts and chemicals**

These inventories are measured at the lower of cost on a weighted average cost basis and net realisable value less appropriate provision for obsolescence determined by reference to specific items of inventory. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

#### **Finished inventories and work-in-progress**

Finished inventories and work-in-progress is measured at the lower of cost and net realisable value according to the standard costing method. Standard costs take into account normal levels of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of current conditions. Cost includes production expenditure, depreciation and a proportion of shutdown expenses and replacement of catalysts, as well as transport and handling costs. Provision is made for obsolete, slow-moving and defective inventories.

#### **Consumable stock**

These inventories are measured at the lower of cost on a weighted average cost basis and net realisable value. Inventories are classified as current when it is reasonable to expect them to be sold within their normal cycle which could be the next financial year. If not, they are classified as non-current.

### **1.16 Non-current assets (disposal groups) held for sale or distribution to owners**

The Group classifies non-current assets and disposal groups as held for sale/held for distribution to owners if their carrying amounts will be recovered principally through a disposal rather than through continuing use.

Such non-current assets and disposal groups classified as held for disposal are measured at the lower of their carrying amount and fair value less costs to sell or to distribute. Costs to distribute are the incremental costs directly attributable to the distribution, excluding the finance costs and income tax expense.

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

Management must be committed to the disposal which qualifies for recognition as a completed sale within one year from the date of the classification.

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

Assets and liabilities classified as held for disposal/distribution to owners are presented separately as current items in the consolidated statement of financial position.

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

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

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss and other comprehensive income.

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

## **ACCOUNTING POLICIES** (continued) FOR THE YEAR ENDED 31 MARCH 2022

### **1.17 Impairment of assets**

The Group assesses, at each reporting date, whether there is an indication that an asset (other than inventory and deferred tax asset) may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the statement of profit or loss and other comprehensive income in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. A previously recognised impairment loss reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss and other comprehensive income.

Exploration assets are tested for impairment prior to transferring to the development phase of the property or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration assets' carrying amount exceeds their recoverable amount.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

### **1.18 Share capital and equity**

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

Ordinary shares are recognised at par value and classified as 'share capital' in equity. Any amounts received from the issue of shares in excess of par value is classified as 'share premium' in equity. Dividends are recognised as a liability in the Group in which they are declared.

### **1.19 Materiality and aggregation**

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Also the nature and size of the line item is taken into consideration.

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

### **1.20 Employee benefits**

#### **Short-term employee benefits**

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

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

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

## **ACCOUNTING POLICIES** (continued) FOR THE YEAR ENDED 31 MARCH 2022

### **1.20 Employee benefits (continued)**

#### **Defined contribution plans**

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

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

The Group operates a defined contribution plan, the assets of which are held in a separate trustee-administered fund. The plan is funded by payments from the Group and takes into account the recommendations of independent qualified actuaries.

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

#### **Defined benefit plans**

Actuarial valuations are conducted annually by independent actuaries separately for each plan. The Group provides defined benefit plans for pension and post-retirement healthcare to certain retirees. The entitlement to pension and post-retirement healthcare benefits is based on the eligible employees remaining in service up to retirement age. These benefits are funded by the Group. The cost of providing retirement benefits under a defined benefit plan is determined using a projected unit credit valuation method. The liability recognised in the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets.

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

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

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

#### **Termination benefits**

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

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

### **1.21 Provisions and contingencies**

The Group's provisions mainly relate to the following:

- Environmental rehabilitation costs (Dismantling and Restoration)
- Bonus provision
- Social investment provision

Provisions represent liabilities of uncertain timing or amounts.

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

## ACCOUNTING POLICIES (continued)

### FOR THE YEAR ENDED 31 MARCH 2022

#### 1.21 Provisions and contingencies (continued)

##### Environmental rehabilitation costs (Dismantling and Restoration)

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

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

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

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

The Group does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable. Contingencies are disclosed in note 38.

#### 1.22 Government grants

Government grants are recognised when there is reasonable assurance that:

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

Government grants are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate.

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

#### 1.23 Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer.

##### Nature of goods and services

The following is a description of principal activities from which the Group generates its revenues from:

##### 1. Sale of goods – Petroleum Products

Revenue from the sale of oil and petroleum products is recognised when the Group transfer control of the product to the customer. Control is transferred at the point of delivery.

##### 2. Coal

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

##### 3. Rendering of services – Management fees

Revenue from the management services is recognised over time as the customer simultaneously receives and consume benefits as provided by the entity towards satisfying its performance obligation. The group measures the progress towards completion of performance obligation by making reference to the labour hours incurred to date as a percentage of total estimated labour hours for each contract.

## **ACCOUNTING POLICIES** (continued) FOR THE YEAR ENDED 31 MARCH 2022

### **1.23 Revenue from contracts with customers (continued)**

#### **4. Levy**

The Group provides oil pollution control services to customers. This is considered to be a distinct service as:

- the customers can benefit from the services either on its own or together with other resources that are readily available to the customer (i.e. the services are capable of being distinct); and
- the Group's promise to transfer the services to the customers is separately identifiable from other promises in the contract (i.e. the services are distinct within the context of the contract).
- Revenue relating to the oil pollution control services is recognised at a point in time when the services are rendered.

#### **5. Royalties and licence fees**

The Group issues licences and permits to customers for exploration and exploitation of oil and gas. Revenue is recognised over a term of granting the right and permit. A receivable is recognised by the Group when a right/ permit is granted. No element of financing is deemed present as the transaction has a credit term of 30 days.

#### **6. Interest income**

For all financial instruments measured at amortised cost, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in investment income in the statement of profit or loss.

#### **7. Rental income**

Rental income arising from operating leases on storage tanks is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature.

#### **8. Dividend income**

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

#### **9. Data Sales**

For sales of data to customers, revenue is recognised when control of the goods has transferred, being when the customer has taken delivery of data. A receivable is recognised by the Group when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. No element of financing is deemed present as the sales are made with a credit term of 30 days, which is consistent with market practice.

### **1.24 Over and under recoveries against controlled margins for petroleum products**

The selling prices of certain petroleum products are subject to price control by the authorities. The selling prices are adjusted monthly to provide for the recovery of changes in the various items of landed cost of these products. The price adjustments by the authorities are, for various reasons, not made simultaneously with changes in landed cost, and thus the situation arises that oil companies, from time to time, are in the position of an over or under-recovery of changes in cost. The authorities, in conjunction with the oil companies, maintain a comprehensive record of the cumulative over or under-recoveries of the landed cost of these products. Any cumulative under-recovery is reflected as an asset at year-end with a corresponding credit to cost of sales in the statement of comprehensive income.

### **1.25 Cost of sales**

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

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

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

Cost of sales is reduced by the amount recognised in inventory as a "right to returned goods asset" which represents the Group's right.

#### **Foreign currency transactions**

The Group's Consolidated Annual Financial Statements are presented in South African rands, which is also the parent company's functional currency. The Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

## ACCOUNTING POLICIES (continued)

### FOR THE YEAR ENDED 31 MARCH 2022

#### 1.26 Translation of foreign currencies

##### Group Companies

On consolidation, the assets and liabilities of foreign operations are translated into South African rands at the rate of exchange prevailing at the reporting date and their statement of profit or loss and other comprehensive income are translated at exchange rates prevailing at the dates of transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair-value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

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

At the end of the reporting period:

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

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

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

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

#### 1.27 Commitments

Commitments represents capital goods/services and loans/investments that have been approved and/or contracted for, but where delivery has not taken place at the reporting date. Items are classified as commitments where the Group has committed itself to future transactions.

#### 1.28 Related parties

Parties are considered to be related if one party directly or indirectly has the ability to control or jointly control the other party or exercise significant influence over the other party or is a member of key management of the reporting entity. The related parties mainly relate to JVs and associates. Disclosure for JVs and associates is provided in note 40.

Group companies, in the ordinary course of business, entered into various purchase and sale transactions with associates and JVs. The effect of these transactions is included in the financial performance and results of the Group. Terms and conditions are determined on an arm's length basis. Amounts owing (after eliminating intercompany balances) to related parties are disclosed in the respective notes to the financial statements for those statement of financial position items.

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

#### 1.30 Events after reporting period

Recognised amounts in the Consolidated Annual Financial Statements are adjusted to reflect events arising after the reporting date that provide evidence of conditions that existed at the reporting date. Events after the reporting date that are indicative of conditions that arose after the reporting date are dealt with by way of a note disclosure.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022 (continued)

## 2. New Standards and Interpretations

### 2.1 Standards and interpretations effective and adopted in the current year

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

Standard/Interpretation:	Effective date: Years beginning on or after	Expected impact:
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### 2.2 Standards and interpretations not yet effective

The Group has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the Group 's accounting periods beginning on or after 01 April 2022 or later periods::

Standard/Interpretation:	Effective date: Years beginning on or after	Expected impact:
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## NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 3. Property, plant and equipment

Figures in Rand thousand	2022			2021		
	Cost or revaluation	Accumulated depreciation and impairment	Carrying value	Cost or revaluation	Accumulated depreciation and impairment	Carrying value
Land	75 633	-	75 633	76 453	-	76 453
Buildings	232 720	(139 533)	93 187	393 333	(126 487)	266 846
Assets under development	145 785	(7 393)	138 392	357 994	(2 162)	355 832
Plant and machinery	2 804 568	(673 216)	2 131 352	2 669 051	(563 866)	2 105 185
Furniture and fixtures	482 713	(403 751)	78 962	778 985	(677 057)	101 928
Motor vehicles	119 411	(89 878)	29 533	118 754	(82 829)	35 925
Office equipment	13 034	(7 496)	5 538	12 435	(4 102)	8 333
IT equipment	67 455	(44 754)	22 701	63 529	(35 496)	28 033
Production assets	40 679 243	(37 822 922)	2 856 321	40 646 125	(37 532 626)	3 113 499
Shutdown costs capitalised	71 190	(71 190)	-	71 190	(71 190)	-
Restoration costs	1 262 020	(1 254 144)	7 876	983 815	(867 595)	116 220
Mine infrastructure	334 831	(96 481)	238 350	100 355	(39 629)	60 726
Right of use – Buildings	216 741	(39 899)	176 842	186 637	(23 733)	162 904
Right of use – IT & Office equipment	1 788	(1 045)	743	1 832	(1 351)	481
<b>Total</b>	<b>46 507 132</b>	<b>(40 651 702)</b>	<b>5 855 430</b>	<b>46 460 488</b>	<b>(40 028 123)</b>	<b>6 432 365</b>

## NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 3. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment – 2022

Figures in Rand thousand	Opening balance	Additions	Disposals	Transfers in	Transfers out
Land	76 453	–	–	–	–
Buildings	266 846	–	(423)	–	–
Assets under development	355 832	15 083	(1 114)	–	(226 177)
Plant and machinery	2 105 185	2 379	(30 759)	–	–
Furniture and fixtures	101 928	192	(14)	–	–
Motor vehicles	35 925	1 714	(2)	–	–
Office equipment	8 333	598	–	–	–
IT equipment	28 033	4 004	(4)	–	–
Production assets	3 113 499	215 350	–	–	(21 480)
Restoration costs	116 220	–	–	–	–
Mine infrastructure	60 726	1 150	–	226 177	–
Right of use – Buildings	162 904	30 106	–	–	–
Right of use – IT & Office equipment	479	806	–	–	–
	<b>6 432 363</b>	<b>271 382</b>	<b>(32 316)</b>	<b>226 177</b>	<b>(247 657)</b>

#### Reconciliation of property, plant and equipment – 2021

Figures in Rand thousand	Opening balance	Additions	Disposals	Transfers in	Transfers out
Land	76 453	–	–	–	–
Buildings	282 659	1 966	–	–	(430)
Assets under development	269 339	90 341	(1 586)	(100)	–
Plant and machinery	1 888 289	–	–	–	–
Furniture and fixtures	114 248	10 679	–	–	(60)
Motor vehicles	41 994	3 149	–	–	–
Office equipment	1 181	8 133	(4)	–	–
IT equipment	25 406	9 641	–	–	–
Production assets	3 573 949	85 052	(7)	316 560	–
Restoration costs	148 767	–	–	–	–
Mine Infrastructure	69 058	2 420	–	–	–
Right of use – Buildings	162 934	11 021	–	–	–
Right of use – IT equipment	1 156	–	–	–	–
	<b>6 655 433</b>	<b>222 402</b>	<b>(1 597)</b>	<b>316 460</b>	<b>(490)</b>

## NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022 (continued)

	Classified as held for sale	Foreign exchange movements	Change in estimates	Write-offs	Depreciation	Impairment	Total
	(820)	-	-	-	-	-	75 633
	(158 751)	-	-	-	(14 485)	-	93 187
		-	-	-	-	(5 232)	138 392
	-	-	133 138	-	(78 590)	-	2 131 353
	-	-	-	-	(23 144)	-	78 962
	-	-	-	(311)	(7 793)	-	29 533
	-	-	-	-	(3 393)	-	5 538
	-	-	-	-	(9 331)	-	22 702
	-	(59 427)	-	-	(416 950)	25 329	2 856 321
	-	(2 694)	(382 198)	-	1 428	275 121	7 877
	-	-	7 149	-	(56 852)	-	238 350
	-	-	-	-	(16 168)	-	176 842
	-	-	-	-	(541)	-	744
	<b>(159 571)</b>	<b>(62 121)</b>	<b>(241 911)</b>	<b>(311)</b>	<b>(625 819)</b>	<b>295 218</b>	<b>5 855 434</b>

	Foreign exchange movements	Changes in estimates	Write-offs	Depreciation	Impairment	Total
	-	-	-	-	-	76 453
	-	-	-	(16 266)	(1 083)	266 846
	-	-	-	-	(2 162)	355 832
	-	79 650	-	(63 997)	201 243	2 105 185
	-	-	(13)	(22 926)	-	101 928
	-	-	(715)	(8 503)	-	35 925
	-	-	-	(977)	-	8 333
	-	-	(3)	(7 003)	(8)	28 033
	(658 527)	-	(3)	(540 986)	337 461	3 113 499
	(24 861)	(662 947)	-	(10 475)	665 736	116 220
	-	1 694	-	(12 446)	-	60 726
	-	-	-	(11 051)	-	162 904
	-	-	-	(675)	-	481
	<b>(683 388)</b>	<b>(581 603)</b>	<b>(734)</b>	<b>(695 305)</b>	<b>1 201 187</b>	<b>6 432 365</b>

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 3. Property, plant and equipment (continued)

#### Changes in estimates

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

#### Tangible assets

The useful life of certain fixed assets have been re-estimated during the current financial year. The effect of this revision has increased the depreciation charges for the current and future periods by R5.18 million (2020: R1.230 million).

#### Intangible assets

The useful life of certain fixed assets have been re-estimated during the current financial year. The effect of this revision has increased the depreciation charges for the current and future periods by R2.5 million (2021: R5.18 million).

#### Other information

#### 2022

##### Transfers in and out

##### Production Assets

Transfers out from assets under development for AEMFC to Mine infrastructure for an amount of R226.2 million.

##### Transfers out

Transfers amounting to R21.4 million from PetroSA.

#### SFF unpumpable crude oil

1 275 663 barrels of crude oil at the Saldanha terminal are defined as unpumpable crude oil and has been classified as property, plant and equipment (classified as Plant & Machinery). These volumes are required to be maintained in order for the operation of the oil storage facilities and are being depreciated over the useful life of the tanks it is stored in.

#### AEMFC environmental rehabilitation

A regulatory assessment of the Financial Mine Closure Quantum as contemplated in terms of the Mineral and Petroleum Resources Development Act (Act 28 of 2002) conducted during the current year realised a financial provision of R55 million (2021: R44.4 million).

#### Compensation for impairment

Compensation received from insurer for damaged assets and assets stolen are included in other operating income and amounts to R0.727 million (2021: R0.593 million).

#### Material projects included in assets under development

Included in assets under development is T Project, Vlakfontein Extension North Blocks and Kilppoortjie Mine Development which is in the development phase and standing at a cumulative cost of R112 million, RNil and R21.9 million (2021: R109 million, R179 million and R21.9 million) respectively.

#### Restoration expenditure

Restoration expenditure relates to the decommissioning provision (note 23) and is amortised on a units of production basis. The units of production method is also used in calculating depreciation on producing assets. Due to the nature of the business, the gas and oil reserves at the end of each financial year differ from the previous year. This necessitates a change in the estimated remaining useful lives of these assets at the end of each financial year. The effect on the current year will be zero as there are no remaining reserves.

The Group's impairment reversal for the year was R275.2 million (2021: R172.7 million impairment reversal).

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 3. Property, plant and equipment (continued)

#### Impairment assessment – Oil and gas assets in South Africa

Oil and gas reserves are used in assessing oil and gas producing properties for impairment. A significant reduction in the oil and gas price and a downgrade of proved and probable reserves triggered an impairment review. When such indicators are identified, management must exercise further judgement in making an estimate of the recoverable amount (value in use) of the asset against which to compare the carrying value. The outcome of the review resulted in an impairment of R9.8 million (2021: R3.8 million). The decommissioning provision (refer to note 23) increased (2021: decreased) significantly, mostly due to an increase in the base cost of the provision offset by a reduction in costs due to the strengthening rand against the US\$. This resulted in a change in estimate, and had a positive impact and increased the impairment charge by R295 million (2021: R716 million impairment reversal).

This was determined by comparing the CGU's carrying value at year-end against the expected present value of the free cash flows (net present value) from this CGU, based on a fixed life of field approved by the Board of Directors. These cash flows are management's best estimate taking into account past experience and future economic assumptions, such as forward curves for crude oil, product prices and exchange rates and discounted using the WACC of 14% (2021: 14%). The impairment loss was recorded as part of operating expenses.

#### Impairment assessment- West Cape Three Points and Deepwater Tano blocks in Ghana

In light of the current commodity prices, the West Cape Three Points block and Deepwater Tano block held by PetroSA Ghana Limited were assessed for impairment. This assessment resulted in an impairment of R29.9 million (2021: R340.8 million) based on a recoverable amount of R2.7 billion (2021: R2.7 billion).

The valuation assumptions are listed under key assumptions made by management in the accounting policies.

#### Right of use assets and leased assets:

Included in Plant and Machinery are finance lease assets related to PetroSA Ghana Limited (R850.3 million) and AEMFC. In the current year the Group has recognised additions to ROU assets which have been treated as a non-cash additions to PPE. Refer to note 22 for lease liabilities on leased assets.

#### 2021

##### Transfers in

##### Production Assets

Transfers in of Production assets of R33.1 million for the Exploration and evaluation assets relates to PetroSA (R32.6 million) and SFF (R0.498 million).

##### Transfers out

Transfers amounting to R0,590 million from SFF.

#### SFF unpumpable crude oil

1 275 663 barrels of crude oil at the Saldanha terminal are defined as unpumpable crude oil and has been classified as property, plant and equipment (classified as Plant & Machinery). These volumes are required to be maintained in order for the operation of the oil storage facilities and are being depreciated over the useful life of the tanks it is stored in.

#### Impairment reversal

During the 2019/20 financial year, an impairment loss of R212m was recognised in relation to the unpumpable stock (included as part of plant and machinery). This was largely attributable to the fact that the oil price had declined to \$20.51 at 31 March 2020. At 31 March 2021, the oil price had recovered to \$59.19 which resulted in a reversal of impairment amounting to R201m. The recoverable amount of the unpumpable stock at 31 March 2021, is R1.117 billion being the fair value less costs of disposal.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 3. Property, plant and equipment (continued)

#### **AEMFC environmental rehabilitation**

A regulatory assessment of the Financial Mine Closure Quantum as contemplated in terms of the Mineral and Petroleum Resources Development Act (Act 28 of 2002) conducted during the current year realised a financial provision of R 44.4 million (2020: R44.7 million).

#### **Compensation for impairment**

Compensation received from insurer for damaged assets and assets stolen are included in other operating income and amounts to R0.593 million (2020: R0.795 million).

#### **Leased assets**

Included in Production assets are finance leased assets (note 21) entered into by PetroSA Ghana Limited, which was initially recognised at R850.3 million. The acquisition was treated as a non-cash addition to property, plant and equipment.

Buildings include the right-of-use assets of R1.3 million capitalised by PetroSA, these have been depreciated and fully impaired.

#### **Material projects included in assets under development**

Included in assets under development is T Project and Vlaktefontein Extension North Blocks which is in the development phase and standing at a cumulative cost of R109 million and R179 million (2020: R109 million and R97 million) respectively.

#### **Restoration expenditure**

Restoration expenditure relates to the decommissioning provision (note 23) and is amortised on a units of production basis. The units of production method is also used in calculating depreciation on producing assets. Due to the nature of the business, the gas and oil reserves at the end of each financial year differ from the previous year. This necessitates a change in the estimated remaining useful lives of these assets at the end of each financial year. The effect on the current year will be zero as there are no remaining reserves.

The Group's impairment reversal for the year was R172.7 million (2020: R5.071 billion impairment loss).

#### **Impairment assessment - Oil and gas assets in South Africa**

Oil and gas reserves are used in assessing oil and gas producing properties for impairment. A significant reduction in the oil and gas price and a downgrade of proved and probable reserves triggered an impairment review. When such indicators are identified, management must exercise further judgement in making an estimate of the recoverable amount (value in use) of the asset against which to compare the carrying value. The outcome of the review resulted in an impairment of R3.8 million (2020: R10.1 million). The decommissioning provision (refer to note ) decreased significantly, mostly due to an increase in the base cost of the provision offset by a reduction in costs due to the strengthening rand against the US\$. This resulted in a change in estimate, and had a positive impact and decreased the impairment charge by R716 million (2020: R2.2 billion impairment).

This was determined by comparing the CGU's carrying value at year-end against the expected present value of the free cash flows (net present value) from this CGU, based on a fixed life of field approved by the Board of Directors. These cash flows are management's best estimate taking into account past experience and future economic assumptions, such as forward curves for crude oil, product prices and exchange rates and discounted using the WACC of 14% (2020: 14%). The impairment loss was recorded as part of operating expenses.

#### **Impairment assessment- West Cape Three Points and Deepwater Tano blocks in Ghana**

In light of the current commodity prices, the West Cape Three Points block and Deepwater Tano block held by PetroSA Ghana Limited were assessed for impairment. This assessment resulted in an impairment of R340.8 million based on a recoverable amount of R2.7 billion (2020: based on a recoverable amount of R3.3 billion).

The valuation assumptions are listed under key assumptions made by management in the accounting policies.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 3. Property, plant and equipment (continued)

#### Right of use assets and leased assets:

Included in Plant and Machinery are finance lease assets related to PetroSA Ghana Limited and AEMFC. In the current year the Group has recognised additions to ROU assets which have been treated as a non-cash additions to PPE. Refer to note 22 for lease liabilities on leased assets and note right of use assets.

#### Prior period correction

#### PetroSA

Management's assessment of the prior year impairment charge relating to the PetroSA Ghana Limited assets, revealed that a portion of the impairment charge should have been allocated to intangible assets. In order to correct the understatement of property, plant and equipment and overstatement of Intangible assets, a reallocation adjustment of R247 million was processed. The adjustment had no impact on profit or loss.

Transfers in of Production assets of R247.5 million for the Exploration and evaluation assets relates to PetroSA.

#### AEMFC

#### Tangible assets (PPE)

In prior years the residual values and useful lives of assets were not assessed on an annual basis. This led to the understating of the carrying amount of assets and the depreciation expense. The PPE increased by R2.7 million and the Accumulated depreciation increased by R2.7 million.

#### Mine Infrastructure

A prior years retention release was not capitalised on to the asset resulting in the understatement of mine infrastructure asset, VAT receivable and trade and other payables. Mine infrastructure assets increased by R1.13 million and Trade and other payables increased by R1.3 million.

### 4. Intangible assets

Figures in Rand thousand	2022			2021		
	Cost/Valuation	Accumulated amortisation	Carrying value	Cost/Valuation	Accumulated amortisation	Carrying value
Patents, trademarks and other rights	57 424	(54 629)	2 795	57 424	(54 351)	3 073
Computer software	99 959	(85 252)	14 707	103 522	(85 083)	18 439
Exploration and evaluation assets	1 419 809	(161 001)	1 258 808	1 394 722	(160 217)	1 234 505
Restoration costs	–	–	–	18 402	–	18 402
<b>Total</b>	<b>1 577 192</b>	<b>(300 882)</b>	<b>1 276 310</b>	<b>1 574 070</b>	<b>(299 651)</b>	<b>1 274 419</b>

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 4. Intangible assets (continued)

#### Reconciliation of intangible assets – 2022

Figures in Rand thousand	Opening balance	Additions	Disposals	
Patents, trademarks and other rights	3 073	–	–	
Computer software	18 439	2 311	(33)	
Exploration and evaluation assets	1 234 505	28 787	(1)	
Restoration costs	18 402	–	–	
	<b>1 274 419</b>	<b>31 098</b>	<b>(34)</b>	

#### Reconciliation of intangible assets – 2021

Figures in Rand thousand	Opening balance	Additions	Disposals	
Patents, trademarks and other rights	3 350	–	–	
Computer software	19 693	4 903	–	
Exploration and evaluation assets	1 581 209	49 457	(11)	
Restoration costs	19 914	–	–	
	<b>1 624 166</b>	<b>54 360</b>	<b>(11)</b>	

#### Other information

##### 2022

##### Changes in estimates

The group reassesses the useful lives and residual values of intangible assets at the end of each reporting period, in line with the accounting policy and IAS 38 Intangible assets. The assessments are based on historic analysis, benchmarking, and the latest available and reliable information

Transfers out of exploration and evaluation is R4 000 for PetroSA.

##### 2021

##### Other Information

##### Transfers out

##### Exploration and evaluation

Transfers out of Exploration and evaluation assets of R32.6 million for the Exploration and evaluation assets relates to PetroSA.

##### Prior period corrections

##### PetroSA

Management's review of accumulated impairment showed that it was incorrectly included as part of the cost of Exploration and Evaluation assets. To correct the understatement of cost and accumulated impairment in the prior year, R121 million was reallocated from cost to accumulated impairment. In addition to this, management recognised an additional impairment charge of R68.9 million in relation to Exploration and Evaluation assets as a result of an adjustment to the prior year WACC rate. The carrying value of Exploration and Evaluation assets as year- end remains unchanged.

Transfers in of Production assets of R247.5 million for the Exploration and evaluation assets relates to PetroSA.

## NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022 (continued)

	Transfers	Foreign exchange movements	Changes in estimates	Amortisation	Impairment loss	Total
	–	–	–	(278)	–	2 795
	–	–	–	(6 010)	–	14 707
	(4)	(3 009)	–	–	(1 470)	1 258 808
	–	(385)	(18 017)	–	–	–
	<b>(4)</b>	<b>(3 394)</b>	<b>(18 017)</b>	<b>(6 288)</b>	<b>(1 470)</b>	<b>1 276 310</b>

	Transfers	Foreign exchange movements	Other changes, movements	Amortisation	Impairment loss	Total
	–	–	–	(277)	–	3 073
	–	–	–	(6 157)	–	18 439
	(280 062)	(37 544)	(68 898)	–	(9 646)	1 234 505
	–	(3 527)	2 015	–	–	18 402
	<b>(280 062)</b>	<b>(41 071)</b>	<b>(66 883)</b>	<b>(6 434)</b>	<b>(9 646)</b>	<b>1 274 419</b>

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 5. Interests in subsidiaries

The following table lists the entities that are controlled directly/indirectly by the Group companies. The country of incorporation for all subsidiaries is the Republic of South Africa, except for PetroSA Europe BV, which was incorporated in the Netherlands and PetroSA Ghana Ltd, which was incorporated in British Virgin Islands.

Name of company	Held by	% holding 2022	% holding 2021
AEMFC SOC Ltd	CEF SOC Ltd	100,00	100,00
CCE Solutions SOC Ltd	CEF SOC Ltd	89,20	89,20
CEF Carbon SOC Ltd	CEF SOC Ltd	100,00	100,00
CEF Trading	CEF SOC Ltd	100,00	-
Cotec Development SOC Ltd	CEF SOC Ltd	100,00	100,00
Cotec Patrade SOC Ltd	CEF SOC Ltd	100,00	100,00
ETA Energy SOC Ltd	CEF SOC Ltd	100,00	100,00
Klippoortjie Koolmyne SOC Ltd	CEF SOC Ltd	100,00	100,00
Mahne's Areas SOC Ltd	CEF SOC Ltd	100,00	100,00
Oil Pollution Control SA (OPCSA) NPC	CEF SOC Ltd	100,00	100,00
PetroSA Brass SOC Ltd	PetroSA SOC Ltd	100,00	100,00
PetroSA Egypt SOC Ltd	PetroSA SOC Ltd	100,00	100,00
PetroSA Equatorial Guinea SOC Ltd	PetroSA SOC Ltd	100,00	100,00
PetroSA Europe BV	PetroSA SOC Ltd	100,00	100,00
PetroSA Ghana Ltd	PetroSA SOC Ltd	100,00	100,00
PetroSA Gryphon Marin Permit SOC Ltd	PetroSA SOC Ltd	100,00	100,00
PetroSA Iris SOC Ltd	PetroSA SOC Ltd	100,00	100,00
PetroSA Namibia SOC Ltd	PetroSA SOC Ltd	100,00	100,00
PetroSA SOC Ltd	CEF SOC Ltd	100,00	100,00
PetroSA Sudan SOC Ltd	PetroSA SOC Ltd	100,00	100,00
PetroSA Synfuels International SOC Ltd	PetroSA SOC Ltd	100,00	100,00
PetroSA Themis SOC Ltd	PetroSA SOC Ltd	100,00	100,00
SASDA NPC	CEF SOC Ltd	100,00	100,00
South African Agency for Promotion of Petroleum Exploration and	CEF SOC Ltd	100,00	100,00
South African Gas Development Company (iGas) SOC Ltd	CEF SOC Ltd	100,00	100,00
South African National Energy Research Institution SOC Limited	CEF SOC Ltd	100,00	100,00
Strategic Fuel Fund Association (SFF) NPC	CEF SOC Ltd	100,00	100,00

The voting rights are the same as the percentage holdings.

#### Subsidiaries pledged as security

PetroSA SOC Ltd has provided its shares in PetroSA Ghana Ltd as security to the lenders for the reserve-based lending facility. Refer to note 20.

#### Reporting period

The end of the reporting period of PetroSA Ghana Ltd is 31 December..

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 6. Joint arrangements

#### Joint operations

The following joint operations are material to the Group companies.

The joint operations are for gas exploration by PetroSA SOC Ltd. The country of incorporation is the same as the principle place of business for all joint operations. The Group's proportionate share in the assets and liabilities of unincorporated JVs, which are included in the financial statements are as follows:

Joint operation	Country of incorporation	% Ownership interest	
		2022	2021
Block 2A	Sunbird	24	24
Block 5/6/7	Anadarko	20	20

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

#### Joint ventures

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

Name of company	Held by	% ownership interest	% ownership interest
		2022	2021
GTL.F1 AG	PetroSA SOC Ltd	–	–
PAMDC (Pty) Ltd	AEMFC SOC Ltd	33	33

#### Pan African Mineral Development Company (Pty) Ltd

The governments of South Africa, Zimbabwe and Zambia created a structured entity, PAMDC (Pty) Ltd, to collaborate and develop mineral resources in the region as enshrined in the Southern African Development Community Mining Protocol, the plan of action for the Global Mining Initiative of the New Partnership for the Africa's Development and African Mining Partnership. PAMDC (Pty) Ltd is co-owned by the parties in equal proportions. The South African Government, through AEMFC SOC Ltd, is a co-share owner in PAMDC (Pty) Ltd.

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

#### GTL.F1 AG

GTL.F1 AG is the process licensor of Low Temperature Fischer Tropsch (LTFT) technology and its principal place of business is Germany. On 28 July 2020, the PetroSA Board approved the dissolution of GTL.F1 AG. The investment of R29.6 million, which was previously impaired, has been written off.

On 28 July 2020, the PetroSA Board approved the dissolution of GTL.F1 AG.

The aggregated individually immaterial joint ventures accounted for using the equity method currently have a balance of zero.

#### Reporting period

The end of the reporting period of GTL.F1 AG Ltd is 31 December. The reporting period is different from the Group reporting period as the investment is not controlled by the Group.

#### Unrecognised losses

##### PAMDC (Pty) Ltd

The Group has discontinued recognising its share of the losses of PAMDC (Pty) Ltd, as the investment at a Group level is held at Rnil (2021: Rnil) and the Group has no obligation for any losses of the JV. The total unrecognised losses for the current period amount to R1.7 million (2021: R2.3 million). The accumulated unrecognised losses amounted to R14.8 million (2021: R12.4 million).

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 6. Joint arrangements (continued)

#### GTL.F1 AG

The Group has discontinued recognising its share of the losses of GTL.F1 AG, as the investment at a Group level is held at Rnil (2021: Rnil) and the Group has no obligation for any losses of the joint venture. The total unrecognised losses for the current period amount to RNil million (2021: R43.5 million) as the investment is written off. The accumulated unrecognised losses to date amount to RNIL million (2021: R220.5 million).

### 7. Investment in associate

The following table lists all of the associates in the group:

Name of company	Held by	% ownership interest 2022	% ownership interest 2021	Carrying amount 2022	Carrying amount 2021
African Royalty Minerals (Pty) Ltd	AEMFC SOC Ltd	40,00	40,00	151 034	134 475
Mzimkhulu Mining (Pty) Ltd	AEMFC SOC Ltd	–	26,00	–	124 970
Republic of Mozambique Pipeline Company (Pty) Ltd	CEF SOC Ltd	25,00	25,00	1 065 909	938 084
ACWA Power Solarreserve Redstone Solar Thermal Power Plant (RF) Pty Ltd	CEF Carbon SOC Ltd	25,00	–	–	–
Energy Joburg (Pty) Ltd	SOC Ltd	29,00	29,00	2 744	2 816
				<b>1 219 687</b>	<b>1 200 345</b>

#### African Royalty Minerals (Pty) Ltd

AEMFC SOC Ltd holds a 40% shareholding in African Royalty Minerals (Pty) Ltd, which operates Chilwavirusiku Colliery, a coal mine operating in Mpumalanga. The associate's principal business is conducted in the Republic of South Africa. The financial year end for the entity is 28 February.

#### Mzimkhulu Mining (Pty) Ltd

AEMFC SOC Ltd held a 26% shareholding in Mzimkhulu Mining (Pty) Ltd, which is a coal-mining company that extracts and delivers thermal coal. Mzimkhulu Mining (Pty) Ltd is incorporated in South Africa. The financial year end of the entity is 28 February. AEMFC disposed of its interest in the company during the 2021/22 financial year for a profit of R107 million.

#### ACWA Power Solarreserve Redstone Solar Thermal Power Plant (RF) Pty Ltd

CEF Carbon SOC Ltd holds a 25% shareholding in ACWA Power Solarreserve Redstone Solar Thermal Power Plant (RF) Pty Ltd, which is (currently in construction) The company is incorporated in South Africa. The financial year end of the entity is 31 December.

#### Energy Joburg (Pty) Ltd

CEF SOC Ltd holds a 29% shareholding in Energy Joburg (Pty) Ltd, which is a company that converts landfill gas to power. Energy Joburg (Pty) Ltd is incorporated in South Africa. The financial year end of the entity is 31 March.

The percentage ownership interest is equal to the percentage voting rights in all cases. The country of incorporation is the same as the principle place of business.

Impairment testing was performed in respect of investments in associates at the end of each reporting date, and there were no indications of impairment.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 7. Investment in associate (continued)

#### Material associates

The following associates are material to the Group:

	Country of incorporation	Method	% Ownership interest	
			2022	2021
Republic of Mozambique Pipeline Company (Pty) Ltd	South Africa	Equity	25%	25%

#### Rompco (Pty) Ltd

Shares beneficially owned in the company, which is involved in the supply of gas from Mozambique to South Africa. The percentage voting rights is equal to the percentage ownership.

The summarised information presented below reflects the financial information of the associates (as at 31 March 2022). The year end of ROMPCO is 30 June.

#### Summarised financial information of material associates

Figures in Rand thousand	ROMPCO (Pty) Ltd	
	2022	2021
<b>Summarised Statement of Profit or Loss and Other Comprehensive Income</b>		
Revenue	2 442 861	2 509 780
Other income and expenses	(589 714)	(799 729)
Profit before tax	1 853 147	1 710 051
Tax expense	(344 021)	(419 466)
Profit (loss) from continuing operations	1 509 126	1 290 585
<b>Total comprehensive income</b>	<b>1 509 126</b>	<b>1 290 585</b>
<b>Dividends received from associate</b>	<b>301 250</b>	<b>252 000</b>

Figures in Rand thousand	ROMPCO (Pty) Ltd	
	2022	2021
<b>Summarised Consolidated Statement of Financial Position</b>		
<b>Assets</b>		
Non-current	3 928 595	4 396 689
Current	1 283 264	1 168 669
<b>Total assets</b>	<b>5 211 859</b>	<b>5 565 358</b>
<b>Liabilities</b>		
Non-current	711 791	1 064 208
Current*	236 433	748 816
<b>Total liabilities</b>	<b>948 224</b>	<b>1 813 024</b>
Total net assets	4 263 635	3 752 334

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 7. Investment in associate (continued)

Figures in Rand thousand	ROMPCO (Pty) Ltd	
	2022	2021
<b>Reconciliation of net assets to equity accounted investments in associates</b>		
Interest in associates at percentage ownership	1 065 909	938 084
Carrying value of investment in associate	1 065 909	938 084
Investment at beginning of period	938 084	825 742
Share of profit	429 075	364 342
Dividends received from associate	(301 250)	(252 000)
Investment at end of period	1 065 909	938 084

\* Includes cash and cash equivalents of R720 million (2021: R869 million).

#### Aggregated individually immaterial associates accounted for using the equity method

Figures in Rand thousand	2022	2021
Carrying value of investments	149 844	259 903
Share of profit (loss) from continuing operations	18 681	23 227
Share of other comprehensive income	(114 122)	–
Share of total comprehensive income	(95 145)	23 227

#### Associates with different reporting dates

The end of the reporting year of CEF Group is 31 March. It was impracticable to obtain financial statements of the following associates as at 31 March 2022 because the CEF Group does not control the associates.

#### African Royalty Minerals (Pty) Ltd

The financial year end for the entity is 28 February.

#### Mzimkhulu Mining (Pty) Ltd

The financial year end of the entity is 28 February.

#### Rompco (Pty) Ltd

The year end of ROMPCO is 30 June.

#### ACWA Power Solarreserve Redstone Solar Thermal Power Plant (RF) Pty Ltd

The year end of ACWA is 31 December.

#### Unrecognised share of losses of associates

The group has discontinued recognising its share of the Other Comprehensive Income losses of ACWA Power Solarreserve Redstone Solar Thermal Power Plant (RF) Pty Ltd, as the investment is held at R nil and the group has no obligation for any losses of the associate. The total unrecognised losses for the current period amount to R 17 million. The accumulated unrecognised losses to date amount to R 17 million.

#### Associates pledged as security

The investment in Rompco (Pty) Limited, with a carrying value of R1.065 billion (2021: R938.1 million), has been used to secure banking facilities granted to the company of R5.8 billion (2021: R5.8 billion) for the construction of Loopline 2 from Mozambique to South Africa.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 8. Loans to group companies

#### Joint ventures

Figures in Rand thousand	2022	2021
GTL.F1 AG	–	–

The loan has been fully impaired.

On 28 July 2020, the PetroSA Board approved the dissolution of GTL.F1 AG. As part of the dissolution, all loans relating to GTL.F1 AG and Lurgi were written off.

Figures in Rand thousand	2022	2021
<b>Associates</b>		
Mzimkhulu Mining (Pty) Ltd	–	153
ACWA Power Solarreserve Redstone Solar Thermal Power Plant (RF) Pty Ltd	344 191	–
Energy Joburg (Pty) Ltd	48 496	47 516
	<b>392 687</b>	<b>47 669</b>

#### Mzimkhulu Mining (Pty) Ltd

The loan is an advance towards working capital of the company. The loan is unsecured, accrues interest at the prevailing prime rate + 3% and has no fixed repayment terms. The loan has been fully settled during the prior reporting period.

#### ACWA Power Solarreserve Redstone Solar Thermal Power Plant (RF) Pty Ltd

The loan is unsecured, interest free until Commercial Operation Date (COD) which is expected to be in November 2023 and has no fixed repayment terms

#### Energy Joburg (RF) (Pty) Ltd

The loan attracts interest at prime. Interest shall be payable only when the principal amount is repaid. The loan is payable in full on the maturity date of 30 September 2026.

#### Split between non-current and current portions

Figures in Rand thousand	2022	2021
Non-current assets	392 687	47 516
Current assets	–	153
	<b>392 687</b>	<b>47 669</b>

#### Exposure to credit risk

Loans receivable inherently expose the Group to credit risk, being the risk that the Group will incur financial loss if counterparties fail to make payments as they fall due.

## NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 8. Loans to group companies (continued)

#### Credit loss allowances

The following tables set out the carrying amount, loss allowance and measurement basis of expected credit losses for group loans receivable by credit rating grade:

#### 2022

Instrument	Basis of loss allowance	Gross Carrying amount	Loss allowance	Amortised cost
<b>Loans to associates</b>				
ACWA Power Solarreserve				
Redstone Solar Thermal Power Plant (RF) Pty Ltd	12m ECL	344 191	–	344 191
Energy Joburg (RF) (Pty) Ltd	12m ECL	48 496	–	48 496
		<b>392 687</b>	<b>–</b>	<b>392 687</b>

#### 2021

Instrument	Basis of loss allowance	Gross Carrying amount	Loss allowance	Amortised cost
<b>Loans to associates</b>				
Mzimkhulu Mining (Pty) Ltd	12m ECL	153	–	153
Energy Joburg (RF) (Pty) Ltd	12m ECL	47 516	–	47 516
		<b>47 669</b>	<b>–</b>	<b>47 669</b>

#### Fair value of group loans receivable

The fair value of group loans receivable approximates their carrying amounts.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 9. Other financial assets

Other financial assets are presented at amortised cost, which is net of loss allowance, as follows:

Figures in Rand thousand	2022	2021
<b>Ghana National Petroleum Corporation (GNPC)</b>	89 832	93 818
The loan for TEN Development capital expenditure bears interest at LIBOR, plus a margin percentage of 1.5% per annum, and the loan for TEN Development gas export pipeline expenditure bears interest at 15% per annum. There is currently no signed agreement in place between the GNPC and the JV partners on repayment terms, but repayment proposals are currently being considered and evaluated by the JV partners.		
<b>Darling Wind Power (Pty) Ltd</b>	–	–
Darling Wind Power Loan of R0.5 million has been impaired. The loan is interest free.		
<b>Insurance guarantee - AEMFC</b>	102 075	86 583
An insurance rehabilitation guarantee is in place whereby the insurer guarantees to pay Department of Mineral Resources R61.5 million and R42.9 million for environmental rehabilitation of Vlakfontein Mine and T Project respectively. A portion of the premium is invested and earn interest to meet environmental obligations at the end of life of mine. The cash is restricted for use.		
	<b>191 907</b>	<b>180 401</b>
<b>Split between non-current and current portions</b>		
Non-current assets	191 907	180 401

#### Exposure to credit risk

Loans receivable inherently exposes the company to credit risk, being the risk that the company will incur financial loss if counterparties fail to make payments as they fall due.

#### Credit loss allowances

The following tables set out the carrying amount, loss allowance and measurement basis of expected credit losses for loans receivable by credit rating grade:

#### 2022

Instrument	Basis of loss allowance	Gross Carrying amount	Loss allowance	Amortised cost
Ghana National Petroleum Corporation (GNPC)	12m ECL	89 832	–	89 832
Darling Wind Power (Pty) Ltd	Lifetime EC	502	(502)	–
Insurance Guarantee - AEMFC	12m ECL	102 075	–	102 075
		<b>192 409</b>	<b>(502)</b>	<b>191 907</b>

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 9. Other financial assets (continued)

2021

Instrument	Basis of loss allowance	Gross Carrying amount	Loss allowance	Amortised cost
Ghana National Petroleum Corporation (GNPC)	12m ECL	93 818	–	93 818
Darling Wind Power (Pty) Ltd	Lifetime EC	502	(502)	–
Insurance Guarantee - AEMFC	12m ECL	86 583	–	86 583
		<b>180 903</b>	<b>(502)</b>	<b>180 401</b>

#### Fair value of other financial assets

The fair value of group loans receivable approximates their carrying amounts.

### 10. Contract assets

Figures in Rand thousand	2022	2021
Contract assets	8 204	20 768
Loss allowance	(8 204)	(20 768)
	–	–

Contract assets are recognised to the extent that performance obligations have been performed by the company and that revenue has been recognised in accordance with IFRS 15 Revenue, but for which the company's right to consideration is not yet unconditional. When the right to consideration becomes unconditional, the contract asset is transferred to trade receivables.

Prior period adjustment: The opening balance of Contract assets have been adjusted from the R20.768m reported in the previous year by R13.845m

### 11. Investments at fair value

Investments held by the company which are measured at fair value, excluding derivatives and debt instruments measured at fair value through other comprehensive income are as follows:

Figures in Rand thousand	2022	2021
<b>Mandatorily at fair value through profit or loss:</b>	156	129
<b>Listed shares</b>		
2 164 Sanlam Limited shares valued at R72.20 (2021: R59.53)		
Unlisted share	715	715
19% shareholding in Methcap		
The investment was R1.475 million and has been impaired by R0.76 million. The impairment has been determined by comparing the carrying amount to the NAV of Methcap.		
	<b>871</b>	<b>844</b>

#### Fair value information

Refer to note 42 Fair value information for details of valuation policies and processes.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022 (continued)

## 12. Deferred tax

Figures in Rand thousand	2022	2021
<b>Deferred tax liability</b>		
Property plant and equipment	(991 821)	(1 113 773)
Prepayments	(146)	(330)
Right of use of asset	8 319	9 007
Underlift	(12 541)	–
Tax rate change	1 866	–
<b>Total deferred tax liability</b>	<b>(994 323)</b>	<b>(1 105 096)</b>
<b>Deferred tax asset</b>		
Provisions	90 699	109 035
Lease Liabilities	276 482	323 981
Deferred tax balance from temporary differences other than unused tax losses	367 181	433 016
Tax losses avail for set off against future tax income	8 833	138 656
	376 014	571 672
<b>Total deferred tax asset</b>	<b>376 014</b>	<b>571 672</b>
Deferred tax liability	(994 323)	(1 105 096)
Deferred tax asset	376 014	571 672
<b>Total net deferred tax asset/liability</b>	<b>(618 309)</b>	<b>(533 424)</b>
<b>Reconciliation of deferred tax asset/(liability)</b>		
At beginning of year	(533 424)	(819 253)
Increases (decrease) in tax loss available for set off against future taxable income - gross of valuation allowance	(124 004)	(105 514)
Taxable / (deductible) temporary difference on provisions and accruals	272	9 313
Taxable / (deductible) temporary difference movement on tangible fixed assets	119 449	476 314
Taxable / (deductible) temporary difference RoU	(688)	(385)
Taxable / (deductible) temporary difference on prepayments	184	(199)
Taxable / (deductible) temporary difference on lease liability	(42 655)	(95 216)
Taxable / (deductible) temporary difference on underlift	(34 840)	1 516
Changes in tax rate	(1 866)	–
Prior year over/under provision	(737)	–
	<b>(618 309)</b>	<b>(533 424)</b>

### Recognition of deferred tax asset

PetroSA is an oil and gas company as defined in the Tenth Schedule to the Income Tax Act. As an oil and gas company, PetroSA qualifies for additional tax deductions in respect of its capital expenditure on exploration and production activities. This assessed loss position is directly attributable to PetroSA's oil and gas activities.

As it is unlikely that the assessed loss for PetroSA will be utilised in the foreseeable future, no deferred tax asset has been recognised. The current unrecognised deferred tax asset is R10.3 billion (2021: R10.2 billion). The unused estimated/assessed tax loss at year-end is R26.5 billion (2021: R25 billion).

ETA has accumulated an assessed loss/ estimated assessed loss of R19.07 million (2021: R19.0 million). The deferred tax asset has not been recognised as management is of the opinion that the company will not generate sufficient taxable income that will be utilised against deductible differences.

## NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 12. Deferred tax (continued)

On 23 February 2022, the Minister of Finance made an announcement during his annual budget speech, reducing the company tax rate from 28% to 27% for years ending on or after 31 March 2023. As the new tax rate was substantially enacted, deferred tax was calculated using 27%.

Figures in Rand thousand	2022	2021
<b>Unrecognised deferred tax asset</b>		
Deductible temporary differences not recognised as deferred tax assets	10 300 000	10 200 000

#### Use and sales rate

The deferred tax rate applied to the fair value adjustments of investment properties/ financial assets is determined by the expected manner of recovery. Where the expected recovery of the investment property/financial assets is through sale the capital gains tax rate of 22% (2021: 22%) is used. If the expected manner of recovery is through indefinite use the normal tax rate of 27% (2021: 28%) is applied. The Minister of Finance announced (in the budget speech, during February 2022) that the company tax rate will be 27% for period beginning on or after 31 March 2023.

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

### 13. Prepayments

Prepayments relates mainly to the annual subscriptions, licence fees, membership fees, advances and insurance of the group's onshore and offshore assets, The premium is paid in advance for the following 12 months.

Figures in Rand thousand	2022	2021
Prepayments	77 902	178 954
Non-current assets	311	414
Current assets	77 591	178 540
	<b>77 902</b>	<b>178 954</b>

### 14. Strategic Stock

These inventories are being held in accordance with Ministerial Directives as prescribed by the Former Minister of Energy. The carrying amount of these inventories is expected to be realised past 12 months after the reporting date, thus it is included in non-current assets.

Strategic crude oil is measured at the lower of cost and net realisable value.

For financial years 2021 and earlier, the carrying amount of these inventories were expected to be realised past 12 months after the reporting date, thus it is included in non-current assets.

On the 31 March 2022, the Ministers of Finance and Mineral Resources and Energy issued a statement indicating that the revenue foregone due to the reduction of the levies on petrol and diesel granted to South African consumers would be recouped through the sale of strategic crude oil reserves held by the Strategic Fuel Fund and that the sale would be required to raise about R6 billion. As a result, crude oil reserves held in Saldanha are recognised as current assets.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 14. Strategic Stock (continued)

#### Desiel

An amount of R1.074 billion was spent to purchase the 155 million litres of diesel white product (D500) that was injected into the New National Multi-Products Pipeline by the company during the 2011/2012 financial year. Based on market conditions, the resultant effect of this conversion is a change in volume (volume held as at 31 March 2021 is 153 410 000 litres).

The Net Realisable Value (NRV) was R2.094 billion (31 March 2021: R1.001 billion) and thus this inventory is carried at the lower of Cost (R1.074 billion) than NRV (R1.799 billion).

#### Crude Oil

Whilst there are approximately 10 million barrels of crude oil in Saldanha, 8,715,716 are accounted for as inventory in the context of International Accounting Standards 2 (IAS 2) and a balance of 1 275 663 barrels of crude oil at the Saldanha terminal is defined as unpumpable crude oil and has been classified as property, plant and equipment (refer to note 3). These volumes are required to be maintained for the operation of the oil storage facilities. Cost is determined on a weighted average basis which is R201.34 against a Net Realisable Value of R1456.18 at 31 March 2022 (2021: R875.75).

20 155 (2021: 21 030) barrels of crude oil at the Milnerton terminal are carried at weighted average cost price of R4,058,008 (2021: R4,234,180).

#### Prior period correction

There was a prior period correction of R6.7 million in relation to the linefill being accounted at D500 instead of D50 has been corrected which was processed directly to opening retained earnings. This has resulted in a reduction of the value of linefill from R1.001 billion as previously reported to R994 million.

Figures in Rand thousand	2022	2021
<b>Values of products held:</b>		
Crude oil	1 754 822	1 768 304
Diesel	1 073 804	1 000 860
	<b>2 828 626</b>	<b>2 769 164</b>
<b>Non-current</b>	1 073 804	1 000 860
Diesel	748 122	1 768 304
Crude Oil	<b>1 821 926</b>	<b>2 769 164</b>
<b>Current</b>		
Diesel (litres)	1 006 700	-
<b>Right to receive Oil</b>		
Right to receive Oil	436 853	262 710
Impairment of right to receive Oil	(436 853)	(262 710)
	-	-

This relates to the right for the return of 300 000 barrels of crude oil to the company. It is measured at the fair value of the crude oil, being the spot price of oil at each reporting date. The right to receive has also been impaired to zero at the end of each reporting date.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022 (continued)

## 15. Inventories

Figures in Rand thousand	2022	2021
Petroleum fuels	528 430	530 225
Crude oil	144 458	1 133
Consumable stores, spares and catalysts	191 926	219 481
Run of mine stock (ROM)	48 095	45 503
Crushed coal	9 834	5 800
	922 743	802 142
Inventories (write-downs)	(161 505)	(176 051)
	<b>761 238</b>	<b>626 091</b>

## 16. Trade and other receivables

### Financial instruments:

Trade receivables	2 010 108	2 160 112
Loss allowance	(252 042)	(347 605)
Trade receivables at amortised cost	1 758 066	1 812 507
Deposits	12 442	12 434
Underlift	35 832	-
Payroll receivable	3 398	5 087
Interest receivable	42 792	40 343
Sundry debtors	27 638	33 811

### Non-financial instruments:

VAT	20 519	41 677
Statutory receivables (tax and levies)	103 953	95 804

### Total trade and other receivables

**2 004 640**      **2 041 663**

### Split between non-current and current portions

Non-current assets	216 371	295 048
Current assets	1 788 269	1 746 615
	<b>2 004 640</b>	<b>2 041 663</b>

### Financial instrument and non-financial instrument components of trade and other receivables

At amortised cost	1 880 168	1 904 182
Non-financial instruments	124 472	137 481
	<b>2 004 640</b>	<b>2 041 663</b>

## NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 16. Trade and other receivables (continued)

#### Trade and other receivables pledged as security

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

#### Exposure to credit risk

Trade receivables inherently expose the Group to credit risk, being the risk that the Group will incur financial loss if customers fail to make payments as they fall due.

The credit exposure in respect of trade and sundry receivables is as follows:

Figures in Rand thousand	2022	2022	2021	2021
	Estimated gross carrying amount at default	Loss allowance (Lifetime expected credit loss)	Estimated gross carrying amount at default	Loss allowance (Lifetime expected credit loss)
<b>Expected credit loss rate:</b>				
Not past due	1 759 325	(19 255)	1 471 269	(56 522)
Less than 30 days past due	8 862	(592)	193 996	(852)
31 – 60 days past due	1 057	(128)	53 214	(639)
61 – 90 days past due	830	(75)	46 173	(11 945)
91 – 120 days past due	188 264	(183 661)	266 547	(157 262)
More than 120 days past due	51 770	(48 331)	128 913	(120 385)
<b>Total</b>	<b>2 010 108</b>	<b>(252 042)</b>	<b>2 160 112</b>	<b>(347 605)</b>

#### Exposure to currency risk

Refer to note 41 for details of currency risk management for trade receivables.

#### Fair value of trade and other receivables

The fair value of trade and other receivables approximates their carrying amounts.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 17. Cash and cash equivalents

Figures in Rand thousand	2022	2021
Cash and cash equivalents consist of:		
Cash on hand	53	84
Bank balances	198 492	181 335
Short-term deposits	13 891 216	13 507 770
Other cash and cash equivalents	1 917	1 859
	<b>14 091 678</b>	<b>13 691 048</b>
<b>Restricted cash not available for use by the Group</b>		
SFF cash relating to the sale of strategic stock	1 513 371	599 509
PetroSA cash held by CEF for guarantees	486 585	486 585
PetroSA rehabilitation ring-fenced funds	2 021 430	1 826 746
PASA Deposit held in a trust	2 542	2 543
AEMFC bank guarantee	1 917	1 858

Included in the short-term deposits are US\$ investments to the value of R1.513 billion (2021: R599.5 million), which relate to the proceeds from the sale of strategic stock in December 2015. On the 20th of November 2020 the Western Cape High Court has ruled that the contracts should stay or be set aside on basis that SFF and CEF should repay all proceeds received. Refer to contingencies in note 37 and events after reporting date in note 45.

CEF SOC Ltd is holding a cash collateral of R486.585 million (2021: R486.585 million) for PetroSA for guarantees issued on behalf of PetroSA. Refer to contingencies in note 37.

PetroSA is holding cash of R2.021 billion (2021: R1.826 billion) to fund the rehabilitation provision refer to provisions, note 23.

PASA has deposits held in a trust of R2.542 million (2021: R2.543 million) relates to cash deposits received from operators and licencees in terms of issued rights and permits. These deposits can only be paid back to the holder on relinquishment of the rights in terms of Section 43 of the MPRDA and on granting of a closure certificate by the Minister.

AEMFC has entered into bank guarantees related to its future performance which are in the normal course of business which amount to R1.917 million (2021: R1.858 million).

The carrying amount of cash and cash equivalents approximates the fair value due to the short-term nature of the instruments.

#### Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short-term deposits, excluding cash on hand, that are neither past due nor impaired can be assessed by reference to external credit ratings or historical information about counterparty default rates.

Restricted cash in PetroSA Rehabilitation NPC was assessed for credit impairment based on a credit risk model. This credit risk model is an intuitive and robust default prediction model that provides a view of a counterparty's credit condition and financial health by analysing a wide array of accounting ratios which includes, but is not limited to, profitability, liquidity and leverage. An expected credit loss of R32 million (2021: R120.1 million) was recognised.

## NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2022 (continued)

#### 17. Cash and cash equivalents (continued)

PetroSA Rehabilitation NPC (Non-Profit company) currently has a R428 million fixed deposit investment with the Land & Agricultural Bank of South Africa SOC Limited (Land Bank). During April 2020 Land Bank defaulted on certain of its debt obligations triggering cross-defaults within its other debt issuances. This has forced Land Bank to restructure its debt book to ensure that it is able to satisfy its debt obligations. National Treasury, as the shareholder of Land Bank, has committed R7 billion to assist with the restructuring exercise. It is envisaged that current investments will be switched into new investments, of which the final details and the potential impact on the company is not yet known.

Figures in Rand thousand	2022	2021
<b>Other restricted cash and cash equivalents</b>		
Demand Side Management Levy	31 721	31 137
Cash held on behalf of (Upstream Training Trust and DWP)	83 092	81 642
PetroSA restricted cash (credit facilities)	10 000	350 000
	<b>124 813</b>	<b>462 779</b>

#### Exposure to currency risk

Refer to note 41 Financial instruments and financial risk management for details of currency risk management for cash and cash equivalents.

#### 18. Non-current assets held for sale

On 21 October 2021, PetroSA commenced with a Request for Proposal bidding process for the sale of its Cape Town head office. On 11 May 2022, the PetroSA Board approved the sale of the building to the winning bidder, subject to final approval by CEF.

#### Assets and liabilities

##### Non-current assets held for sale

Property, plant and equipment	159 571	–
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#### 19. Foreign currency translation reserve

Translation reserve comprises exchange differences on consolidation of foreign subsidiaries.

Foreign currency translation reserve arising from consolidation of PetroSA's foreign subsidiaries	906 726	982 584
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# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 20. Other financial liabilities

Figures in Rand thousand	2022	2021
<b>Held at amortised cost</b>		
<b>Reserve-based lending facility</b>		
The loan accrues interest at LIBOR plus a margin percentage, varying between 3.25% and 4.50% over the period of the loan. The loan is due to mature in February 2022. All interest payable accrues from day to day at the relevant rate of interest, is calculated on the basis of the actual number of days elapsed and a 360 day year.	–	277 152
The facility is a revolving credit facility secured against the producing asset of PetroSA Ghana. The security package comprises a share pledge and subordination of future loans to PetroSA Ghana. Additional security includes an offshore debenture comprising security over contemplated hedging agreement, intercompany loans granted by PetroSA Ghana to its subsidiaries and certain project accounts into which transaction funds are deposited.		
The available facility amount/borrowing base is redetermined six monthly at the end of June and December and is a function of the present value of future cash flows generated by a producing/developing assets. The available facility amount most sensitive to economic assumptions such as the Brent crude oil price and changes to independently audited oil reserves. The loan covenants applicable are the field life cover ratio of 1.3 and a loan life cover ratio of 1.1. All loan covenants relating to this facility have been satisfied.		
Transaction costs of R63.123 million was incurred in 2021.		
The facility was settled on 18 June 2021.		
<b>Cash on call (Darling Wind Power)</b>	626	601
These are funds held and invested in call accounts on behalf of Darling Wind Power (Pty) Ltd.		
<b>Cash on call (Upstream Training Trust)</b>	82 466	81 041
These are funds held and invested in call accounts on behalf of the Upstream Training Trust that is managed by PASA.		
<b>Demand side management levy (DSML)</b>	31 721	31 137
These are levies collected by CEF SOC Ltd on behalf of the DMRE from the oil companies as mandated by the CEF Act 38 of 1977 and payable into the National Revenue Fund.		
	<b>114 813</b>	<b>389 931</b>
<b>Split between non-current and current portions</b>		
Current liabilities	114 813	389 931

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 21. Retirement benefits

#### Defined benefit plan

##### Post-employment medical aid scheme

Two subsidiaries of the Group, SFF and PetroSA, have a post-retirement medical scheme in place that is governed by the Medical Aid Schemes Act of 1998. The post-employment medical arrangement provides health benefits to retired employees and certain dependents. The benefit was applicable and on offer only to employees in the service of the affected Group companies before the changes to the new current benefit policy.

##### PetroSA

The obligation is partially funded and was valued using the 'projected unit credit method'. The group has provided for an amount of R222 million of which R78.9 million was funded (2021: R223 million of which R82.9 million was funded). The commitment is actuarially valued annually, with the most recent valuation performed as at 31 March 2022.

The post-employment medical arrangement provides health benefits to retired employees and certain dependents. The benefit was applicable and on offer only to employees in the service of PetroSA before 1 May 2012.

During the 2013 financial year, PetroSA funded a portion of the post-retirement medical liability through the purchase of a company-funded annuity policy. As this annuity policy is CPI linked, the company is exposed to revaluation risks if medical inflation is higher than the CPI increases granted. The current value of the annuity policy is R78.9 million (2021: R82.9 million).

The net defined benefit obligation in respect of promised post-retirement medical scheme costs as at 31 March 2022 is R143 million (2021: R140 million). The obligation is partially funded and was valued using the "projected unit credit method".

##### SFF

The obligation is not funded. The plan is a post employment medical benefit plan. The company contributes to a medical scheme for retired employees and their dependants. The promised rates are 100% in respect of all active employees and 100% or 70% for the continuation members. An actuarial valuation was conducted by ARCH Actuarial Consulting as at 31 March 2022 based on the Projected Unit Credit valuation method, as prescribed by IAS 19.

## NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 21. Retirement benefits (continued)

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

Figures in Rand thousand	2022	2021
<b>Carrying value</b>		
Present value of the defined benefit obligation-wholly unfunded	(73 922)	(67 285)
Present value of the defined benefit obligation-partially or wholly funded	(222 187)	(222 944)
Fair value of plan assets	78 850	82 912
	<b>(217 259)</b>	<b>(207 317)</b>
Non-current liabilities	(212 516)	(203 123)
Current liabilities	(4 743)	(4 194)
	<b>(217 259)</b>	<b>(207 317)</b>
The fair value of plan assets includes:		
<b>Movements for the year</b>		
Opening balance	207 317	143 260
Current year service costs	6 203	1 226
Past service costs	(10 085)	477
Net interest return (costs)	41 595	17 570
Net benefits payments	(17 226)	(25 253)
Net actuarial (gains) and losses	(10 545)	70 037
	<b>217 259</b>	<b>207 317</b>
<b>Key assumptions used</b>		
Assumptions used on last valuation on 31 March 2021.		
<b>PetroSA</b>		
Discount rates used	11,22%	12,68%
Expected rate of return on assets	7,78%	9,14%
<b>SFF</b>		
Discount rates used	10,16%	10,17%
Expected rate of return on assets	6,98%	6,98%

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 21. Retirement benefits (continued)

#### Other assumptions

##### PetroSA

A sensitivity analysis was performed on key assumptions.

A 1% or 1 year-downward rating change in assumptions will increase or (decrease) the net obligation as follows:

- Discount rate - R27.3 million and (R22.2 million) respectively (2021: R33.4 million and (R26.7 million) respectively).
- Mortality rate - (R5.4 million) and R5.4 million respectively (2021: (R5.7 million) and R5.7 million respectively).
- Health care cost inflation - R32.4 million and (R26.2 million) respectively (2021: R34.3 million and (R27.8 million) respectively))

A 1% or 1 year-downward rating change in assumptions will increase or (decrease) combined interest and service cost as follows:

- Discount rate - R1.5 million and (R1.3 million) respectively (2021: R3.1 million and (R2.6 million) respectively).
- Mortality rate - (R0.8 million) and R0.8 million respectively (2021: (R0.9 million) and R0.9 million respectively).
- Health care cost inflation - R4.9 million and (R3.9 million) respectively (2021: R5.8 million and (R4.6 million) respectively).

The plan asset is unquoted and is a policy of insurance. Therefore the split of the underlying investments is not readily available, and is most likely to be predominantly invested in CPI-linked bonds.

#### SFF

##### Discount rate assumption

IAS 19 requires that financial assumptions be based on market expectations at the valuation date for the period over which the liability obligations are to be settled. IAS 19 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds are not significant, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used. Consequently, a discount rate of 10.16% (2021: 10.17% )per annum has been used. The corresponding index-linked yield at this terms is 3.96% (2021: 3.98%). These rates were deduced from the interest rate data obtained from the Johannesburg Stock Exchange after the market close on 31 March 2022. These rates were calculated by using a liability-weighted average of the yields for the three components of the liability. Each component's fixed interest and index-linked yields were taken from the respective bond yield curves at the component's duration, using an iterative process (because the yields depend on the liability, which in turn depends on the yields).

##### Health care cost inflation rate

The assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). A health care cost inflation of 6.98% (2021: 6.98%) has been assumed. This is 1.5% in excess of expected CPI inflation over the expected term of the liability, namely 5.48%. A larger differential would be unsustainable. This implies a net discount rate of 2.97%. The expected inflation assumption of 5.48% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (3.98%) and those of fixed interest bonds (10.16%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 21. Retirement benefits (continued)

#### Demographic valuation assumptions

##### Mortality during employment

SA85-90 ultimate table, adjusted for female lives.

##### Post-employment mortality

PA(90) ultimate table, adjusted down by 1 year of age and a 1% annual compound mortality improvement from 2010. This means that we expect 1% fewer people to die next year and in the year after, we expect 1.99% fewer people to die and so on.

##### Continuation of membership

It has been assumed that 100% of in-service members will remain on the company's health care arrangement should they stay until retirement.

##### Average retirement age

The normal retirement age of employees is 65. It has been assumed that in-service members will retire at age 64 on average, which then implicitly allows for expected rates of ill-health and early retirement. In-services members who have passed the assumed average retirement age, have been assumed to retire at their next birthday.

##### Withdrawal from service

If an in-service member leaves, the employer's liability in respect of that employee ceases. It is therefore important not to overstate withdrawal rates.

The assumed rates are set out below:

Age band	This valuation	Previous valuation
20	13%	17%
25	13%	17%
30	11%	13%
35	8%	9%
40	6%	6%
45	4%	4%
50	3%	2%
55+	0%	0%

## NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 21 Retirement benefits (continued)

#### Family profile

It has been assumed that female spouses will be 3 years younger than their male counterparts. Furthermore, we have assumed that 90% of eligible in-service members on a health care arrangement at retirement will have a spouse dependent on their medical aid. For current retiree members, actual medical aid dependents were used and the potential for remarriage was ignored.

#### Medical scheme option

It has been assumed that continuation members will remain on the same medical scheme and option. In service members were assumed to remain on the same medical scheme and option should they continue to receive the subsidy after retirement.

#### Plan assets

There are no long-term assets set aside off-balance sheet in respect of the post employment health care liability.

#### Other assumptions

It was assumed that the company's health care arrangements and subsidy policy would remain as previous. Furthermore, it was assumed that the level of benefits receivable and contributions payable would remain unchanged with the exception of allowing for inflationary adjustments. Implicit in this approach is the assumption that current levels of cross-subsidy from in-service members to continuation members within the medical scheme are sustainable and will continue.

#### Sensitivity Analysis

The liability at valuation date was recalculated to show the effect of:

- 1% increase and decrease in the assumed rate of health care cost inflation;
- 1% increase and decrease in the discount rate;
- 1 year age increase and decrease in the assumed rates of post-employment mortality;
- 1 year decrease in the assumed average retirement age; and

A decrease of 10% in the assumed proportion of in-service members that remain members at retirement.

#### Defined contribution plan

It is the policy of the Group to provide retirement benefits to all its eligible employees. All eligible Group employees are members of the respective CEF Group subsidiaries' retirement funds and medical aid contribution funds, all of which are subject to the Pensions Fund Act of 1956 and the Medical Aid Schemes Act of 1998 respectively. This excludes instances where a defined benefit plan is applicable – refer to above.

The group is under no obligation to cover any unfunded benefits.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 22. Lease Liabilities

#### Lease liabilities

The maturity analysis of lease liabilities is as follows:

Figures in Rand thousand	2022	2021
Within one year	167 349	195 093
Two to five years	572 592	654 671
More than five years	1 251 903	1 636 384
	1 991 844	2 486 391
Less finance charges component	(947 237)	(1 324 911)
	<b>1 044 607</b>	<b>1 161 480</b>
Non-current liabilities	942 312	1 045 389
Current liabilities	102 295	115 849
	<b>1 044 607</b>	<b>1 161 238</b>

#### Comparative information for lease liabilities under IAS 17

The information presented for lease liabilities for the comparative period has been prepared on the basis of IAS 17, and therefore only represents the liability as at that date for finance leases and not for operating leases. In addition to the information presented in the table above, IAS 17 required an entity to present a reconciliation of the present value of lease payments for finance leases. This information is presented in the table which follows:

Present value of minimum lease payments due		
– within 1 year	95 334	115 848
– in second to fifth year inclusive	391 025	421 401
– later than five years	558 248	623 988
	<b>1 044 607</b>	<b>1 161 237</b>

#### Finance Leases:

##### AEMFC

AEMFC entered into a finance lease with Innovent Rental and Asset Management Solution (Pty) Ltd for mining machinery. The finance lease was initially recognised at R144.2 million. The present value of the lease liability unwinds over the expected life of the lease and is reported within the finance costs as finance leases. The initial lease period is 5 years and the impute interest rate is 9.5%.

##### PetroSA

PetroSA Ghana Ltd, together with its JV partners, entered into a finance lease with MODEC for the leasing of a floating production storage and offloading unit (FPSO) in the TEN field. The finance lease was initially recognised at R850.3 million. The present value of the lease liability unwinds over the expected life of the lease and is reported within finance costs as finance leases.

The initial lease period is 10 years, with an option to renew for an additional 10 years, until end of life of field. The imputed interest rate is 8.4%.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

## NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 22. Lease Liabilities (continued)

#### IFRS16 Lease liabilities

Details pertaining to leasing arrangements, where the Group is lessee are presented below:

##### AEMFC:

The right of use lease liability relates to the right of use asset disclosed in note 3. Interest is based on incremental borrowing rate of 10.75% per annum.

The right of use assets is in respect of a lease of office premises for a non-cancelable lease period of 10 year and one month that commenced on 01 March 2018. The lease agreement makes a provision for an option for renewal of 5 years which the company does not expect to exercise. There are no restrictions on covenants imposed by leases.

The lease agreement does constitute a sale and leaseback transaction.

##### CEF:

The incremental borrowing rate used to determine the present value of the Lease Liability as at the date on initial date is 1 October 2021 is 10% . The incremental borrowing rate is the rate that is obtained from banks if we were to obtain financing for the purchase of a similar asset.

- The finance lease liabilities relates to leases of printing machines.
- The lease payments are fixed per annum.
- The original lease period is 3 years and ends on 30 November 2024.

##### PASA:

The company leases an office building. The average lease term is 3 years and the average effective borrowing rate is 10.6%. The borrowing rate is the rate that is obtained from banks if we were to obtain financing for the purchase of a similar asset.

- The finance lease liabilities relate to the one property lease.
- The lease payments escalate at 5%.
- The lease for the office building has been extended for 6 months past year end.

##### SFF:

The company is leasing properties that are located in the Saldanha Port land from the Transnet National Ports Authority. The company leases are for an average period of 25 years and the average effective borrowing rate is 10,25%

No contingent rent is payable.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 23. Provisions

#### Reconciliation of provisions – 2022

	Opening balance	Additions	Utilised during the year	Reversed during the year	Change in estimates	Unwinding of discount	Total
Environmental rehabilitation	13 248 034	140 286	–	(26 392)	(447 612)	503 703	13 418 019
Bonus	194 181	50 848	(62 671)	(1 073)	–	–	181 285
Social investment	4 453	–	(543)	–	(3 560)	–	350
	<b>13 446 668</b>	<b>191 134</b>	<b>(63 214)</b>	<b>(27 465)</b>	<b>(451 172)</b>	<b>503 703</b>	<b>13 599 654</b>

#### Reconciliation of provisions – 2021

	Opening balance	Additions	Utilised during the year	Reversed during the year	Change in estimates	Unwinding of discount	Total
Environmental rehabilitation	13 442 033	79 648	–	(3 701)	(743 511)	473 564	13 248 034
Bonus	177 087	57 027	(31 383)	(8 550)	–	–	194 181
Social investment	4 606	–	(154)	–	–	–	4 452
Damages	4 341	–	(4 341)	–	–	–	–
	<b>13 628 067</b>	<b>136 675</b>	<b>(35 878)</b>	<b>(12 251)</b>	<b>(743 511)</b>	<b>473 564</b>	<b>13 446 667</b>
Non-current liabilities						13 418 369	13 252 486
Current liabilities						181 285	194 181
						<b>13 599 654</b>	<b>13 446 667</b>

Change in estimate includes foreign exchange of -R82,6 million (2020: R80.6 million)

#### Environmental rehabilitation

##### PetroSA

The decommissioning provision of R12.7 billion (2021: R12.6 billion) represents the present value of decommissioning costs relating to oil and gas interests, the majority of which are expected to be incurred up to 2027. The assumptions are based on the current economic environment and provide a reasonable basis for estimating the future liability. The program also assumes the decommissioning will be executed in one campaign in aid of managing logistical costs. These estimates are reviewed annually to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market conditions. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

PetroSA has commissioned an expert to assess the quantum and scope of the abandonment provision. PetroSA has undertaken to submit all plugged and abandoned legacy well packages to the regulator as part of the efforts to justify the exclusion of these wells from the provision. No provision has been made for the plugged and abandoned legacy wells.

The base cost of the provision remained unchanged (2021: increased by R2.1 billion), however, strengthening of the Rand against the US Dollar and the increase in the USD risk free rate from 1.74% to 2.34% (2021: 0.7% to 1.7%), the benefit of these changes were offset by the increase in local and international inflation rates. Major assumptions included in the calculation of local provisions is a discount rate of 9.97% (2021: 9.45%). A sensitivity analysis indicates that a R1 weakening of the Rand against the US Dollar translates into R850 million (2021: R657 million) increase in the provision. The program also assumes the decommissioning will be executed in one campaign in aid of managing logistical costs. It is assumed that each well will take an average of 15 days to abandon.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 23. Provisions (continued)

For international provisions, the discount rate used is 1.55% (2021: 1.23%) with an expected realisation date of 2036 (Jubilee, Teak and Akasa) and 2032 (TEN and Wawa). Changes in cost estimates are driven by revisions to the Operator's cost assumptions and estimates.

Included in the environmental rehabilitation provision for PetroSA is an amount of R6.2 million (2021: R12.3 million) for the rehabilitation of the land at the Voorbaai terminal and Bloemfontein depot.

The 2022 change in estimate resulting from changes in assumptions can be broken down as follows:

	R' million
Strengthening in ZAR against USD	266
Discount rate (USD)	190
Discount rate (ZAR)	64
Rise in inflation	(235)
Total	275

#### SFF NPC

The provision amount of R670 million (2021: R563 million) relates to the decommissioning and rehabilitation of the Milnerton and Saldanha tank farms under the requirements of NERA and the environmental monitoring and rehabilitation of the underground crude oil tanks in Ogies, with the requirements contained in the MPRDA.

Major assumptions included in the calculation of the provision are the South African inflation rate of 5.90% (2021: 3.21%).

The discount rate applied was 10% (2021: 8.5%). Whilst International Accounting Standards IAS 37:45 state that "Where the effect of time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle obligation".

The discounted amount of R458 million (2021: R384 million) is deemed not reflective of the costs that will be needed for the purposes of restoring the operational sites to their original state and therefore management deem it prudent to disclose the provision as R670 million (2021: R564 million) which is the best estimate of the expenditure required to settle the present obligation at the balance sheet date of 31 March 2022.

Also the shortcomings of this discounted amount are that: Saldanha Terminal has a remaining useful life of more than 40 years which is too far out in the future, as a result there are reasonably potential changes in the assumptions used in the calculation like South African inflation, Rand to Dollar exchange rate, oil prices etc.

#### Saldanha and Milnerton

The six Saldanha in-ground tanks will be decommissioned and withdrawn from service but not demolished. The scope of work includes the cleaning, decommissioning and mothballing of the equipment within the perimeter fences of the tankfarm. The value of any recovered material, including steel from tanks, steel piping, transformers and electrical cabling, will not be used to offset the cost of demolition of the various facilities. Allowance will be made for potentially recoverable material to be placed in waste skips after demolition. The cost of removal from the tank-farm to a scrap yard will be deemed to be offset by the value of the recovered materials. No allowance has been made for the removal of crude oil/sludge from the tanks and pipeline. The decommissioning cost estimate will not include the removal or mothballing of the Chevron facilities as it is assumed that this would be undertaken by Chevron at its expense. Total provisions for Saldanha and Milnerton tank farms are R339.2 million and R207.0 million (2021: R206.1 million and R216.5 million) respectively.

## NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 23. Provisions (continued)

#### Ogies

The provision for this site is to address the economic analysis of the worst-case environmental damages and the cleanup costs for the assessed hazard. Environmental damage affects groundwater, soil that produces food in the surrounding area, property and trading damages such as human life and mineral rights. The assumptions used in the calculation take into account the probability of occurrence. At year end, the total provision for the Ogies tank storage mine infrastructure was R124.2 million (2021: R141.1 million).

#### AEMFC

As at 31 March 2022 the environmental rehabilitation balance of R55 million (2021: R44.3 million) was recognised for Vlakkfontein Mine rehabilitation based on estimates provided by independent environmental consultants. The net present value of the environmental rehabilitation provision is based on discount rates taking into account long bond yield rates of 8.89% for 2022, 9.58% for 2030, 9.852% for 2031, 10.3% 2035 (2021: 5.98% for 2022, 9.465% for 2030, 9.915% for 2031, 10.995% 2035 cashflows) and inflation rate of 4.78% (2021: 4.54%) in line with South African Reserve Bank long term inflation targets. Current mine plans envisage the expected outflow to occur at the end of the life of mine.

In respect of the rehabilitation provision, there was asset write up R7.1 million (2021: write down R 3.7 million) recognised in property, plant and equipment in the mine infrastructure asset class.

#### Damages provisions

This relates to Transnet fuel pipeline damage and diesel spillage. On the 27th October 2018, a Transnet fuel pipeline located underneath the ground was damaged by an excavator operator while he was creating a trench required as a security barrier following the mine rugular pipe theft incidents. The damaged fuel pipe line led to the spillage of diesel to the environment.

#### Funding of rehabilitation provision

PetroSA has an obligation to provide for the rehabilitation and decommissioning of its offshore and onshore facilities. The liability is currently valued at R13.1 million. PetroSA has set aside R3.1 million, leaving a shortfall of approximately R10.1 million.

PetroSA is working with all key stakeholders to ensure compliance with the requirements of the financial provision regulations before 19 February 2024. To this extent, the Group has committed to assist PetroSA, through various support and oversight mechanisms, to close the funding gap. In addition, PetroSA is working closely with the regulator (the Petroleum Agency of South Africa) to ensure that it discharges its responsibilities as required under the NEMA financial provision regulations. Other key stakeholders involved include the Departments of Energy, National Treasury, Mineral Resources and Environmental Affairs. No funds have been set aside for the funding of international provisions valued at R230 million (2021: R294 million). In terms of the signed petroleum agreements, this will commence once 50% of the estimated reserves have been produced from the relevant fields. PetroSA has set aside funds towards the cost of decommissioning. These funds are not available for the general purposes of the Group and comprise of the following investments:

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 23. Provisions (continued)

Figures in Rand thousand	2022	2021
Cash deposits	477	477
Cash in escrow account	2 408	2 282
Financial guarantee	180	180
	<b>3 065</b>	<b>2 969</b>

#### Social investment

This provision amount of R350 million (2021: R4.5 million) is for commitments to community investment projects as a pre-condition for the issuing of exploration licences.

#### Bonus

Provision for performance bonus for an amount of R181.3 million (2021: R194 million) represents incentives for employees who qualify in terms of their performance during the current year. The bonus liability is anticipated to be paid within the next twelve months.

### 24. Deferred Income

#### Deferred income

##### CEF SOC Ltd

The deferred grant was received by CEF SOC Ltd from the DMRE. This funds grant is used to fund feasibility studies for the Vaal Dam projects. The balance of this grant is R1.1 million (2021: R1 million).

##### SFF NPC

Revenue from storage income is recognised over time. One of the customers paid an upfront reservation fee for a crude oil storage tank in Saldanha Bay, resulting in deferred income recognised for revenue relating to the storage services at the time of initial payment.

An upfront reservation fee of R74.6 million (\$5.95 million) is applicable to one of the crude oil storage contracts with a duration of seven years and is being recognised as revenue over the duration of the contract. As at 31 March 2022, there were 23 months left on the contract. The balance as at year end is R20.4 million (2021: R31.1 million).

Revenue amounting to R10.7 million was recognised as revenue from contracts during the financial year end.

##### PASA

These relate to cash deposits received from operators and licencees in terms of issued rights and permits. The environmental deposits can only be paid back to the holder on relinquishment of the rights in terms of section 43 of the MPRDA and on granting of a closure certificate by the Minister. Refer to cash and cash equivalents for ring-fenced funds under note 17. The balance as at year end is R2.543 million (2021: R2.544 million).

The Agency received ring-fenced grant income for the shale gas research project to the value of R93.6 million. The project had initial challenges around procurement delays, access to land and the impact of COVID-19 national lockdown. Consequently, the income remains unspent at 31 March 2022. Plans are in place to finalise the project by 2024. For commitments against the shale gas project refer to note 36.

#### Deferred income

Figures in Rand thousand	2022	2021
<b>Split between non-current and current portions</b>		
Non-current liabilities	13 418	24 037
Current liabilities	104 239	10 663
	<b>117 657</b>	<b>34 700</b>

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022 (continued)

## 25. Trade and other payables

Figures in Rand thousand	2022	2021
<b>Financial instruments:</b>		
Trade payables	1 608 968	1 144 799
Sundry creditors	209 145	221 266
Accrued leave pay	101 562	118 638
Cash calls in advance	195 279	143 642
Liability to transfer to Equalisation Fund	71 741	61 520
Payroll related liabilities	31 839	35 264
<b>Non-financial instruments:</b>		
Amounts received in advance	80	63 463
Statutory payables (tax and levies)	507 346	313 789
VAT	10 770	3 267
Operating lease payables	–	45
	<b>2 736 730</b>	<b>2 105 693</b>

### Prior period correction

There was a prior period correction of 10.2 million which was paid by a customer in 2019 in relation to the sale of crude oil. A Liability to transfer to the Equalisation Fund was never raised initially but has been corrected in the current year against opening retained earnings.

### Financial instrument and non-financial instrument components of trade and other payables

At amortised cost	2 218 534	1 725 131
Non-financial instruments	518 196	380 564
	<b>2 736 730</b>	<b>2 105 695</b>

### Fair value of trade and other payables

The fair value of trade and other payables approximates their carrying amounts.

## 26. Revenue

### Revenue from contracts with customers

Fuel production sales	11 097 668	7 635 543
Data sales	1 561	1 035
Crude oil sales	1 061 435	1 105 036
Oil pollution control	10 141	45 980
Application fees	19	40
Coal sales	656 109	302 499
Administration and management fees	42 270	3 348
	<b>12 869 203</b>	<b>9 093 481</b>
<b>Revenue other than from contracts with customers</b>		
Rental Income	916 551	1 128 295
Interest received (trading)	32	22
Government grants	105 464	117 146
	<b>1 022 047</b>	<b>1 245 463</b>
	<b>13 891 250</b>	<b>10 338 944</b>

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022 (continued)

## 26. Revenue (continued)

Figures in Rand thousand	2022	2021
<b>Disaggregation of revenue from contracts with customers</b>		
The group disaggregates revenue from customers as follows:		
<b>Timing of revenue recognition</b>		
<b>At a point in time</b>		
Fuel production sales	11 097 668	7 629 552
Coal sales	656 109	302 499
Application fees	19	40
Data sales	1 562	7 026
Oil pollution control	10 141	47 961
	<b>11 765 499</b>	<b>7 987 078</b>
<b>Over time</b>		
Crude oil sales	1 061 435	1 105 036
Administration and management fees	42 269	1 367
	<b>1 103 704</b>	<b>1 106 403</b>
<b>Total revenue from contracts with customers</b>	<b>12 869 203</b>	<b>9 093 481</b>

## 27. Cost of sales

Cost of sales	11 558 081	9 797 940
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## 28. Other income

Commissions received	64	145
Royalties received	50	50
Other rental income	64 565	58 594
Other recoveries	12 292	8 421
Revaluation-hedging activities	60 139	(29 838)
Recovery of coal transport costs	26 394	17 297
Other income	119 433	43 854
Income from landfill	53 249	16 897
Diesel Rebate	10 975	14 775
Nitrogen Sales	2 980	8 842
Insurance claims	–	1 179
Gantry fee	26 686	32 630
PPE Impairment reversals	374 490	1 487 768
	<b>751 317</b>	<b>1 660 614</b>

## NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 29. Operating profit (loss)

Operating loss for the year is stated after charging (crediting) the following, amongst others:

Figures in Rand thousand	2022	2021
<b>Auditor's remuneration – external</b>		
Audit fees	27 461	26 408
<b>Auditor's remuneration - internal</b>	<b>37</b>	<b>(20)</b>
<b>Remuneration, other than to employees</b>		
Directors remuneration	14 969	17 908
<b>Leases</b>		
<b>Short-term and low value leases</b>		
Premises	2 365	7 866
Equipment	1 650	1 805
	<b>4 015</b>	<b>9 671</b>
<b>Impairment losses</b>		
Impairment of property, plant and equipment	(264 978)	(999 925)
Reversal of impairments property, plant and equipment	(29 892)	(201 243)
Impairment/(reversal) of Intangible assets	1 470	9 646
Impairment/ (reversal) inventories	(79 620)	(286 580)
	<b>(373 020)</b>	<b>(1 478 102)</b>
<b>Movement in credit loss allowances</b>		
Trade and other receivables	(7 083)	19 731
Other financial assets	(109 233)	129 937
	<b>(116 316)</b>	<b>149 668</b>

## NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 29. Operating profit (loss) (continued)

Figures in Rand thousand	2022	2021
<b>Operating profit/(loss) by nature</b>		
Research and development costs	62 166	54 988
Impairment/(reversal) on property, plant and equipment	(293 400)	(1 201 187)
Depreciation on property, plant and equipment*	609 110	683 578
Depreciation on right-of-use Asset	16 709	12 139
Tax related expenses	10 534	1 789
Profit (loss) on exchange differences	40 082	18 586
Impairment/ (reversal) on intangible assets	1 470	9 646
Impairment/(reversal) on other financial assets	(109 233)	129 937
Impairment of trade and other receivables	(7 083)	19 731
Restatement of financial assets and financial liabilities	742	(16)
Other administration expenses PetroSA	540 911	101 608
Participating fees	5 637	7 152
Impairment/( reversal) of inventories	(79 620)	(286 580)
Amortisation on intangible assets	6 288	6 434
Training	10 712	5 497
Travel - local	6 453	5 750
Travel - overseas	6 542	2 908
Municipal expenses	15 590	9 338
Hedge premium	1 637	4 029
Employee costs	1 458 873	884 628
Staff welfare	1 436	2 012
Security	9 061	5 122
Corporate Social Responsibility	59 606	59 065
Accounting fees	1 384	2 283
Repairs and maintenance	36 957	16 275
Motor vehicle maintenance expenses and other related expenses	2 711	6 039
Insurance	329 026	84 507
Consulting and professional fees	187 050	135 229
Financial services fees	15 634	4 156
Computer expenses	12 902	9 280
Transport and freight	202 021	294 629
IT Facilities and Software	60 122	86 911

\* Includes the depreciation that has been allocated to cost of sales.

## NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 30. Investment income

Figures in Rand thousand	2022	2021
<b>Dividend income</b>		
<b>Equity instruments at fair value through profit or loss:</b>		
Listed investments – Local	5	6
Unlisted investments - Local	24	–
<b>Total dividend income</b>	<b>29</b>	<b>6</b>
<b>Interest income</b>		
<b>Investments in financial assets:</b>		
Bank and other cash	575 675	749 816
Trade and other receivables	13 976	59 391
Other financial assets	1 467	1 885
<b>Loans to group companies:</b>		
Associates	2 349	2 310
<b>Total interest income</b>	<b>593 467</b>	<b>813 402</b>
<b>Total investment income</b>	<b>593 496</b>	<b>813 408</b>
Interest is charged at South African prime rate on the loan to an associate (Energy Joburg).		
<b>31. Finance costs</b>		
Trade and other payables	23 892	389
Lease liabilities	79 450	115 521
Bank overdraft	942	2 722
Current borrowings	2 679	29 023
Tax authorities	240	1 976
Unwinding of discount on provisions and other liabilities	503 714	474 515
Other interest paid	3 530	3 663
<b>Total finance costs</b>	<b>614 447</b>	<b>627 809</b>

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 32. Taxation

Figures in Rand thousand	2022	2021
<b>Major components of the tax income</b>		
<b>Current</b>		
Local income tax - current period	169 534	72 859
Local income tax - recognised in current tax for prior periods	90	3 684
Foreign income tax or withholding tax - current period	-	(92)
	<b>169 624</b>	<b>76 451</b>
<b>Deferred</b>		
Originating and reversing temporary differences	(14 657)	(221 113)
Benefit of unrecognised tax loss / tax credit / temporary difference used to reduce deferred tax	110 363	67 963
	<b>95 706</b>	<b>(153 150)</b>
	<b>265 330</b>	<b>(76 699)</b>
<b>Reconciliation of the tax expense</b>		
Reconciliation between accounting profit and tax expense.		
Accounting profit	327 887	463 533
Tax at the applicable tax rate of 28% (2021: 28%)	91 808	129 789
<b>Tax effect of adjustments on taxable income</b>		
Income not subject to tax	(656 404)	(984 552)
Expenses not deductible for tax purposes	363 750	460 333
Associates' results reported net of tax	(126 556)	(100 442)
Unrecognised deferred tax	(6 103)	-
Effects of tax rates in different jurisdictions	(40 378)	17 981
Tax losses carried forward	639 986	396 514
Tax expense in respect of prior years	827	3 680
	(1 600)	-
	<b>265 330</b>	<b>(76 697)</b>

The average effective tax rate is 80.9% (2021: -16.5%). Companies are subject to income tax at company level and not at Group/ level. The tax expense arises from individual Group companies that are subject to income tax and generated taxable profits during the financial year.

Non-deductible and non-taxable income is made up of income and expenditure from subsidiaries (SFF, PASA,OPCSA) that are not subject to income tax and non-ductable expenses resulting from the apportionment method applied in some of the entities in the Group.

Tax losses carried forward originate from PetroSA Ghana and ETA Energy.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022 (continued)

## 33. Other comprehensive income

### Components of other comprehensive income - 2022

	Gross	Tax	Share of other comprehensive income of equity accounted investments	Net
<b>Items that will not be reclassified to profit (loss)</b>				
<b>Remeasurements on net defined benefit liability/asset</b>				
Remeasurements on net defined benefit liability/as	(14 840)	-	-	(14 840)
<b>Items that may be reclassified to profit (loss)</b>				
<b>Exchange differences on translating foreign operations</b>				
Exchange differences arising during the year	(75 858)	-	-	(75 858)
<b>Gains (losses) on cash flow hedges not subject to basis adjustments</b>				
Gains (losses) on hedge	-	-	(114 122)	(114 122)
<b>Total items that may be reclassified to profit (loss)</b>	<b>(75 858)</b>	<b>-</b>	<b>(114 122)</b>	<b>(189 980)</b>
<b>Total</b>	<b>(90 698)</b>	<b>-</b>	<b>(114 122)</b>	<b>(204 820)</b>

### Components of other comprehensive income – 2021

	Gross	Tax	Net
<b>Items that will not be reclassified to profit (loss)</b>			
<b>Remeasurements on net defined benefit liability/asset</b>			
Remeasurements on net defined benefit liability/as	(42 241)	-	(42 241)
<b>Items that may be reclassified to profit (loss)</b>			
<b>Exchange differences on translating foreign operations</b>			
Exchange differences arising during the year	(484 004)	-	(484 004)
<b>Total</b>	<b>(526 245)</b>	<b>-</b>	<b>(526 245)</b>

## NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 34. Cash (used in)/generated from operations

Figures in Rand thousand	2022	2021
Profit before taxation	327 887	463 533
<b>Adjustments for:</b>		
Depreciation and amortisation	618 224	706 906
Losses on disposals, scrappings and settlements of assets and liabilities	–	8
Losses on foreign exchange	112 386	651 837
Income from equity accounted investments	(451 985)	(348 132)
Investment income	(593 496)	(813 408)
Finance costs	614 447	627 809
Fair value gains	(16 946)	(18)
Net impairments and movements in credit loss allowances	(471 348)	(969 647)
Movements in retirement benefit assets and liabilities	3 004	2 081
Movements in provisions	(58 970)	31 249
Other non-cash items	7 686	62 194
Deferred income	19 577	–
Interest on lease liability	38	–
<b>Changes in working capital:</b>		
Inventories	(113 663)	187 059
Trade and other receivables	122 761	384 196
Prepayments	101 052	(31 154)
(Increase)/Decrease in strategic stock	(79 620)	(286 579)
Trade and other payables	681 443	(5 622 349)
	<b>822 477</b>	<b>(4 954 417)</b>

### 35. Tax paid

Balance at beginning of the year	16 142	4 274
Current tax for the year recognised in profit or loss	(169 684)	(94 946)
Non cash adjustment	–	109
Exchange differences arising on the translation of foreign operations (OCI)	(10 821)	(116 498)
Balance at end of the year	(10 582)	(16 142)
	<b>(174 945)</b>	<b>(223 203)</b>

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 36. Commitments

Figures in Rand thousand	2022	2021
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• AEMFC - Vlakfontein extensions	21 878	14 038
• PASA - Shale gas project	24 281	31 498
• PASA - Server storage	–	525
• PetroSA - Jubilee and TEN development	293 838	155 735
• SFF NPC - South Sudan Investment	605 568	645 323
• SFF - Cape Town Terminal	300 000	–
• SFF and CEF - LNG investment	105 000	–
• iGas - Investments	2 155 000	–
• iGas - Loan receivable	2 155 000	–
Not yet contracted for and authorised by directors	–	–
CEF SOC Ltd	200 000	575 822
AEMFC SOC Ltd	147 345	141 570
CEF Carbon SOC Ltd	488 899	–

This committed expenditure relating to the above will be financed by available bank facilities, retained profits, existing cash resources, funds internally generated and debts.

#### Other authorised major commitments

CEF SOC Ltd - Solar Water Heaters Project (Contracted)	50 977	62 835
CEF SOC Ltd - Solar Water Heaters (Not yet contracted for)	43 745	81 469

The committed expenditure relates to the Solar Water Heaters Program that CEF is currently implementing in partnership with the Department of Mineral Resources and Energy (DMRE) and Department of Labour (DoL).

### 37. Contingencies

#### iGas

##### Deferred Portion of the purchase price - Acquisition of additional shares in ROMPCO

As per the Sale purchase agreement to acquire the additional 30% investment in ROMPCO (includes CMG and iGas portions) there is a Deferred Portion of the Purchase Price that is payable subject to certain specified conditions being fulfilled by no later than 30 June 2024. The amount payable to Sasol can either be R667m or R1 billion plus interest accrued at the Prime Rate from the closing date to the day prior to the date it is paid.

#### SFF NPC

##### Customer claim – uplifting of crude oil

A Court case (arbitration) is currently under way for an alleged breach of storage contract relating to SFF's refusal to allow a customer to uplift 300,000 barrels of crude oil in Saldanha Terminal that were by SFF loaned to a service provider who later on sold the crude oil barrels to the Court Applicant.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 37. Contingencies (continued)

#### Metering system

An interim arbitration award (in which SFF is the respondent) has been finalised whereby the parties agree that the arbitration is postponed sine die and the costs of the arbitration are reserved. An independent expert has been appointed to establish whether the metering system operate within the specification agreed to by the parties. The independent expert has requested that additional work should be undertaken to bring the flow meters to a position where they are operating, before they can proceed with the agreed scope of work. The parties have agreed to share the costs of remedial work on an equal basis and the metering system has been taken overseas by the claimant for remedial work. Costs of the remedial work will be shared by the parties on an equal basis.

Should the expert conclude that the system operates as intended, SFF shall be liable for R7.67 million plus mora interest (calculated at 9.5% per annum on the capital sum from 1 April 2014 to date of payment), 50% of the independent expert's costs and the legal costs of the arbitration proceedings paid by the claimant. Together with legal costs and interest, the legal department estimate the total value of the claim to be R12 million.

During the reporting period the expert ruled against SFF and as SFF was raising disputes on the evaluation of expert the other party approached the court seeking to make the arbitration award a court order.

#### Demurrage claim

A crude oil storage customer is claiming demurrage costs (of approximately \$1.3 million, translated to R18.9 million (2021: R19.3 million) paid to Transnet National Port Authority from SFF. SFF is disputing this claim on the basis of force majeure. SFF's legal advisors are of the opinion that the customer's case is less than likely to succeed.

#### Strategic stock

On 12th of March 2018 the company (SFF), together with the holding company (CEF SOC Ltd) had lodged an application in the Western Cape High Court to set aside the disposal of the strategic crude oil stocks on the grounds that these disposals were unlawful, invalid and unconstitutional. On the 20th of November 2020 the Western Cape High Court has ruled that the contracts should stay or be set aside on basis that CEF and SFF should repay all proceeds received and also be responsible for out-of-pocket expenses (those are interest earned by SFF on proceeds and on Storage fees and as well as hedging costs) that the Buyers would have suffered.

The Boards of SFF and CEF have resolved to appeal everything but paying back proceeds received from sale of Strategic Stock and the Storage Income that SFF received which both amount to about R5,5 billion.

The matter was heard by the Supreme Court of Appeal on 24 February 2022 and the judgement was handed down electronically on 13 April 2022. The Supreme Court upheld the decision made by the Western Cape High Court that SFF is responsible for out-of-pocket expenses, interest compounded and including costs of counsel for some of the traders. The SFF Board decided that the matter would be appealed at the Constitutional Court. The Constitutional Court may confirm judgement of the Western Cape High Court and Supreme Court of Appeal and therefore SFF would be expected to further incur an amount of about R2.35 billion which is the amount of the out-of-pocket expenses, interest compounded and legal fees.

#### Security cameras claim

A supplier has lodged a claim amount to R0.8 million against SFF relating to non-payment for the supply, installation and commissioning of security cameras as well as an intruder detection system at the Saldana Terminal. The non-payment by the company is due to the fact that the camera system delivered was not in accordance with the specifications of the contract.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 37. Contingencies (continued)

#### Strategic stock sale

On the 31 March 2022, an announcement was made that the general fuel levy on petrol & diesel would be reduced by R1.50/litre for April & May 2022 to mitigate the impact of escalating fuel prices on the South African economy. Correspondence from the Minister of Mineral Resources & Energy confirms the effective date to be the 6 April 2022. Revenue foregone due to aforementioned will be recouped through the sale of some of the strategic crude oil reserves held by SFF authorised by the Minister of Mineral Resources & Energy. In terms of S1A(3A)(c) of the Central Energy Fund Act, 1977 (Act No. 38 of 1977), monies obtained from the sale of crude oil by SFF shall be paid to the Equalisation Fund as determined by the Minister of Mineral Resources & Energy with concurrence of the Minister of Finance. The quantity of strategic stock to be sold must generate sufficient funds that will be utilised at a later date to replenish the amount of strategic stock sold.

#### AEMFC

Legal actions were taken against the company by former employees and labour unions. These cases are currently being heard at the CCMA. Should these matters be decided against the company, the costs to settle is estimated at R78.7million.

#### CEF

The company is currently involved in four labour disputes which all related to dismissals of employees. CEF is engaging with the lawyers and attending CCMA proceedings to have the disputes resolved. The proceedings are at an early stage and the outcome along with any possible settlements cannot be reliably estimated at this time.

#### Other contingencies arising out of operations

##### PetroSA

##### Mbizana Integrated Energy Centre

PetroSA may be liable for any soil contamination resulting from the dispensing of fuel at the Mbizana Integrated Energy Centre. The estimated financial impact is R1 million.

#### DAS payable to SARS and audit assessment

Due to financial constraints, PetroSA was unable to settle DAS, payable to SARS, on a timely basis. This resulted in penalties and interest levied of R39 million. PetroSA is currently engaging with SARS to have the penalties and interest waived.

On 18 February 2020, SARS issued a Letter of demand for R1 billion with respect to exports from unlicensed depots for the period May 2015 to March 2017. On 28 February 2020, PetroSA requested for a suspension of the payment amount but the application for suspension was denied by SARS. On 17 April 2020, PetroSA lodged a DA96 notice with SARS, notifying the Commissioner of its intention to approach the High Court for an urgent interim interdict, interdicting SARS from taking any enforcement and/or collection steps against PetroSA until the merits of the SARS audit assessment are heard in the High court. PetroSA was successful in this regard.

On 30 June 2020, the DA96 application to litigate was submitted to SARS. The next step is for SARS is to submit a replying affidavit and SARS have far exceeded the time period afforded to it in terms of the Uniform Rules of Court to file its affidavit. On 18 March 2021, PetroSA sent notice indicating PetroSA's amenability to mediation. PetroSA still await SARS's response as to whether they are amendable to mediation and to file their answering affidavit by 16 May 2022.

#### Ghana Revenue Authority

The Ghana Revenue Authority (GRA) conducted an audit of PetroSA Ghana Limited (PGL) in respect of 2014-2018 years of assessment and on 31 March 2021, issued the final audit assessment of R708.7 million in respect to corporate tax, withholding tax and branch profits tax. PetroSA Ghana sent notice of objection to the GRA on 26 April 2021. On 21 May 2021, EY Ghana on behalf of PGL issued notice of dispute to the Minister of Energy and Minister of Finance requesting consultation and negotiation with the State. Subsequent to the prior year end, on 26 October 2021, GRA sent a notice withdrawing their audit assessment.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 37. Contingencies (continued)

#### Guarantees

The Group has guaranteed the fulfilment of various subsidiaries' obligations in terms of contractual agreements and has also guaranteed the banking arrangements of certain subsidiaries as shown in the table below:

Figures in Rand thousand	2022	2021
<b>Guarantees</b>		
Rehabilitation of land disturbed by mining on the Sable field	180 000	180 000
Manufacture and excisable bond in favour of the South African Revenue Service	5 000	5 000
Evergreen VAT guarantee in favour of the Dutch VAT Authorities (€0.5 million)	8 049	8 689
DME for rehabilitation of E-BT/E-AR mining lease	27 100	27 100
Eskom for payment of guarantee for electrical supply	9 485	9 485
DMRE for rehabilitation of FA mining lease	450 000	450 000
Absa Bank for OPCSA's deed of suretyship	2 000	2 000
Absa Bank for iGas deed of suretyship	2 100	2 100
Investec for Rompco acquisition*	855 000	–
	<b>1 538 734</b>	<b>684 374</b>

\* CEF has provided a cash guarantee to the Seller of ROMPCO shares on behalf of iGas to the value of R855 million.

### 38. Related parties

#### Relationships

Ultimate holding company	Department of Mineral Resource and Energy (DMRE)
Subsidiaries	Refer to note 5
Joint ventures	Refer to note 6
Associates	Refer to note 7
Unconsolidated structure	Gannet Trust PetroSA Development Trust
Affiliates	Extended Continental Shelf Claim Upstream Training Trust
Under common control	Equalization Fund South African National Energy Development Institute (SANEDI)
Members of key management	Refer to note

## NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 38. Related parties (continued)

Figures in Rand thousand	2022	2021
<b>Related party balances</b>		
<b>Loan accounts – Owing (to) by related parties</b>		
Energy Joburg (Pty) Ltd	48 300	47 516
Mzimkhulu Mining (Pty) Ltd	-	153
ACWA Power Solarreserve Redstone Solar Thermal Power Plant (RF) Pty Ltd	344 191	-
<b>Amounts included in Trade receivable (Trade Payable) regarding related parties</b>		
DMRE	702	694
Equalization Fund	888	873
PAMDC (Pty) Ltd *	8 416	8 387
SANEDI	1 045	1 040
Equalization Fund - relating to sale of feedstock	(71 741)	(61 520)
Extended Continental Shelf Claim Project	478	186
Upstream Training Trust(UTT)	12	12
<b>Cash on Call held on behalf of others</b>		
UTT	(82 446)	(81 041)
DMRE (Vaal Dam Hydro)	(1 101)	(1 056)
<b>Other 4</b>		
<b>Provisions balances relating to related parties</b>		
PAMDC (Pty) Ltd *	(8 416)	(8 387)
DMRE	(702)	(694)
SANEDI	(880)	(592)

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022 (continued)

## 38. Related parties (continued)

Figures in Rand thousand	2022	2021
<b>Related party transactions</b>		
<b>Interest paid to (received from) related parties</b>		
Energy Joburg (Pty) Ltd	(3 309)	(3 253)
UTT	3 445	3 576
<b>Rent paid to (received from) related parties</b>		
PAMDC (Pty) Ltd *	(97)	(94)
SANEDI	(999)	(999)
<b>Administration fees paid to (received from) related parties</b>		
DMRE	(2)	(2)
Equalization Fund	(1 644)	(2 223)
PAMDC (Pty) Ltd	(572)	(1 759)
SANEDI	(451)	(1 011)
Upstream Training Trust	(120)	(112)
<b>Recoveries paid to (received from) related parties</b>		
Equalization Fund	(2 894)	(2 613)
PAMDC (Pty) Ltd *	-	1
SANEDI	(175)	(550)
<b>Loss allowances</b>		
PAMDC (Pty) Ltd *	29	2 135
SANEDI	351	529
<b>Government grant-DMRE</b>		
Allocated income	(90 699)	(91 318)
Conditional grant	(45 591)	(43 214)
<b>Guarantees given</b>		
DMRE - PetroSA Rehabilitation	(477 100)	(477 100)
	-	-

\* The balance and transactions for PAMDC relating to revenue has not be recognised as the recognition criteria per IFRS15 has not been met.

All related parties transactions are at an arms length unless stated otherwise.

## NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 39. Interests in unconsolidated structured entities

#### **PetroSA Development Trust**

The PetroSA Development Trust was established to facilitate the development and transformation of the lives of people from historically disadvantaged and impoverished communities and the enhancement of the education and literacy levels in these communities, in particular those within which PetroSA operates, such as the Mossel Bay region and other deserving communities.

#### **Gannet Trust**

The Gannet Trust group of companies was created to underwrite insurance risks for PetroSA and other companies with similar risk profiles. Gannet Trust enables PetroSA to access the reinsurance markets that would not otherwise be available to it. Gannet Trust is also available to accept risks that are either uninsured, uninsurable or that bridge the gap between the underwriters' imposed risk retentions and PetroSA's preferred risk retentions.

#### **Upstream Training Trust**

The UTT was established to receive irrevocable and unconditional contributions and grants from any persons or entities for the purpose of applying these funds for education and educational development, research, the provision of funding, assets, services and other resources to public benefit organisations. PASA nominates and serves as a trustee on the board of trustees of UTT.

PASA is responsible for the administration of UTT, but is not able to control it as all decisions have to be made by majority vote of the trustees, which may be a minimum of three and a maximum of seven (PASA has only one vote). PASA receives no administration fees from UTT and makes no contribution to UTT.

At 31 March 2022 Petroleum Agency SA had an inter-company receivable from UTT of RNil (2021: RNil). Terms and conditions of the receivable is that it is due and receivable 30 days from date of invoice receipt by UTT.

Petroleum Agency SA's maximum exposure to loss from UTT is RNil (2021: RNil).

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 40. Key management personnel and directors' emoluments

#### Executive

Figures in Rand thousand	Emoluments	Bonuses	Pension	Other allowances	Total
<b>2022</b>					
Dr I Poolo (CEF Group CEO and interim iGas CEO)	4 450	–	360	296	5 106
Mr L Pitsoe (AEMFC CEO) *****	572	–	78	–	650
Ms Z Sibisi (AEMFC Acting CEO)**	1 412	–	97	12	1 521
Ms V Masisi (AEMFC Acting CEO) ***	24	–	–	–	24
Mr BM Khumalo (AEMFC Acting CEO) ****	80	–	–	–	80
Mr P Naidoo (PetroSA Group CEO)	4 994	–	441	193	5 628
Dr PC Masangane (PASA SOC Ltd)#	2 295	271	427	113	3 106
Mr G Moagi (SFF CEO)	4 309	1 138	535	–	5 982
	<b>18 136</b>	<b>1 409</b>	<b>1 938</b>	<b>614</b>	<b>22 097</b>

Figures in Rand thousand	Emoluments	Bonuses	Pension	Other allowances	Total
<b>2021</b>					
Dr I Poolo (CEF Group CEO)*	3 761	–	300	172	4 233
Mr L Makhuba (CFO and acting CEO)***	393	–	53	711	1 157
Ms Z Sibisi (AEMFC Acting CEO)**	2 491	–	217	24	2 732
Ms M Modipa (AEMFC Interim CEO)§	645	–	–	–	645
Mr G Moagi (SFF CEO)	4 310	851	454	–	5 615
Mr M Seedat (iGas SOC Ltd)	651	596	–	–	1 247
Ms L Mekwe (PASA SOC Ltd)	1 103	–	195	85	1 383
Dr PC Masangane (PASA CEO)	2 032	–	366	101	2 499
Mr P Naidoo (PetroSA Group CEO)	5 408	–	437	199	6 044
	<b>20 794</b>	<b>1 447</b>	<b>2 022</b>	<b>1 292</b>	<b>25 555</b>

The CEOs/Equivalent of the holding company and operating subsidiaries are key management personnel for the Group. Other allowances relates to travel and medical.

#### 2022

\*\* Resigned August 2021

\*\*\* Acting CEO for one month (September 2021)

\*\*\*\* Acting CEO from October 2021 to January 2022

\*\*\*\*\* Appointed 1 February 2022

#### 2021

\* On 1 June 2020 Dr Ishmael Poolo was appointed as CEF Group CEO

\*\* Ms M Modipa acted as the AEMFC CEO from June 2019 to May 2020

§ During June 2020 Ms Z Sibisi was appointed as the acting AEMFC CEO. #On 1 May 2020, Dr P Masangane was appointed as PASA CEO.

\*\*\* Mr. L. Makhuba was the acting CEO from January 2020 to 31 May 2020. The salary disclosed is for the period while acting as the CEO.

## Mr M Seedat resigned as the Acting COO of iGas and Dr I Poolo was appointed as the interim CEO of iGas on 1 July 2020.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 40. Key management personnel and directors' emoluments (continued)

#### Non-executive

Figures in Rand thousand	Directors' fees	Other expenses <sup>@</sup>	Directors' fees for services as directors' of subsidiaries	Total
<b>2022</b>				
Ms. A Noah (Chairperson)*	1 821	52	–	1 873
Mr. J. Besnaar CA (SA)	560	3	–	563
Ms. G. Leketi <sup>#</sup>	–	–	–	–
Adv. P. Hassen*	877	44	–	921
Mr. T. Maqubela <sup>#</sup>	–	–	–	–
Mr. N. Mompoti	409	15	–	424
Mr. N. Poya*	–	58	765	823
Ms. N. Sondlo CA(SA)*	679	31	476	1 186
	<b>4 346</b>	<b>203</b>	<b>1 241</b>	<b>5 790</b>

Figures in Rand thousand	Directors' fees	Other expenses <sup>@</sup>	Directors' fees for services as directors' of subsidiaries	Total
<b>2021</b>				
Ms. A Noah	403	45	–	448
Mr. J. Besnaar CA (SA)	622	14	375	1 011
Ms. G Leketi	–	–	–	–
Mr. T Maqubela	–	18	–	18
Mr. N Mompoti	648	12	–	660
Dr. M Mnyande (Chairperson) <sup>+</sup>	526	2	–	528
Ms. N Sondlo (CA) SA	675	9	–	684
Adv. P Hassan	613	63	–	676
Mr N Poya	671	114	–	785
	<b>4 158</b>	<b>277</b>	<b>375</b>	<b>4 810</b>

#### Changes in Directorship

<sup>@</sup> Relates to directors travel.

#### 2022

\* G. Leketi and T. Maqubela are the representatives of the Department of Mineral Resources and Energy and do not get paid for attendance of meetings.

\*\* The terms for Mr. N. Mompoti and Mr. J. Besnaar came to end on the 31st of December 2021.

#### 2021

\* Ms A Noah was appointed in December 2020 as the CEF Group Chairperson.

+ It is with great sadness that Dr M Mnyande passed on during year.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022 (continued)

## 41. Financial instruments and risk management

### Categories of financial instruments

#### Categories of financial assets

2022

Figures in Rand thousand	Note(s)	Fair value through profit or loss – Designated	Amortised cost	Total
Loans to group companies	8	–	392 687	392 687
Other financial assets	9	–	191 907	191 907
Investments at fair value	11	871	–	871
Trade and other receivables	16	–	1 788 269	1 788 269
Cash and cash equivalents	17	–	14 091 678	14 091 678
		<b>871</b>	<b>16 464 541</b>	<b>16 465 412</b>

2021

Figures in Rand thousand	Note(s)	Fair value through profit or loss – Designated	Amortised cost	Total
Loans to group companies	8	–	47 669	47 669
Other financial assets	9	–	180 401	180 401
Investments at fair value	11	844	–	844
Trade and other receivables	16	–	1 904 182	1 904 182
Cash and cash equivalents	17	–	13 691 048	13 691 048
		<b>844</b>	<b>15 823 300</b>	<b>15 824 144</b>

#### Categories of financial liabilities

2022

	Note(s)	Amortised cost	Leases	Total
Trade and other payables	25	2 736 733	–	2 736 733
Other financial liabilities	20	–	114 813	114 813
Lease liabilities	22	–	1 044 607	1 044 607
		<b>2 736 733</b>	<b>1 159 420</b>	<b>3 896 153</b>

2021

	Note(s)	Amortised cost	Leases	Total
Trade and other payables	25	1 725 131	45	1 725 176
Other financial liabilities	20	–	389 931	389 931
Lease liabilities	22	–	1 161 238	1 161 238
		<b>1 725 131</b>	<b>1 551 214</b>	<b>3 276 345</b>

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022 (continued)

## 41. Financial instruments and risk management (continued)

### Pre tax gains and losses on financial instruments

#### Gains and losses on financial assets

2022

Figures in Rand thousand	Note(s)	Fair value through profit or loss – Mandatory	Amortised cost	Total
<b>Recognised in profit or loss:</b>				
Interest income	30	–	593 467	593 467
Dividend income	30	29	–	29
Gains (losses) on foreign exchange		–	(51 441)	(51 441)
Movement in credit loss allowances	29	–	7 083	7 083
<b>Net gains (losses)</b>		<b>29</b>	<b>549 109</b>	<b>549 138</b>

2021

	Note(s)	Fair value through profit or loss – Mandatory	Amortised cost	Total
<b>Recognised in profit or loss:</b>				
Interest income	30	–	813 402	813 402
Dividend income	30	6	–	6
Gains (losses) on foreign exchange		–	(28 624)	(28 624)
Movement in credit loss allowances	29	–	(19 731)	(19 731)
<b>Net gains (losses)</b>		<b>6</b>	<b>765 047</b>	<b>765 053</b>

#### Gains and losses on financial liabilities

2022

	Note(s)	Amortised cost	Leases	Total
<b>Recognised in profit or loss:</b>				
Finance costs	31	(31 043)	(79 450)	(110 493)
Gains (losses) on foreign exchange		518	–	518
<b>Net gains (losses)</b>		<b>(30 525)</b>	<b>(79 450)</b>	<b>(109 975)</b>

2021

	Note(s)	Amortised cost	Leases	Total
<b>Recognised in profit or loss:</b>				
Finance costs	31	(35 797)	(115 521)	(151 318)
Gains (losses) on foreign exchange		994	–	994
<b>Net gains (losses)</b>		<b>(34 803)</b>	<b>(115 521)</b>	<b>(150 324)</b>

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 41. Financial instruments and risk management (continued)

#### Capital risk management

The Group is exposed to capital risk which is the risk the entity will lose all or part of the principal amount invested.

The Group's objective when managing capital is to ensure that it will be able to continue as a going concern while maximizing the returns to stakeholders through optimization of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes 8, 20 and 21 cash and cash equivalents disclosed in note 15, and equity as disclosed in the statement of financial position.

In order to preserve capital the Group constantly monitor the credit and sovereign risk of the counterparties.

Consistent with others in the State-Owned Companies, the Group monitors capital on the basis of the gearing ratio as per the National Treasury guidance. The ratio is calculated as total interest bearing debt divided by total capital. Total capital is calculated as equity as shown in the statement of financial position and total interest bearing debts is calculated as external debt excluding finance lease liabilities

There have been no changes to what the Group manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

	Notes	2022	2021
Other financial liabilities	20	114 813	389 931
Equity		10 422 170	10 580 128
Gearing ratio		1%	4%

#### Financial risk management

##### Overview

The company is exposed to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk (currency risk, interest rate risk and price risk).

The group has a risk management and central treasury function that manages the financial risks relating to the group's operations. The group's liquidity, credit, foreign exchange, interest rate and crude oil price risks are monitored continually.

The Board of directors provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

The group's risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the group's activities.

The group audit committee oversees how management monitors compliance with the risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the group. The audit committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee and the risk committee.

The group's objective in using financial instruments is to reduce the uncertainty over future cash flows arising from movements in foreign exchange, interest rates and crude oil prices. Throughout the year under review it has been, and remains, the group's policy that no speculative trading in derivative instruments be undertaken.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 41. Financial instruments and risk management (continued)

#### Credit risk

The Group is exposed to credit risk which is the risk of financial loss to the entity if a customer or a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's receivables and investment securities.

The degree of risk involved is (theoretically) reflected in the borrower's credit rating. It is key to ensure that the credit risk taken in the cash portfolios is diversified and does not exceed the risk appetite of the CEF Group, either on an individual counterparty or industry sector basis.

The group is exposed to credit risk on loans receivable, trade and other receivables, cash and cash equivalents, loan commitments and financial guarantee.

#### Cash and cash equivalents

Credit risk exposure arising on cash and cash equivalents is managed by the group through dealing with well-established financial institutions with high credit ratings. Credit limits with financial institutions are revised and approved by the Board annually. The Group obtains independent information of counterparty ratings from rating agency.

#### Trade and other receivables

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash. Credit guarantee insurance is purchased when deemed appropriate.

Credit loss allowances for expected credit losses are recognised for all debt instruments, but excluding those measured at fair value through profit or loss. Credit loss allowances are also recognised for loan commitments and financial guarantee contracts.

In order to calculate credit loss allowances, management determine whether the loss allowances should be calculated on a 12 month or on a lifetime expected credit loss basis. This determination depends on whether there has been a significant increase in the credit risk since initial recognition. If there has been a significant increase in credit risk, then the loss allowance is calculated based on lifetime expected credit losses. If not, then the loss allowance is based on 12 month expected credit losses. This determination is made at the end of each financial period. Thus the basis of the loss allowance for a specific financial asset could change year on year.

The maximum exposure to credit risk is presented in the table below:

		2022			2021		
		Gross carrying amount	Credit loss allowance	Amortised cost/fair value	Gross carrying amount	Credit loss allowance	Amortised cost/fair value
Loans to group companies	8	392 687	–	392 687	47 669	–	47 669
Other financial assets	9	629 262	(437 355)	191 907	443 612	(263 211)	180 401
Trade and other receivables	16	2 096 514	(252 178)	1 844 336	2 251 787	(347 605)	1 904 182
Contract assets	10	8 204	(8 204)	–	20 768	(20 768)	–
Cash and cash equivalents	17	14 123 701	(32 023)	14 091 678	13 811 144	(120 096)	13 691 048
		<b>17 250 368</b>	<b>(729 760)</b>	<b>16 520 608</b>	<b>16 574 980</b>	<b>(751 680)</b>	<b>15 823 300</b>

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 41. Financial instruments and risk management (continued)

#### Liquidity risk

The Group is exposed to liquidity risk, which is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group manages its liquidity risk by effectively managing its working capital, capital expenditure and cash flows. The financing requirements are met through a mixture of cash generated from operations and long and short term borrowings. Committed borrowing facilities are available for meeting liquidity requirements and deposits are held at central banking institutions.

In mitigating liquidity, risks the Group strives to ensure that loan and overdraft facilities of appropriate terms are available and that revenue match loan redemption commitments.

The maturity profile of contractual cash flows of non-derivative financial liabilities, and financial assets held to mitigate the risk, are presented in the following table. The cash flows are undiscounted contractual amounts.

#### 2022

		Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total	Carrying amount
<b>Non-current liabilities</b>							
Lease liabilities	22	–	–	415 357	546 040	961 397	942 312
<b>Current liabilities</b>							
Trade and other payables	25	2 081 216	–	–	–	2 081 216	2 218 534
Other financial liabilities	20	114 813	–	–	–	114 813	114 813
Lease liabilities		125 423	–	–	–	125 423	102 295
		<b>2 321 452</b>	<b>–</b>	<b>415 357</b>	<b>546 040</b>	<b>3 282 849</b>	<b>3 503 601</b>
<b>Non-current assets</b>							
Trade and other receivable	16	–	213 557	–	–	213 557	213 557
Other financial assets		–	–	–	191 907	191 907	191 907
Loans to group companies	8	–	–	–	392 687	392 687	392 687
<b>Current assets</b>							
Trade and other receivable	16	1 723 268	–	–	–	1 723 268	–
Cash and cash equivalents	17	14 091 678	–	–	–	14 091 678	–
		<b>15 814 946</b>	<b>213 557</b>	<b>–</b>	<b>584 594</b>	<b>16 613 097</b>	<b>798 151</b>
		<b>13 493 494</b>	<b>213 557</b>	<b>(415 357)</b>	<b>38 554</b>	<b>13 330 248</b>	<b>(2 705 450)</b>

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022 (continued)

## 41. Financial instruments and risk management (continued)

2021

		Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total	Carrying amount
<b>Non-current liabilities</b>							
Lease liabilities		–	–	421 401	623 987	1 045 388	1 045 389
<b>Current liabilities</b>							
Trade and other payables	25	1 725 131	–	–	–	1 725 131	1 725 131
Other financial liabilities	20	389 931	–	–	–	389 931	389 931
Lease liabilities		115 849	–	–	–	115 849	115 849
		<b>2 230 911</b>	<b>–</b>	<b>421 401</b>	<b>623 987</b>	<b>3 276 299</b>	<b>3 455 165</b>
<b>Non-current assets</b>							
Trade and other receivables	16	–	295 048	–	–	295 048	295 048
Other financial assets		–	–	–	180 401	180 401	180 401
Loans to group companies	8	–	–	47 516	–	47 516	47 516
<b>Current assets</b>							
Trade and other receivables	16	1 746 615	–	–	–	1 746 615	1 746 615
Cash and cash equivalents	17	13 691 048	–	–	–	13 691 048	13 691 048
Loans to group companies	8	153	–	–	–	153	153
		<b>15 437 816</b>	<b>295 048</b>	<b>47 516</b>	<b>180 401</b>	<b>15 960 781</b>	<b>15 960 781</b>
		<b>13 206 905</b>	<b>295 048</b>	<b>(373 885)</b>	<b>(443 586)</b>	<b>12 684 482</b>	<b>12 505 616</b>

### Foreign currency risk

The group is exposed to foreign currency risk as it raises funding on the offshore financial markets, imports raw material and spares and furthermore exports finished products and crude oil which are denominated in foreign currencies. The Group takes cover on foreign exchange transactions where there is future currency exposure. The Group also make use of a natural hedge situation to manage foreign currency exposure. The foreign currencies in which the group deals primarily are US Dollars and Euros.

The group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022 (continued)

## 41. Financial instruments and risk management (continued)

### Exposure in Rand

The net carrying amounts, in Rand, of the various exposures, are denominated in the following currencies. The amounts have been presented in Rand by converting the foreign currency amounts at the closing rate at the reporting date:

	Notes	2022	2021
<b>US Dollar exposure:</b>			
<b>Non-current assets:</b>			
Loans receivable	9	89 832	93 818
<b>Current assets:</b>			
Trade and other receivables	16	115 483	485 190
Cash and cash equivalents	17	1 991 183	1 255 876
<b>Non-current liabilities:</b>			
Other financial liabilities	20	–	(129 205)
<b>Current liabilities:</b>			
Trade and other payables	25	(1 180 845)	(229 234)
Other financial liabilities		–	(147 947)
<b>Net US Dollar exposure</b>		<b>1 015 653</b>	<b>1 328 498</b>
<b>Euro exposure:</b>			
<b>Current assets:</b>			
Trade and other receivables	15	140	148
Cash and cash equivalents	17	25 502	37 358
<b>Current liabilities:</b>			
Trade and other payables	25	(1 015)	(4 913)
<b>Net Euro exposure</b>		<b>24 627</b>	<b>32 593</b>
<b>Net exposure to foreign currency in Rand</b>		<b>1 040 280</b>	<b>1 361 091</b>

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 41. Financial instruments and risk management (continued)

#### Exchange rates

The following closing exchange rates were applied at reporting date:

Figures in Rand thousand	2022	2021
<b>Rand per unit of foreign currency:</b>		
US Dollar	14,490	14,790
Euro	16,100	17,380

#### Forward exchange contracts

Certain forward exchange contracts have been entered into for the purposes of managing foreign currency risk. The net market value of all forward exchange contracts at reporting date is calculated by comparing the forward exchange contracted rates to the equivalent market foreign exchange rates at reporting date. The present value of these net market values are then calculated using the appropriate currency specific discount curve.

There were no open forward exchange contracts as at 31 March 2021.

	Note	Contract rate	Market rate	Contract foreign currency amount	Contract Rand amount	Fair value of contract
<b>Imports - goods</b>						
Buy US Dollars		14,810	14,510	6 000	88 860	87 076

The group measures its market risk exposure by running various sensitivity analyses including 10% favourable and adverse changes in the key variables. The sensitivity analyses include only outstanding foreign currency denominated monetary items and adjust their translation at the period end for a 10% change in foreign currency rates.

The following information presents the sensitivity of the group to an increase or decrease in the respective currencies it is exposed to. The sensitivity rate is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. No changes were made to the methods and assumptions used in the preparation of the sensitivity analysis compared to the previous reporting period.

#### Commodity price risk

Commodity price risk is the risk of fluctuations in our earnings as a result of fluctuation in the price of commodities.

#### Crude oil and fuel price

The crude oil price volatility has a significant impact in the following businesses:

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

The average crude oil price per barrel was US \$59.19 in the current year and US \$61.10 in the prior year.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 41. Financial instruments and risk management (continued)

#### Foreign currency sensitivity analysis

The following information presents the sensitivity of the company to an increase or decrease in the respective currencies it is exposed to. The sensitivity rate is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated amounts and adjusts their translation at the reporting date. No changes were made to the methods and assumptions used in the preparation of the sensitivity analysis compared to the previous reporting period.

#### Group

The group measures its market risk exposure by running various sensitivity analyses including 10% favourable and adverse changes in the key variables. The sensitivity analyses include only outstanding foreign currency denominated monetary items and adjust their translation at the period end for a 10% change in foreign currency rates.

The following information presents the sensitivity of the group to an increase or decrease in the respective currencies it is exposed to. The sensitivity rate is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. No changes were made to the methods and assumptions used in the preparation of the sensitivity analysis compared to the previous reporting period.

For financial assets as at 31 March 2022, a 10% strengthening in ZAR against the relevant currencies would have resulted in a decrease in foreign currency denominated assets of R0.4 million (2021: R4.7 million) and a 10% weakening in ZAR against the relevant currencies would have resulted in an increase in foreign currency denominated assets of R0.4 million (2021: R4.7 million).

For financial liabilities as at 31 March 2022, a 10% strengthening in ZAR against the relevant currencies would have resulted in a decrease in foreign currency denominated liabilities of R93.5 million (2021: R5.1 million) and a 10% weakening in ZAR against the US Dollar would have resulted in an increase in foreign currency denominated liabilities of R93.5 million (2021: R0.5 million).

#### Interest rate risk

Fluctuations in interest rates impact on the value of investments and financing activities, giving rise to interest rate risk.

The Group policy with regards to financial assets, is to invest cash at floating rates of interest and to maintain cash reserves in short-term investments in order to maintain liquidity, while also achieving a satisfactory return for shareholders.

There have been no significant changes in the interest rate risk management policies and processes since the prior reporting period.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 41. Financial instruments and risk management (continued)

#### Interest rate profile

The interest rate profile of interest bearing financial instruments at the end of the reporting period was as follows:

	Note	Average effective interest rate		Carrying amount	
		2022	2021	2022	2021
<b>Assets</b>					
Loans to group companies	8	8,25 %	7,25 %	392 687	181 245
Cash and cash equivalents	17	4,31 %	4,75 %	14 091 678	13 691 048
				<b>14 484 365</b>	<b>13 872 293</b>
<b>Liabilities</b>					
Other financial liabilities		4,09 %	7,75 %	114 813	389 931
Finance lease liabilities		9,91 %	10,00 %	1 086 820	1 157 491
				<b>1 201 633</b>	<b>1 547 422</b>

#### Interest rate sensitivity analysis

The following sensitivity analysis has been prepared using a sensitivity rate which is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. All other variables remain constant. The sensitivity analysis includes only financial instruments exposed to interest rate risk which were recognised at the reporting date. No changes were made to the methods and assumptions used in the preparation of the sensitivity analysis compared to the previous reporting period.

#### Group

An interest rate sensitivity analysis is based on an increase or decrease of 1% (100 basis points) in the South African market interest rates and the prevailing information as at the reporting date.

The analysis assumes that all other variables remain constant.

The Group's interest rate risk arises from cash and cash equivalents, loans to group companies and finance lease liabilities. The cash on call is invested at variable rates (JIBAR) which expose the company to cash flow interest rate risk, and are managed by CEF Treasury Department. Loans to group companies and finance lease are charged at fixed interest rate.

If interest rates had been 100 basis points higher/lower and all other were held constant, the profit for the year ended 31 March 2022 would decrease/ variables increase by R141 million (2021: decrease/increase by R123.3 million).

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 42. Fair value information

#### Fair value hierarchy

The table below analyses assets and liabilities carried at fair value. The different levels are defined as follows:

Level 1: Quoted unadjusted prices in active markets for identical assets or liabilities that the group access at measurement date.

Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

#### Levels of fair value measurements

##### Level 1

##### Recurring fair value measurements

Figures in Rand thousand	Note(s)	2022	2021
<b>Assets</b>			
<b>Financial assets at fair value through profit (loss)</b>			
Listed shares		156	129
<b>Total</b>		<b>156</b>	<b>129</b>

##### Level 3

##### Recurring fair value measurements

<b>Assets</b>			
<b>Financial assets designated at fair value through profit (loss)</b>			
Investment in Methcap (19%)	11	715	715
<b>Total</b>		<b>715</b>	<b>1 475</b>

CEF SOC Ltd's investment in Methcap is highly reliant on PetroSA's Gas to Liquid (GTL) operations as the plant uses biogas produced as a by-product at the PetroSA GTL plant to produce electricity and sell it back to PetroSA. The PetroSA GTL shutdown has therefore negatively affected Methcap, making it unable to continue operations. The Net asset value (NAV) has been used to measure the fair value of the investment in Methcap.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 43. Going concern

The Board is confident that the going concern assumption is appropriate in the preparation of the Group Consolidated Annual Financial Statements for the year ended 31 March 2022. While difficult economic conditions persist, the Board and management continuously review the operational and financial risks of the Group and ensure that appropriate initiatives, strategies and controls are in place to mitigate the risks and their impact on business.

#### **PetroSA**

The directors believe that the company has adequate financial resources to continue in operation for the foreseeable future and accordingly the consolidated and separate financial statements have been prepared on a going concern basis. The directors have satisfied themselves that the company is in a sound financial position and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements. The directors are not aware of any new material changes that may adversely impact the company. The directors are also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the company.

In determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the group can continue in operational existence for 12 months from approval of the financial statements.

In determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the group can continue in operational existence for 12 months from approval of the financial statements.

The PetroSA group current assets exceed current liabilities by R1.9 billion, whilst at company level, current liabilities exceed current assets by R0.3 billion. PetroSA will continue to trade and supply its core market by extending month to month contracts with industry and term contracts for the commercial market. PetroSA does not intend to decommission any of the existing wells in the coming 12 months and consequently does not expect that the associated liability will be realised in the reporting period. In addition, the PetroSA Board has commissioned an independent study to review the decommissioning estimates, which will inform future estimates as the legislative framework for decommissioning in South Africa is yet to be formulated by the regulator for petroleum exploration. Accordingly, the decommissioning liability utilises the best estimates available at reporting date and has resulted in the company's total liabilities exceeding total assets by R7.9 billion and R7.4 billion at group level, rendering the company technically insolvent. The scenario of technical insolvency has resulted in PetroSA not meeting some of its obligations at financial year-end, however the company and the Board supported by shareholder does not intend to cease operations, as management has developed short, medium and long-term plans, supported and approved by the Board and shareholder to continue trading activities and business operations. These plans aim to stabilise the company in the short term, grow revenues in the downstream business, leverage the existing profitable asset, PGL, in the form of dividend income, capital raising or funding of working capital which will aid the liquidity of PetroSA whilst enabling growth and longer-term initiatives to realise. Albeit the plans to turnaround the company, PetroSA continues to face a number of key strategic challenges, perpetuated by the following factors both at company and group level:

- PetroSA has been experiencing operating losses for more than 3 successive years;
- Indigenous gas reserves are close to depletion and reached technical cut off point for supply to the GTL refinery in December 2020;
- GTL Refinery is currently in parked mode since December 2020 due to poor market product cracks. The processing of condensate in a depressed market environment will result in negative yields and is not commercially viable;
- The Trade, Supply & Logistics Division continues to import finished product for resale at a profit and satisfy contractual commitments. The trading of hydrocarbons has proved profitable, however not adequate to cover the high fixed cost structure of PetroSA working capital management initiatives such as extended payment terms with suppliers and early payments from customers have afforded PetroSA an opportunity to manage cost and honour its obligations;
- The prioritisation of payment to suppliers, in relation to the available funds, remains an ongoing monthly assessment;
- The precarious financial position negatively impacting the organisation's credit rating status; and
- PetroSA remains vulnerable to exogenous factors such as fluctuations in the crude oil price and volatility in foreign exchange rates (a devaluation in the ZAR/USD has resulted in an increase in the Rand value of the decommissioning liability).

## NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 43. Going concern (continued)

In the circumstance, a material uncertainty exists regarding the entity's ability to honour obligations as they fall due. A concerted effort with CEF, DMRE and Ministry is ongoing to ensure that initiatives to turnaround PetroSA are expeditiously implemented under strict monitoring by the PetroSA Board, CEF and DMRE at the Tri-partite War Room. The 2022 – 2026 Strategy and Corporate Plan, developed and approved by the Board on the 16th February 2022 is supported by a funding plan/initiatives to support and implement the Strategy and Corporate Plan. The CEF Group corporate plan relating to 2022/23 was approved by the Minister of DMRE on 23 June 2022 and requires implementation and execution of the activities codified in the plan.

Despite the headwinds faced by the company in this financial year, the resilience and positive returns of PetroSA Ghana Limited (PGL) contributed positively to the liquidity of the company. In addition, increased importation and sales of finished products and strenuous cost containment measures positively contributed to the high revenues and positive gross profit realised. Whilst these measures provided much relief to the company, the financial distress position continues to threaten sustainability of the company, in the absence of the GTL refinery production. Due to the weakening financial strength of the balance sheet, some suppliers have become reluctant to offer unsecured and/or open favourable credit terms. Nonetheless, there remains a limited number of suppliers who continue to offer favourable credit terms to PetroSA. PetroSA continues to depend on its own cash reserves and utilise stringent working capital management processes to fund trading and marketing operations to fulfil customer contractual obligations and source new customer.

Furthermore, management continues to explore possibilities of establishing Letters of Credit (LCs) utilising the PGL balance sheet, in the absence of the adequate cash reserves that were held with Standard Bank and utilised as collateral for raising LCs. The LC to be established utilising PGL, will be up until the envisaged funding instrument from the market is finalised to ensure that both these funding instruments do not run concurrently. In addition, conversations are ongoing to establish whether the balance sheets of entities within the CEF group (eg SFF), can be utilised for the purchase of finished product, subject to meeting legislative requirements and obtaining approvals from DMRE and National Treasury.

With the GTL refinery ceasing operations and production in December 2020, the insufficient revenues realised from the sale of imported finished products were insufficient to cover the high fixed cost structure of a plant in parked mode, resulting in the company realising a net loss of R392 million. Management continues to evaluate feedstock options and studies, to resuscitate the GTL refinery. Whilst the GTL refinery is in parked mode, management is exploring initiatives to increase revenues including increasing finished product volumes and diversification of molecules for placement in the market, entering the lubricants business and utilising funding support through a stream of dividend income from PetroSA Ghana Limited and other funding strategies codified in the funding plan.

According to management's projected cash flows, the company will show positive cash flows from April 2022 to March 2023. Once the funding plan initiatives materialises, the company will continue with the improved positive cash flows for the remainder of the year. The implementation of the funding plan initiatives and strategies in the corporate plan will result in the company's cash position ending March 2023. The projected cash flows assume a gradual increase in revenue effective from September 2022. These projections are based on management best estimates and judgement codified through a road map developed for the revenue generation initiatives, to increase revenue to achieve the targeted 3.5 billion litres. Furthermore, a number of cash injections at varying intervals including, farm out projects to diversify the risk through partnering initiatives; this initiative however will be subject to approval from the Ministry in terms of section 54 of the PFMA, 1999. In instances where the approvals are not secured during the 2022/23 financial year, cash flow projections will be adjusted accordingly. Non-execution of the share buy-back would result in negative cash flows ending March 2023. The proceeds on the disposal of non-core assets as demonstrated by the sale of the ORCA and inflows associated with the transaction in the current financial year as well as leveraging funding through the PetroSA Ghana asset.

## NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 43. Going concern (continued)

On 18 February 2020, SARS issued a Letter of Demand for R1 billion with respect to exports from unlicensed depots for the period May 2015 to March 2017. PetroSA responded to SARS outlining the process undertaken for a suspension of the payment amount, which was previously denied by SARS. Subsequently, PetroSA lodged a DA96 notice with SARS, notifying the Commissioner of its intention to approach the High Court for an urgent interdict against SARS. PetroSA was successful and the next steps are for SARS to obtain a court date to take the matter further. During the current financial year, PetroSA approached SARS' attorney advising them that their failure to file an answering affidavit, left PetroSA with no option but to enrol the matter. SARS had subsequently requested an extension for the filing of their answering affidavits, therefore the matter is still pending.

#### Initiatives on the corporate plan

CEF and DMRE have been working closely with PetroSA in the formulation of the corporate plan. To counter and respond to PetroSA's financial and operational challenges, this process ensures stability during the pre-merger phase and provide the funding gap as PetroSA is aggressively pursuing the following initiatives, short-term and medium to long term to ensure a commercial and sustainable company:-

#### SHORT-TERM INITIATIVES

##### Increased Purchase and resale of finished products

The current corporate plan is premised on aggressive returns from the purchase and resale of purchased products up to 3.5 billion litres. These volumes will be realised throughout and beyond the planned period. The current contractual agreements allows for achievement of 1.3 billion litres, in line with the cash flow forecast. The volumes, as included in the corporate plan will be achieved through aggressive business development initiatives including the acquisition of existing market players to support PetroSA's current operating model, in the absence of production at the GTL refinery. The acquisition will be executed on a self-funding asset basis and will also utilise funds sourced through the funding initiatives as embodied in the funding plan. It is further anticipated that capital expenditure will be incurred in order to place these volumes in the market.

It is further anticipated that the increase in demand will continue during the planning period and the economic forecast is that South Africa needs finished product due to limited local refining capacity, whilst four of the existing refineries in the country are not producing for the foreseeable future. Furthermore, PetroSA continues to explore and attract new business for the supply of finished products, particularly with state-owned entities, which will further improve the downstream business and related margins. As demonstrated in the prior financial year, the aggressive yields on increased purchase and resale of finished products is providing much relief in the source of income for PetroSA. Furthermore, PetroSA is exploring several funding options during the year such as establishment of LC's through PGL and other CEF group entities balance sheets, for the procurement of finished product in order to achieve the budgeted volumes of 3.5 billion litres as codified in the approved corporate plan.

##### Dividend income and PGL

PetroSA received dividends of R461 million from PGL to support the operational liquidity needs of the company. PetroSA has expectations of future dividends in the ensuing year. The tax assessment of R708.7 million issued by Ghana Revenue Authority (GRA), which was later withdrawn, has been assessed as low risk and not a threat to the company's income stream. PetroSA will continue to leverage PGL in the ensuing financial year by exploring additional dividend income.

##### Cost optimisation

PetroSA continued to maintain stringent cost-containment measures for the group in the current financial year. In order to strengthen cost containment measures, a cash flow management and evaluation process has been reintroduced, which is aimed at ensuring that all expenditures are approved at the highest levels within the organisation, being GCEO, GCFO and COO. In certain instances, the approval is sought at the highest echelons being, the Chairperson of the Board. These austerity cost management measures have resulted in the company incurring only business critical expenditure being supported and incurred. This is to ensure that only costs critical to maintain and support the current operating model are incurred throughout the organisation.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 43. Going concern (continued)

#### Financing instruments

##### Increase equity through pre-emption - PGL

PGL issued its counter offer notification of pre-emption in respect of the sale of the total shareholding in the Jubilee Oil Holdings Limited Company and Anadarko WCTP Company in relation to Deepwater Tano Joint Operating Agreement (DWT JOA) to acquire the Participating Interest. This acquisition will provide an opportunity to increase revenue and cash that would be generate further liquidity support to PetroSA. The funding for the acquisition has been secured through commercial lending and PetroSA would benefit from the transaction by an increased equity in the asset. PetroSA has received approval from Standard Bank on the bridge loan of R666.3 million to facilitate the payment acquisition of preempted shareholding, on the back of approval from the shareholder. Management is currently awaiting final approvals of section 54 of the PFMA from the Ministry as well as section 66 of the PFMA from National Treasury to access the funds as these approvals were still outstanding at the time of finalising the financial statements. Management is confident that all the approvals will be obtained as this is a strategic initiative not only for PetroSA as the national oil company, but a footprint for South Africa in the African continent.

##### Funding instrument

PetroSA has approached the market for several funding instruments utilising Ghana and/or production volumes as a form of security. Positive feedback received from the market indicates an appetite to support PGL, which invariably, will support PetroSA. It is envisaged that funding of up to US\$200 million will be realised. Consistent with the strategy of leveraging PGL, this will allow funds to be made available to PetroSA to a maximum of US\$80 million through a share buy-back structure subject to approvals from the board of CEF. Concurrence in relation to approval of the corporate plan with the embedded funding plan has already been received from the Ministry, and management together with the CEF Board will further pursue the process to obtaining section 66 approval from the Minister and the fiscal liability committee of the National Treasury during the current financial year.

##### Right sizing of the business

The s189 consultation process with labour, relating to voluntary severance packages (VSPs), consisted of three phases which was concluded at the beginning of the new financial year. The total number of VSP applications approved to exit the organisation was 228, with realisable savings of R203 million per annum. The employees approved during the last phase were released at the end of May 2022. The payment for the VSPs of R67.6 million was funded through the company's balance sheet. Furthermore, PetroSA will be implementing a new organisational structure during the year, aligning to the business model and ensuring that critical skills required are retained. Once the new organisational structure has been implemented, it is envisaged that PetroSA will realise further savings on the fixed cost.

##### Disposal of non-core assets

PetroSA received the proceeds from the disposals of non-core assets, which included the ORCA and excess spares no longer required for operations. It is anticipated that the proceeds from the disposal of Xmas trees would also be received in the current financial year once the contract with the buyer has been finalised and signed by both parties. Exogenous factors such as volatility in exchange rates, war outbreak in Russia/Ukraine could further delay the finalisation and delivery of the asset to the potential buyer. Once this transaction has been concluded and finalised, it will contribute to the forecasted cash flow anticipated to be received during this financial year. Additional proceeds from the disposal of the office building is anticipated to be received through a sale and lease back arrangement in order to accommodate Cape Town based employees.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 43. Going concern (continued)

#### **MEDIUM TO LONG-TERM INITIATIVES**

##### **Feedstock for the refinery**

PetroSA appointed an independent service provider to evaluate the most commercial and sustainable feedstock solution for the GTL refinery and the outcome was presented to the Board in March 2022. The study revealed sub- economical results for the feedstock study options that were evaluated. Management continues to evaluate feedstock solutions influenced by market dynamic changes, including Luiperd Total Gas. No capital expenditure is anticipated to be incurred during the current financial year except those relating the maintenance of the facility in usable status for future operations.

##### **Divestment and farm-outs**

PetroSA concluded a competitive bidding process to find equity participation partners for some of its offshore petroleum rights to bring in technical expertise and financial resources required to fund the forward work programmes associated with these rights, thus limiting PetroSA technical risk and financial exposure. For one asset (Exploration Right 248 – Block 2C) a farm-out agreement has been signed and completion of the farm-out is expected before March 2023. Farm-out negotiation for another asset (ER 224 – Blocks 5,6,7) have commenced and the funds are expected to be received by the end of 2023 and will cover PetroSA's share of operating cost capped at US\$1 million. The farmouts will allow PetroSA to remain active in the upstream activities whilst the "state free carry" envisaged in the UPRD Bill is undergoing Parliament approval processes. This process will be completed and finalised once the conditions precedent per the signed farm-out agreement are fulfilled, including the approval of the farm- out agreement by the board of directors of PetroSA, CEF and the Minister.

##### **Conclusion**

Management acknowledges that material uncertainties remains over group's ability to continue operate as a going concern due to liquidity constraints. In considering the uncertainties described above, and weighing these against interventions by the shareholder, the board and management has a reasonable expectation that the group has adequate financial resources and support from both the shareholder and the Executive Authority to continue operations for the foreseeable future and therefore continues to adopt the going concern basis of accounting to prepare the financial statements.

##### **AEMFC**

The ability of the company to continue as a going concern is dependent on a number of factors. The most significant of these is that the directors continue to procure funding for the ongoing operations of the company and that the subordination agreement referred to in note 7 these financial statements will remain in force for so long as it takes to restore the solvency of the company. The current ratio and net profit after tax have improved to 3.6 and by 446% respectively.

The Board confirms that it has assessed the key sustainability risks and there is no reason to believe the business will not be a going concern in the year ahead.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 44. Events after the reporting period

#### **CFO Appointment**

Appointment of the new Group CFO, Ms J Morabe on 01 August 2022.

#### **RENERGEN PROJECT**

The board resolved to invest in the Gas project, however, this process is still being assessed and concluded.

#### **Rompco acquisition**

Subsequent to year-end the iGas ROMPCO acquisition as disclosed in note 36 commitments note was concluded for R4.1 billion resulting in an increase in Investments in associates, Loans to external: CMG and external borrowings as well as a decrease in the cash reserves. As the transaction was concluded on 29 June 2022 this is a non-adjusting event after reporting date and will not affect the disclosure made in the current financial year.

#### **SFF**

Following the joint media statement made by the Ministers of Finance and Energy on Thursday, 31 March 2022, on short-term relief measures to address the fuel price increases, the Minister of Mineral Resources and Energy proposed that the revenue foregone for the months of April and May 2022 would be recouped through the sale of strategic crude oil reserves held by the company and that the sale would be required to raise around R6 billion.

The legislative requirements for the sale of the strategic oil reserves requires authorisation by the Minister of Mineral Resources and Energy, with the concurrence of the Minister of Finance, in terms of the Central Energy Fund (CEF) Act (Act No. 38 of 1977). Funds from the sale must be deposited into the Equalisation Fund at the Central Energy Fund. The Minister of Finance and the Minister of Mineral Resources and Energy have the authority to approve the release of funds from the Equalisation Fund into the National Revenue Fund in terms of the Act. They are expected to do so during the 2022/23 fiscal year.

The above announcement also affects the Demand Side Management Levy of 10 cents per litre collected by CEF and paid over to National Revenue Fund. This levy is terminated with effect from 1 June 2022.

#### **AEMFC**

AEMFC and Innovent reached an agreement to settle the litigation matter on the Finance lease, on a settlement of R18 million. The financial lease liability moved from R65 million to R18 million.

AE is in a process of restructuring where S189 retrenchment and S84 VSP in terms of labour relation Act are followed. The process is in progress, the process started in May 2022. The financial effect of the restructuring cannot be estimated at the moment.

#### **PetroSA**

On 19 April 2022, the PetroSA Ghana Limited board approved a dividend of R156.6 million which was paid on 25 April 2022. On 17 May 2022, the Board approved another dividend of R160.6 million.

On 29 April 2022, the PetroSA Europe Board approved a dividend of R16.8 million which was paid on 4 May 2022.

On 10 May 2022, PetroSA Rehabilitation (NPC) received an investment repayment of R131.4 million from Land Bank. Subsequent to this payments, the capital value of the investment was R342.9 million.

Subsequent to the financial year-end, PetroSA concluded its voluntary severance process and also commenced activities such as PGL pre-emption and its related bridge loan as well as a pre-export finance facility and related share buy-back.

The details of these processes have been captured as part of the going concern note of this report (note 43).

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

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 45. Fruitless and Wasteful expenditure

Figures in Rand thousand	2022	2021
<b>Fruitless and wasteful expenditure</b>		
Opening balance	19 557	21 837
Expenditure relating to the current year	1 232	11 984
Less: Amounts recovered	(50)	(522)
Less: Amounts condoned/written off	(393)	(13 742)
	<b>20 346</b>	<b>19 557</b>
<b>Details of fruitless and wasteful expenditure relating to the current year</b>		
Penalties and late cancellation fees for travel and accommodation	13	36
Interest on late payment of suppliers	4	20
Items individually <R50 000	–	33
Penalties and interest to SARS	1 196	389
Sale to fictitious customer	–	11 500
Traffic violations/penalties on renewal of vehicles	9	6
	<b>1 222</b>	<b>11 984</b>

#### 2022

##### Penalties and late fees for travel and accommodation

R14 000 penalties and late cancellation for travel and accommodation (SFF and iGas)

##### Interest on late payment of suppliers

R1.2 million penalty for late submission of VAT and PAYE (AEMFC and CEF)

##### Interest on late payment of suppliers

R4 000 interest on late payment of suppliers. (AEMFC),

##### Traffic Violations

R9 000 relates to traffic violations/penalties on renewal of vehicles (AEMFC).

#### 2021

##### Penalties and interest to SARS

R389 000 penalty for late submission of VAT return and payment(AEMFC).

##### Penalties and late fees for travel and accommodation

R36 000 penalties and late cancellation fees for travel and accommodation (AEMFC, CEF and SFF).

##### Interest on late payment of suppliers

R20 000 interest on late payment of suppliers. (AEMFC, CEF, and SFF),

##### Traffic Violations

R6000 relates to traffic violations/penalties on renewal of vehicles(AEMFC, CEF and SFF).

##### Sale to fictitious customer (PetroSA)

An unknown individual/company purporting to be JSE listed company, contacted PetroSA with a request to purchase product for its own consumption. After following up on outstanding payments, no individuals could be contacted. Upon further investigation, it was identified that the credit account was opened based on fraudulent documentation. The funds have not been recovered.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 46. Irregular expenditure

Figures in Rand thousand	2022	2021
<b>Irregular expenditure</b>		
Opening balance	855 402	573 868
Prior period error	53 453	-
Expenditure relating to current year	209 748	276 438
Discovered during the current year but relating to the prior year	14 240	5 096
Less: Amounts condoned	(18 247)	-
	<b>1 114 596</b>	<b>855 402</b>
<b>Details of irregular expenditure relating to the current year</b>		
Contravention of procurement regulations	209 748	276 438

#### Contravention of company policy and Contravention of procurement regulations

##### 2022

##### AEMFC

##### Prior period adjustment

The prior period adjustment on irregular expenditure relates to the following:

The contravention is a result of non compliance with applicable laws and regulations in the appointment of suppliers to the value of R50 million.

The contravention amounting to R170.2 million is a result of non-compliance with applicable laws and regulations in the appointment of suppliers.

##### CEF:

Expenditure incurred in the current year of R2.2 million relates to services of accounting and law firms for forensic investigation at PetroSA, services were either procured without obtaining 3 quotes or following tender process.

An amount of R3.5 million is a result of non-compliance with applicable laws and regulations in the appointment of suppliers.

R0.4 million relates to payments for various services where the contracts have expired or payments exceeded the contract amount.

During the year under review, an approval from National Treasury to condone R7.8 million was received.

##### PASA

During the year under review, an approval from National Treasury to condone R10.4 million was received relating to the non-extension of the bid validity.

##### SFF

##### Prior period adjustment

The prior period adjustment on irregular expenditure relates to the following:

Quotations received from suppliers whose tax affairs were not in order with the South African Revenue Services at date of award. This amounted to R3.3 million. This was not reported in the previous set of annual financial statements.

The contravention amounting to R8.3 million is a result of non-compliance with applicable laws and regulations in the appointment of suppliers.

An amount of R3.3 million incurred in the prior year but only included in the current year as the suppliers tax affairs was not up to date.

##### iGAS

Non-compliance with the Supply Chain Management Policy as the tenders were advertised less than 21 days. Management is still assessing the full extent of the irregular expenditure of R24 million incurred and this will be finalized in 2023 financial year.

## NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

### 46. Irregular expenditure (continued)

#### 2021

##### **AEMFC**

The contravention amounting to R237.9 million is a result of non-compliance with applicable laws and regulations in the appointment of suppliers.

##### **CEF:**

Expenditure incurred in the current year of R6.7 million relates to services of accounting and law firms for forensic investigation at PetroSA, services were either procured without obtaining 3 quotes or following tender process.

R1 million relates to payments for various services where the contracts have expired or payments exceeded the contract amount.

R3.4 million relates to non-compliance with the Supply Chain Management Policy as the tenders were advertised less than 21 days.

##### **PASA**

During the year under review, 2 contracts were awarded to suppliers where the validity of the bids/tenders had expired at the dates the contracts were awarded.

The total value of the contracts were R10,5 million and \$1,2 million (R17,8million) respectively.

To date expenditure incurred against the contracts was R1,5 million and \$0,6 million (R8,9million) respectively.

Both contractors are performing against the terms of the contracts. An application has been made to National Treasury to condone the irregular expenditure incurred to date and to regularise the balance of the contract..

##### **SFF**

An amount of R1,909,151 was incurred on software license renewal during the 2020/21 financial year in relation to the project that is in foreign jurisdiction as mentioned below. This amount should be added to the amount of R7,288,069 as detailed in the 2019/20 financial year.

A legal service provider was appointed by the holding company to provide a legal opinion that impacted both entities. It was envisaged that the two entities would share costs. On completion of the legal opinion, no one at the holding company was willing to pay for the legal opinion provided SFF. Legal fees paid in relation to this matter amounted to R815,637.50

An award amounting to R67,047 was made to a supplier that was not registered with the Construction Industry Development Board (CIDB) as required by section 18(1) of the CIDB Act as well as CIDB regulation 18.

Two instances amounting to R89,572 were identified where suppliers had not provided the company with their declaration of local content. As a result, compliance with the minimum threshold for local content could not be determined.

Incorrect points for BBBEE were awarded to a supplier. This resulted in the incorrect supplier being awarded a purchase order with the company. This resulted in irregular expenditure amounting to R50,812.

A 10 year contract for nitrogen supply included a clause for extension on expiry. This extension was utilised and expenditure amounting to R5,780,296 was incurred. The company could not demonstrate that it went to market 11 years ago, the contract extensions were terms and conditions of the tender advert.

##### **iGAS**

Non-compliance with the Supply Chain Management Policy as the tenders were advertised less than 21 days. Management is still assessing the full extent of the irregular expenditure of R9.3 million incurred and this will be finalized in 2022 financial year.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022 (continued)

## 1. 1. Movement in net remaining proved and probable reserves

	Crude oil/ condensate MMbbl	Gas Bscf	Crude oil/ condensate MMbbl	Gas Bscf
At the beginning of year	14	10	13	34
Revision of previous estimates	1	2	1	(5)
Production	(1)	(2)	(2)	(16)
Additions	(1)	1	2	(3)
	<b>13</b>	<b>11</b>	<b>14</b>	<b>10</b>

## 2. 2. Proved and probable by type of field

Fields in production	13	11	14	10
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## 3 Reserves by category

Proved	9	6	6	5
Proved and probable	13	11	14	10
	<b>22</b>	<b>17</b>	<b>20</b>	<b>15</b>

### Oil

Fields in production and under development comprise the Jubilee (2.73%), Oribi (100%) and Oryx (100%) oil fields.

### Gas

Fields in production and under development comprise the F-A and F-A Satellite, E-M and E-M Satellite and FO gas fields respectively.

Fields under appraisal comprise discoveries. The reserves shown are either all oil or all gas, excluding gas liquids. Oil includes condensate and LPG.

Reserves and production are shown on a working interest basis (100%). Reserves were generated using a reservoir simulator that incorporated PetroSA's production philosophy. Oil and gas reserves cannot be measured exactly since the estimation of reserves involves subjective judgement and arbitrary determinations and therefore all estimations are subject to revision. The gas and oil reserves reflected above have been determined by independent reservoir engineers.

*The supplementary information presented does not form part of the consolidated annual financial statements and is unaudited*

## DEFINITION OF FINANCIAL TERMS

### FOR THE YEAR ENDED 31 MARCH 2022 (continued)

Below is a list of definitions of financial terms used in the annual report of CEF Group:

#### **Accounting policies**

The specific principles, bases, conventions, rules and practices applied in preparing and presenting annual financial statements.

#### **Accrual accounting**

The effects of transactions and other events are recognised when they occur rather than when the cash is received.

#### **Acquiree**

The business or businesses that the acquirer obtains control of in a business combination.

#### **Acquirer**

The entity that obtains control of the acquiree.

#### **Acquisition date**

This is the date on which the acquirer obtains control of the acquiree. Active market

A market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

#### **Actuarial gains and losses**

The changes in the present value of the defined benefit obligation resulting from experience adjustments (The effects of differences between the previous actuarial assumptions and what have actually occurred) as well as the effects of changes in actuarial assumptions.

#### **Amortisation (depreciation)**

The systematic allocation of the depreciable amount of an asset over its useful life.

#### **Amortised cost**

The amount at which a financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

#### **Asset**

A resource controlled by the entity as a result of a past event from which future economic benefits are expected to flow.

#### **Assets under construction**

A non-current asset which includes expenditure capitalised for work in progress in respect of activities to develop, expand or enhance items of property, plant and equipment, intangible assets and exploration assets.

#### **Borrowing costs**

Interest and other costs incurred in connection with the borrowing of funds.

#### **Business**

An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.

#### **Business combination**

A transaction or other event in which an acquirer obtains control of one or more businesses. Transactions sometimes referred to as 'true mergers' or 'mergers of equals' are also business combinations as that term is used in this IFRS.

*The supplementary information presented does not form part of the consolidated annual financial statements and is unaudited*

## DEFINITION OF FINANCIAL TERMS

### FOR THE YEAR ENDED 31 MARCH 2022 (continued)

#### **Carrying amount**

The amount at which an asset is recognised after deducting any accumulated depreciation or amortisation and accumulated impairment losses.

#### **Cash and cash equivalents**

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

#### **Cash flows**

Inflows and outflows of cash and cash equivalents.

#### **Cash-generating unit**

The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

#### **Change in accounting estimate**

An adjustment to the carrying amount of an asset, liability or the amount of the periodic consumption of an asset that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

#### **Consolidated annual financial statements**

The annual financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries presented as those of a single economic entity.

#### **Constructive obligation**

An obligation that derives from an entity's actions where:

- (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
- (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

#### **Contingent asset**

A possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

#### **Contingent liability**

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

#### **Control**

An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

*The supplementary information presented does not form part of the consolidated annual financial statements and is unaudited*

## **DEFINITION OF FINANCIAL TERMS**

### FOR THE YEAR ENDED 31 MARCH 2022 (continued)

#### **Corporate assets**

Assets other than goodwill that contribute to the future cash flows of both the cash generating unit under review and other cash generating units.

#### **Cost**

The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction, or, when applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other IFRSs.

#### **Costs to sell**

The incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expense.

#### **Credit risk**

The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

#### **Currency risk**

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

#### **Date of transaction**

The date on which the transaction first qualifies for recognition in accordance with International Financial Reporting Standards.

#### **Deferred tax assets**

The amounts of income taxes recoverable in future periods in respect of deductible temporary differences, the carry forward of unused tax losses and the carry forward of unused tax credits.

#### **Deferred tax liabilities**

The amounts of income taxes payable in future periods in respect of taxable temporary differences.

#### **Defined benefit plan**

Retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' earnings and/or years of service.

#### **Defined contribution plan**

Post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

#### **Depreciation (or amortisation)**

The systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount of an asset is the cost of an asset, or other amount substituted for cost, less its residual value.

#### **Derecognition**

The removal of a previously recognised asset or liability from the statement of financial position.

#### **Derivative**

A financial instrument whose value changes in response to an underlying item, requires no initial or little net investment in relation to other types of contracts that would be expected to have a similar response to changes in market factors and is settled at a future date.

*The supplementary information presented does not form part of the consolidated annual financial statements and is unaudited*

## DEFINITION OF FINANCIAL TERMS

### FOR THE YEAR ENDED 31 MARCH 2022 (continued)

#### **Development**

The application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before starting commercial production or use.

#### **EBITDA**

Profit/(Loss) from operations before depreciation, amortisation, impairment of assets, investment revenue, fair value adjustments, non-operational foreign gains/losses, income/(loss) from associates, net finance costs and taxation

#### **Effective interest method**

A method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

#### **Effective interest rate**

The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

#### **Employee benefits**

All forms of consideration (excluding share options granted to employees) given in exchange for services rendered by employees or for the termination of employment.

#### **Equity instrument**

A contract or certificate that evidences a residual interest in the total assets after deducting the total liabilities.

#### **Equity method**

A method in which the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the share of net assets of the investee. Profit or loss includes the investor's share of the profit or loss and other comprehensive income of the investee.

#### **Events after the reporting period (Subsequent events)**

Those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

- (a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and
- (b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

#### **Exchange difference**

The difference resulting from translating a given number of units of one currency into another currency at different exchange rates

#### **Expenses**

The decreases in economic benefits in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

#### **Fair value**

The amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction.

*The supplementary information presented does not form part of the consolidated annual financial statements and is unaudited*

## DEFINITION OF FINANCIAL TERMS

### FOR THE YEAR ENDED 31 MARCH 2022 (continued)

#### **Fair value less costs to sell**

The amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

#### **Financial asset**

Any asset that is:

- (a) cash;
- (b) an equity instrument of another entity;
- (c) a contractual right (i) to receive cash or another financial asset from another entity; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- (d) a contract that will or may be settled in the entity's own equity instruments and is (i) a non- derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

For this purpose the entity's own equity instruments do not include puttable financial instruments classified as equity instruments in accordance with paragraphs 16A and 16B of IAS 32, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 16C and 16D of IAS 32, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.

#### **Financial asset or liability at fair value through profit or loss**

A financial asset or financial liability that is classified as held for trading or is designated as such on initial recognition other than investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

#### **Financial instrument**

A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### **Financial liability**

Any liability that is:

- a) a contractual obligation (i) to deliver cash or another financial asset to another entity or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
- (c) a contract that will or may be settled in the entity's own equity instruments and is (i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Also, for these purposes the entity's own equity instruments do not include puttable financial instruments that are classified as equity instruments in accordance with paragraphs 16A and 16B of IAS 32, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 16C and 16D of IAS 32, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.

As an exception, an instrument that meets the definition of a financial liability is classified as an equity instrument if it has all the features and meets the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D of IAS 32.

*The supplementary information presented does not form part of the consolidated annual financial statements and is unaudited*

## DEFINITION OF FINANCIAL TERMS

### FOR THE YEAR ENDED 31 MARCH 2022 (continued)

#### **Financial risk**

The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the c

#### **Floating production storage and offloading unit**

A floating vessel used by the offshore oil and gas industry for the production and processing of hydrocarbons, and for the storage of oil.

#### **Foreign operation**

An entity that is a subsidiary, joint arrangement or branch of the reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

#### **Functional currency**

The currency of the primary economic environment in which the group operates.

#### **Going concern basis**

The assumption that the entity will continue in operation for the foreseeable future. The financial statements are prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

#### **Government grants**

Assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.

#### **Highest and best use**

The use of a non-financial asset by market participants that would maximise the value of the asset or the group of assets and liabilities (eg a business) within which the asset would be used.

#### **Held-to-maturity investment**

A non-derivative financial asset with fixed or determinable payments and fixed maturity where there is a positive intention and ability to hold it to maturity other than:

- (a) those that the entity upon initial recognition designates as at fair value through profit or loss;
- (b) those that the entity designates as available for sale; and
- (c) those that meet the definition of loans and receivables.

#### **Immaterial**

If individually or collectively it would not influence the economic decisions of the primary users of the annual financial statements.

#### **Impairment loss**

The amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.

#### **Impracticable**

Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

#### **Income**

Increase in economic benefits in the form of inflows or enhancements of assets or decreases in liabilities that

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## DEFINITION OF FINANCIAL TERMS

### FOR THE YEAR ENDED 31 MARCH 2022 (continued)

#### **Interest in other entity**

For the purpose of IFRS 12, an interest in another entity refers to contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees. It includes the means by which an entity has control or joint control of, or significant influence over, another entity. An entity does not necessarily have an interest in another entity solely because of a typical customer supplier relationship.

#### **Interest rate risk**

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

#### **Joint arrangement**

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

#### **Joint operation**

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

#### **Joint venture**

A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

#### **Key management personnel**

Those persons having authority and responsibility for planning, directing and controlling the activities of the Group. ie. the members of the Board of Directors of CEF SOC Ltd and the CEOs /equivalent of the operating subsidiaries and the holding company.

#### **Lease**

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

#### **Legal obligation**

An obligation that derives from a contract, legislation or other operation of law.

#### **Liability**

A present obligation of the entity arising from a past event, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

#### **Liquidity risk**

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

#### **Loans and receivables**

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- (a) those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- (b) those that the entity upon initial recognition designates as available for sale; or
- (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

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## DEFINITION OF FINANCIAL TERMS

### FOR THE YEAR ENDED 31 MARCH 2022 (continued)

#### **Market risk**

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

#### **Material**

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

#### **Minimum lease payments**

Payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor including in the case of a lessee, any amounts guaranteed by the lessee or by a party related to the lessee or in the case of a lessor, any residual value guaranteed to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

#### **Net assets**

Net operating assets plus cash and cash equivalents.

#### **Net realisable value**

The estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Net realisable value refers to the net amount that an entity expects to realise from the sale of inventory in the ordinary course of business. Fair value reflects the amount for which the same inventory could be exchanged between knowledgeable and willing buyers and sellers in the marketplace. The former is an entity specific value; the latter is not. Net realisable value for inventories may not equal fair value less costs to sell.

#### **Operating lease**

A lease where the lessor retains substantially all the risks and rewards incidental to ownership of an asset.

#### **Other comprehensive income**

Comprises items of income and expense (including reclassification adjustments) that are not recognized in profit or loss and includes the effect of translation of foreign operations, cash flow hedges, available-for-sale financial assets and changes in revaluation reserves.

#### **Owner-occupied property**

Property held by the owner or by the lessee under a finance lease for use in the production or supply of goods or services or for administrative purposes.

#### **Parent**

An entity that controls one or more entities.

#### **Past service cost**

The change in the present value of the defined benefit obligation for employee service in prior periods resulting from a plan amendment (introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by the plan).

#### **Post-employment benefits**

Employee benefits (other than termination benefits) that are payable after the completion of employment.

#### **Presentation currency**

The currency in which the annual financial statements are presented.

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## DEFINITION OF FINANCIAL TERMS

### FOR THE YEAR ENDED 31 MARCH 2022 (continued)

#### Prior period error

An omission from or misstatement in the annual financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that was available when annual financial statements for those periods were authorised for issue and could reasonably be expected to have been obtained and taken into account in the preparation of those annual financial statements.

#### Prospective application

Applying a new accounting policy to transactions, other events and conditions occurring after the date the policy changed or recognising the effect of the change in an accounting estimate in the current and future periods.

#### Proved reserves

- quantities of petroleum anticipated to be commercially recoverable from known accumulations from a given date forward under the following conditions: Discovered, recoverable, commercial and remaining.
- Means the amount of petroleum which geophysical, geological and engineering data indicate to be commercially recoverable to a high degree of certainty. For the purposes of this definition, there is a 90% chance that the actual quantity will be more than the amount estimated as proved and a 10% chance that it will be less.

#### Proved and probable reserves

- Proved and probable reserves are quantities of petroleum anticipated to be commercially recoverable from known accumulations from a given date forward under the following conditions: Discovered, recoverable, commercial and remaining.
- Means proved reserves plus the amount of petroleum which geophysical, geological and engineering data indicate to be commercially recoverable but with a greater element of risk than in the case of proved. For the purposes of this definition, there is a 50% chance that the actual quantity will be more than the amount estimated as proved and probable and a 50% chance that it will be less.

#### Recoverable amount

The amount that reflects the greater of the fair value less costs to sell and the value in use that can be attributed to an asset or cash generating unit as a result of its ongoing use by the entity. In determining the value in use, expected future cash flows to be derived from the asset or cash generating unit are discounted to their present values using an appropriate discount rate.

#### Related party

A person or entity that is related to the entity that is preparing its financial statements.

- a) A person or a close member of that person's family is related to a reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity; or
  - is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
  - The entity and the reporting entity are members of the same group.
  - One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - Both entities are joint ventures of the same third party.
  - One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - The entity is controlled or jointly controlled by a person identified in (a).
  - A person identified in (a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

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## DEFINITION OF FINANCIAL TERMS

### FOR THE YEAR ENDED 31 MARCH 2022 (continued)

#### **Research**

The original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

#### **Reserves under appraisal**

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

#### **Residual value**

The estimated amount which an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

#### **Restructuring**

A programme that is planned and controlled by management, and materially changes either the scope of a business undertaken by an entity or the manner in which that business is conducted.

Applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.

#### **Retrospective restatement**

Correcting the recognition, measurement and disclosure of amounts as if a prior period error had never occurred.

#### **Tax base**

The tax base of an asset is the amount that is deductible for tax purposes if the economic benefits from the asset are taxable or is the carrying amount of the asset if the economic benefits are not taxable. The tax base of a liability is the carrying amount of the liability less the amount deductible in respect of that liability in future periods. The tax base of revenue received in advance is the carrying amount less any amount of the revenue that will not be taxed in future periods.

#### **Temporary differences**

The differences between the carrying amount of an asset or liability and its tax base.

#### **Transaction costs**

Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, i.e. those that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

#### **Useful life**

The period over which an asset is expected to be available for use or the number of production or similar units expected to be obtained from the asset.

#### **Value in use**

The present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

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