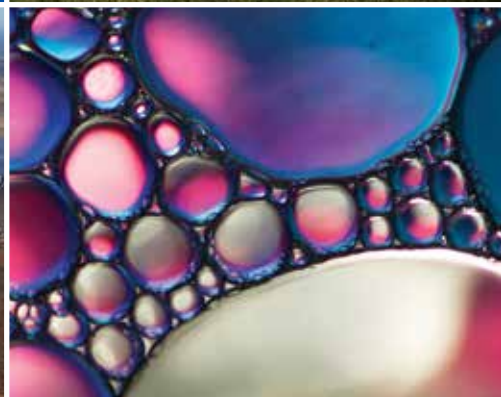




GROWING TOWARDS SUSTAINABILITY

Integrated Annual Report

2019/20





CEF is the holding company for a number of subsidiaries and associates that operate across the entire energy-sector value chain to contribute towards the provision of security of energy supply for South Africa.



ABBREVIATIONS AND ACRONYMS



4IR	Fourth Industrial Revolution
AEMFC	African Exploration Mining and Finance Corporation SOC Limited
AFS	Annual Financial Statements
AGSA	Auditor-General of South Africa
BARC	Board Audit and Risk Committee
B-BBEE	Broad-Based Black Economic Empowerment
BBL	Barrel (equals 159 litres)
BCM	Business Continuity Management
BEE	Black Economic Empowerment
BPS	Basis Points
Bscf	Billions of standard cubic feet
CCE	Cape Cleaner Energy Solutions SOC Limited
CCMA	Commission for Conciliation, Mediation and Arbitration
CEF	Central Energy Fund SOC Limited
CEF Act	Central Energy Fund (Act no 38 of 1977) as amended
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CMG	Companhia Mocambicana de Gasoduto
CNG	CNG Holdings
CPI	Consumer Price Index
CSI	Corporate Social Investment
CSR	Corporate Social Responsibility
CSP	Concentrated Solar Power
DIFR	A ratio related of an injury per million man hours worked
DEFF	Department of Environment, Forestry and Fisheries
DMRE	Department of Mineral Resources and Energy
EBITDA	Earnings before Interest, Tax, Depreciation, Amortisation
ECS	Extended Continental Shelf
ECSA	Engineering Council of South Africa
EIA	Environmental Impact Assessment
ECSC	Extended Continental Shelf Claim
EPD	Energy Projects Division
EFR	Employee Relations Forum
ERM	Enterprise Risk Management
EVP	Employee Value Proposition
EXCO	Executive Committee
FEED	Front-end Engineering and Design
FID	Final Investment Decision
FPSO	Floating Production, Storage and Offloading
GAAP	Generally Accepted Accounting Practice
GCEO	Group Chief Executive Officer
GCFO	Group Chief Financial Officer
GDP	Gross Domestic Product
GiT	Graduate-in-training
GTL	Gas-to-Liquid
GJ	Gigajoule
GNPC	Ghana National Petroleum Corporation



HPO	High-Performance Organisation
HR	Human Resources
IAS	Internal Audit Services
IEA	International Energy Agency
IFRS	International Financial Reporting Standards
iGAS	The South African Gas Development
IEP	(National) Integrated Energy Plan
IFRS	International Financial Reporting Standards
IIA	Institute of Internal Auditors
IIRC	International Integrated Reporting Council
IoD	Institute of Directors
IPP	Independent Power Producers
IPPO	Independent Power Producers Office
IR	Integrated Reporting (Framework)
IRP	Integrated Resource Plan
KPIs	Key Performance Indicators
King IV	King IV Report on Corporate Governance
LFT	Long-fibre thermoplastics
LNG	Liquid Natural Gas
LPG	Liquid Petroleum Gas
MMbbls	Million Barrels
Mb/d	Millions of Barrels per Day
MOI	Memorandum of Incorporation
MPRDA	Mineral and Petroleum Resources Development Act, 2002 (Act 28 of 2002)
MTEF	Medium Term Expenditure Framework
MW	Megawatt
NDP	National Development Plan
NEMA	National Environmental Management Act
NERSA	National Energy Regulator of South Africa
NNPC	Nigerian National Petroleum Corporation
NOC	National Oil Company
NMBM	Nelson Mandela Bay Metro
NDP	National Development Plan
NPA	National Ports Authority
NUM	National Union of Mineworkers
NT	NT Energy Corporation Limited
NYMEX	New York Mercantile Exchange
OPCSA	Oil Pollution Control South Africa NPC
PAMC	Project Appraisal and Monitoring Committee
PAMDC	Pan African Mineral Development Company Proprietary Limited
PASA	South African Agency for Promotion of Petroleum Exploration and Exploitation SOC Limited
PAT	Project Appraisal Team
PetroSA	The Petroleum Oil and Gas Corporation of South Africa
PDD	Project Design Document
PFMA	Public Finance Management Act (Act No 1 of 1999) as amended
PCE	Portfolio Committee on Energy

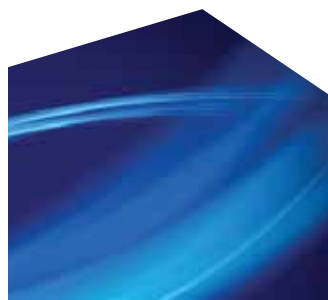
ABBREVIATIONS AND ACRONYMS continued



PPA	Power Purchase Agreement
PPE	Property, Plant and Equipment
PPEs	Personal Protective Equipment
PV	Photovoltaic
REEP	Renewable Energy and Energy Efficiency Partnership
REIPP	Renewable Energy Independent Power Producer
RENAC	Renewables Energy Academy
ROMPCO	The Republic of Mozambique Pipeline Investments Company
SDA	Swiss Development Agency
SAIEE	South African Institute of Electrical Engineers
SAMSA	South African Maritime Safety Authority
SANEDI	South African National Energy Development Institute
SANERI	South African National Energy Research Institute SOC Limited
SAPIA	South African Petroleum Industry Association
SARS	South African Revenue Service
SFF	Strategic Fuel Fund Association
SLA	Service Level Agreement
SOC	State-Owned Company
SOE	State-Owned Enterprise
SWH	Solar Water Heater
Simex	Singapore Monetary Exchange
SOS	SOS Children's Village
STEM	Science, Technology, Engineering and Mathematics
STIP	Short-Term Incentive Policy
TMC	Talent Management Committee
ToR	Terms of Reference
TFST	Thin Film Solar Technology
TNPA	Transnet National Ports Authority
UNDP	United Nations Development Programme
UTT	Upstream Training Trust
VAT	Value Added Tax
VLCC	Very Large Crude Carrier



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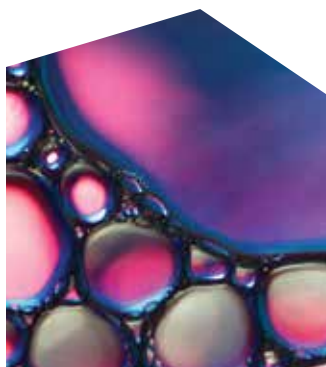
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PART 2



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ABOUT THIS REPORT



SCOPE

The primary purpose of the Central Energy Fund (CEF) Group Integrated Annual Report is to provide strategic and tactical context in relation to our business operations on how we create value as guided by our mandate to a wide range of stakeholders. These include providers of financial capital, joint venture partners, suppliers, customers, communities, parliament and our shareholder, the Department of Mineral Resources and Energy (DMRE).

REPORTING FRAMES

The compilation of the CEF Group Integrated Annual 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 Management Act No.1 of 1999 (PFMA);
- The Companies Act No. 71 of 2008 (as amended);
- Global Reporting Initiative G4 Sustainability Reporting Guidelines; and
- International Financial Reporting Standards (IFRS).

REPORT BOUNDARY

Our integrated report covers the performance of the CEF Group for the financial year April 2019 to March 2020 in all geographic regions in which the CEF Group and its subsidiaries operate as a Schedule 2 state-owned company. Associates and joint ventures are equity accounted and thus not included in consolidated non-financial data. The consolidated data incorporate the company and all entities controlled by the CEF Group from a consolidation perspective. The financial and non-financial information provided is aligned to the same financial reporting period allowing for comparison of performance data. Various disclosures are made in their respective sections in the report. The CEF Group consolidated financial statements are prepared in line with the IFRS.

OUR APPROACH TO REPORTING

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

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

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



DETERMINING MATERIALITY

This report provides information on all those matters that we believe could substantively affect value creation of the CEF Group. The report is written primarily for affected stakeholders in the energy sector and those that provide the Group with capitals. The report is of interest to any stakeholder who wishes to make an informed assessment of the Group's ability to create value over time. In the belief that all the information in this report is material, we do not seek to provide a simple listing of material issues. To identify and prioritise the matters for inclusion in this report we undertook a structured process involving senior decision-makers from across the Group.

ASSURANCE

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

APPROVAL OF THE REPORT

The Board acknowledges its responsibility to ensure the integrity of the integrated report. The directors have collectively assessed the content, and confirm that the report addresses all material issues and fairly represents the integrated performance of the CEF Group. The Audit and Risk Committee, which has oversight responsibility for integrated reporting, recommended the report for approval by the Board. The Board, considering the completeness of the material items dealt with and the reliability of information presented, and based on the combined assurance process followed, approved the 2019/20 Integrated Annual Report, annual financial statements and supplementary information on 31 March 2021.

OUR



As a Group of Companies with a commercial and developmental mandate which operates across the entire energy value chain and the African continent, this information is key in the assessment of how we create value for our shareholder and strategic partners.

STATEMENT OF RESPONSIBILITY & CONFIRMATION OF THE ANNUAL REPORT



To the best of my knowledge and belief, I confirm the following:

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 accounting authority is responsible for establishing, and implementing a system of internal control has been designed to provide reasonable assurance as to the integrity and reliability of the performance information, the human resources information and the annual financial statements.

The external auditors are engaged to express an independent opinion on the annual financial statements.

In our opinion, the Annual Report fairly reflects the operations, the performance information, the human resources information and the financial affairs of the Group for the financial year ended 31 March 2020.

Yours faithfully

Dr I Poolo

Group Chief Executive Officer

31 March 2021

Ms A Noah

Group Chairperson

31 March 2021



PART 1



SECTION 1

YEAR IN REVIEW 2019/20

YEAR IN REVIEW – 2019/20



This report reflects a summary of our performance as agreed in the Shareholder's Compact with the shareholder in delivering on the CEF Group's primary mandate.

We are committed to playing a major role in growing the energy sector to be a catalyst for economic growth and poverty alleviation through security of supply and access to affordable energy.

PERFORMANCE HIGHLIGHTS

For a holistic view of the CEF Group business performance, this report should be read in conjunction with the detailed annual financial statements presented on pages 132 to 265. This report reflects the CEF Group's business performance in line with our Corporate Plan and other yearly targets in the pursuit of our primary objective of ensuring security of energy supply within the confines of our strategic themes. As the implementing arm of the DMRE, the CEF Group plays a vital role in supporting the delivery of the broad objectives of government as outlined in the National Development Plan (NDP).

The following key drivers underpin the CEF Group's values:

- **Impact:** The impact of our strategic and operational objectives on the programmes of government and in the communities where we operate. This impact is measured in both financial and non-financial terms.
- **Sustainability:** The sustainability of our operations in delivering value year on year and adding significant value to all our stakeholders. This is done by setting clear metrics in our approach to value creation.
- **Financial sustainability:**

REVENUE	EBITDA	OPEX	CAPEX	CASH BALANCE
R14.6 billion	(R133.2 million)	(R7.7 billion)	R575 million	R20.8 billion

GOALS

CEF is 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.

YEAR IN REVIEW – 2019/20 continued



HUMAN CAPITAL

R15 million

The CEF Group maintained its commitment of training and development. Of the total R15 496 103,95 amount, R3 291 590,92 was invested on training programmes for staff at all levels. An amount of R6 225 510,94 was also allocated to 90 bursary students across the Group. The balance amounting to R5 978 995,09 was spent on Talent Pipeline initiatives inclusive of Internships and Graduate-In-Training Programmes.



CAPITAL PROJECTS AND INVESTMENTS

R575 million

- **Investment in ROMPCO:** Our 25% equity interest in Republic of Mozambique Pipeline Investments Company (Rompcoc) delivered a dividend of R317.5 million versus a target of R425 million.
- **South Sudan Exploration Project:** SFF has been allocated exclusive exploration rights of Block B2 in South Sudan . The delays relate to the establishment of the international Joint Venture
- **Liquefied Natural Gas (LNG) Terminal Project:** The LNG Terminal Project commenced in August 2019. The project is currently at pre-feasibility stage, which is expected to be finalised in the next financial year.



SAFETY

ZERO

There were no fatalities in the CEF Group for 2019/20. This is attributed to numerous interventions by management in changing the safety culture through targeted programmes in our business operations.



GROUP CHAIRPERSON'S REPORT



Ms A Noah
Group Chairperson

The CEF SOC Ltd, as shareholder of the diverse energy business subsidiaries within the CEF Group, is required to play a critical role in supporting government's broader objectives as outlined in the NDP.

The financial year 2019/20 recorded significant shifts in macro-economic, industry, geopolitical, and energy policy factors that affect our business. Furthermore, the effects of the global pandemic, COVID-19, have disrupted the landscape and challenged conventional approaches to business. These global developments had a dire impact on an already pressurised local economy, and have further intensified the CEF business challenges relating to sustainability and growth.

Even in the unprecedented times we are traversing, it is imperative that the CEF Group ensures commercial viability in order to facilitate and support delivery on our developmental mandate.

OPERATING ENVIRONMENT & PROGRESS ON STRATEGIC INITIATIVES IN 2019/20

In the year 2019/20, the CEF Group encountered headwinds, attributed to some of the above-mentioned factors. Our business persists to navigate major industry trends and disruptions in the CEF landscape, while we continue to contend with strategic challenges that threaten sustainability of the business, in the short, medium and long term. PetroSA's sustainability remains a focal concern.

Albeit this, among the key highlights in 2019/20 was the gazetting of the Integrated Resource Plan (IRP2019) by the Honourable Minister of Mineral Resources and Energy, Mr Gwede Mantashe, which bodes well for iGas and the CEF's renewable energy division. Furthermore, the DMRE published an Upstream Petroleum Bill that designates PASA as a standalone entity and proposes PetroSA be designated as a state carrier for the 20% interest in all exploration blocks.

GOVERNANCE ISSUES & ENTERPRISE RISK MANAGEMENT

In October 2019, Minister Mr Mantashe appointed the capable and committed directors onto the various boards within the CEF Group as part of strengthening governance and oversight. This initiatives was quickly followed by the prioritisation of the executive leadership recruitment across the CEF Group which helped stabilise strategic delivery and other operational initiatives.

The CEF Board under the leadership of the late Dr Mnyande swiftly picked up the mantle and focused all efforts towards supporting the stabilisation, transitions, acceleration and refocus activities as outlined in our strategic road map. This was about delicately balancing strategy whilst being seized with compliance and other governance priorities.

FINANCIAL PERFORMANCE

For the period ended March 2020, the Group performance was adversely affected by the operating environment. The CEF Group recorded increased revenue of R14.6 billion, and a net loss of R5.3 billion. Year 2019/20 registered a reduced Earnings Before Interest,



Taxes, Depreciation and Amortisation (EBITDA) of -R133.2 million.

The revised Group strategic themes and the strengthening of business performance management are geared to ensure that 2020/21 sees a significantly improved CEF Group performance.

INITIATIVES TOWARDS STABILITY & GROWTH INTO 2020/21

Albeit a number of strategic challenges in our operating environment, the CEF Group continues to approach the new financial year with great determination and focus in dealing decisively with the myriad challenges that face the federation.

As we continue to deliver on our Group Corporate Plan, we are cognisant that the IRP 2019 which central to all our broad startegic plans requires that the CEF Group advances the various programmes identified in a systematic manner across the energy value chain.

ACKNOWLEDGEMENTS

To our shareholder, the Honounarable Minister of Mineral Resources and Energy Mr Mantashe, our heartfelt thanks for the support and guidance that you have provided in assisting us to shape the future direction of the CEF Group in a sustainable manner.

I wish to express my appreciation to the CEF Board, Group Chairperson's and the vibrant subsidiary boards as well the various executive management teams for your invaluable contribution.

Importantly, let me also thank the myriad external stakeholders within the CEF Group ecosystem for your ongoing support, constructive feedback and understanding as we explore solutions to our common obstacles.

In closing, I wish to acknowledge with gratitude the sterling work that our late Chairperson Dr Mnyande did in ensuring that the CEF Group becomes a formidable force and recognizes its strategic value in the provision of security of energy supply. We thus cannot falter but must remain resolute in doing the right things no matter how difficult they may be and to be of courageous leadership. This is what he would have wanted us to do. Dr Mnyande taught us that leadership is about making others better as a result of your presence and making sure that impact lasts for decades in your absence. We salute you, Mqwathi.

Ms A Noah

Group Chairperson

GROUP CEO'S REPORT



Dr I Poolo
Group CEO

It is a great honour to share the CEF Group's performance in my maiden Integrated Annual Report for the 2019/20 financial year. The report provides an overview of our business operations across the entire value chain and progress we have made against our predetermined objectives. The CEF Group's operations span oil and gas, coal mining, gas infrastructure, storage, renewables, upstream promotion and regulation. The energy sector characterised by long lead times, risk and volatility which brings various dynamics in our business operations. The Group's business performance was delivered against the backdrop of a very challenging operating environment and a subdued local economy in the wake of the Covid-19 pandemic. It was further compounded by sustainability concerns around our biggest subsidiary, the Petroleum Oil and Gas Corporation of South Africa (PetroSA) which is technically insolvent.

The 2019/20 was a time of great uncertainty and instability in the energy sector with Covid-19 creating the biggest global crisis in generations, sending shock waves through health systems, economies, and societies around the world. Faced with an unprecedented situation, governments globally scrambled to bring the disease under control while trying to find sustainable solutions to revive ailing economies after strict lockdowns.

The energy sector has been severely affected by the Covid-19 pandemic. It has slowed transport, trade and economic activity across the globe, with countries in full lockdown experiencing an average 25% decline in energy demand per week and countries in partial lockdown an average decline of 18%.

As the CEF Group, our performance is hugely impacted by the operating environment. The key factors in the operating environment that affect our performance are macro-economic, industry, geopolitical, and energy policy. The macro-economic factors that affect our business is the oil price, the exchange rate, interest rate, fiscal policy and government policies. The industry factors that affect our business are demand and supply, price of commodities, competition, new technologies and government policies and regulations. The geopolitical factors are those that have a major influence in the movement of oil prices and other supply and demand components.

OUR OPERATING ENVIRONMENT

Oil prices started strong at \$61/b in January 2020, but the oil war between Saudi Arabia and Russia, two OPEC allies, caused prices to plummet and suffer their biggest fall since 1991. Covid-19 further compounded the situation by undermining energy demand worldwide. Global oil demand is expected to be a record 9.3 mb/d lower in 2020 than in 2019, mostly because containment measures in 187 countries brought global mobility to a halt. The recovery in the new financial year is projected to be gradual, as economies come out of lockdowns and economic activity levels rise, but demand is not expected to reach pre-crisis levels before the end of the year.

These global developments have had a major impact on the local economy, which was already under severe pressure with high unemployment, power outages through load shedding, and poor manufacturing output resulting in the contraction of the economy. This was further exacerbated by Covid-19-related hard lockdown measures that hammered domestic demand and the



local economy. The Moody and Fitch ratings downgrade of South Africa's unsecured foreign-currency and local-currency bonds placed even more pressure on the economy as an investment destination. This has seen the local currency dramatically depreciating against global currencies. It is thus that the International Monetary Fund has cut South Africa's gross domestic product (GDP) growth prospects for 2020 to a meagre growth of -.5.8, signalling tough times ahead.

During the period under review, the CEF Group encountered serious headwinds as a result of some of the above-mentioned environmental changes as commodities tumbled and demand for our products fell severely, impacting revenue targets and other growth prospects. The subdued demand for electricity as a result of reduced economic activity translated in reduced coal and diesel demand for one of our biggest customers, Eskom.

The average Brent crude oil price for the 12 months ended 31 March 2020 was \$61.10/Bbl, which was lower than the budget of \$74.02/Bbl. The Brent crude oil closing price at the end of the year was \$22.60/Bbl, which was a significant decrease from our annual plan. Movements in oils prices have a major impact on feedstock purchases but also create opportunities in our storage business.

Over and above the oil price, the Group performance is impacted by the exchange rate with 58% of CEF Group investments held in cash. During the past financial year, the average rand/US\$ exchange rate was R14.79 against the budget of R14.39. The closing rand/US\$ exchange rate at the end of the year was R17.86 with the local currency depreciating due to a number of global and local factors. This had both negative and positive impacts on our business where we saw a positive net profit generated mainly as a result of the foreign exchange gains and fair value movements.

In the coal industry, the national utility requested coal mining companies to reduce the cost of primary energy and delivered coal as a result of subdued national energy demands. This is likely to affect the future profitability of one of our subsidiaries in the coal mining space, the African Exploration Mining and Finance Corporation (AEMFC). There has also been a concerted drive by local funders to scale down and withdraw funding for coal projects and coal power stations. This lack of funding for coal projects from local funders is likely to stunt the growth of the coal business. This on the back of government imposing a carbon tax, which will reduce the profitability of the coal business and put more strain on the creation of jobs.

In the power generation sector, the Independent Power Producer (IPP) Programme has been delayed for more than three years due to the debate on the affordability of renewable energy. The current subdued energy demands will further impact these programmes. The developments will likely affect the growth prospects of our Energy Projects Division (EPD) which is responsible for spearheading developments in new technologies and other renewable opportunities. Bio-fuel regulations were published during quarter three of this financial year and these regulations provide certainty to the bio-fuel industry and the respective technologies that underpin these. We remain optimistic that through strategic partnerships this may be a future growth avenue for the Group.

POLICY DIRECTION

On 17 October 2019, the Minister of Mineral Resources and Energy, Mr Gwede Mantashe, published the Integrated Resource Plan (IRP) 2019. The IRP supports a diverse energy mix and sets out nine policy interventions to ensure the security of South Africa's electricity supply. It is an electricity infrastructure development plan based on the least-cost electricity supply and demand balance, considering security of supply and the environment through the minimisation of negative emission and water use.

The IRP proposes the procurement of an additional 8 100 MW of gas between 2026 and 2029 in support of economic development. The demand for gas bodes well for Gas Infrastructure (iGAS) and the EPD. Plans are already underway to align core strategic initiatives and partnerships towards such key projects.

During December 2019, Mr Mantashe again published an Upstream Petroleum Bill that designated the Petroleum Agency South Africa (PASA) as a standalone entity and proposed that PetroSA be designated as a state carrier for the 20% interest in all exploration blocks. It is thus an imperative that we turn around PetroSA and strengthen it to support government's bold objectives which are outlined later in this report.

GROUP CEO'S REPORT continued



PERFORMANCE FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020

For the period ended 31 March 2020, the Group achieved an overall score of 79%.

Profitability: The Group has reported a net loss of R5.3 billion versus a targeted profit of R1.1 billion. The Group performance was bolstered by the weakening rand against the dollar and the lower oil price. The lower net profit was due to the lower production volumes from the gas-to-liquids (GTL) refinery, which was 28% below target; lower production from the coal mine, which was 36% below budget; and a lower tank utilisation rate (13%). The operational challenges at the GTL refinery had been persistent throughout the financial year.

Liquidity and solvency: The Group capital structure comprises 29% equity and 71% liabilities. The Group capital structure is tenuous and it is likely to be strained due to the suboptimal performance of PetroSA, which is facing serious commercial sustainability challenges.

GOVERNANCE & RISK MANAGEMENT

In our efforts to improve the Group's reputation and restore public trust by improving performance, while minimising lapses in controls, a number of key interventions materialised during the period under review. One of these concerned the appointment of competent boards across the Group to strengthen oversight and improve operational performance. In addition, various Board subcommittees were re-constituted and enabled the main CEF Board to not only holistically focus on governance and compliance in general, but also at a subsidiary level. The impact of the new CEF Board and all the other subsidiary boards is already being felt with much improved synergy, collaboration and a focus on turning around the Group and improving the organisation's reputation.

During the past financial year, the CEF Board also moved swiftly to stabilise the Group by making permanent Chief Executive appointments in all our entities, thus ensuring leadership visibility and direction towards a commercially sustainable future. This has also seen the establishment of the CEO's Forum, which is chaired by the Group CEO and tasked with providing alignment, leadership and overall Group planning integration in an all-inclusive manner that supports the delivery of key strategic objectives outlined in our strategy and Corporate Plan.

EMPLOYEE FOCUS

The business landscape continues to change faster than ever before; it is more global, more competitive and more technologically savvy. Some organisations will thrive in this environment, while others will not. The most successful organisations – high-performance organisations (HPOs) – are those that create a culture and a blueprint for outperforming the competition in the long term.

In the previous financial year, we had outlined our ambitious plans for the creation of an HPO as bedrock for creating a competitive advantage. Through our Human Capital Strategy we have created a conceptual framework for the CEF Group that will lead to improved, sustainable organisational performance that creates value.

At the core of our HPO model is the employee value proposition that clearly defines how we will attract, retain and develop our people while focusing the organisation to ready itself for the Fourth Industrial Revolution (4IR). It is thus that during the financial year we spent R15 496 103.95 towards development and other training initiatives, not only for our permanent employees, but also the vast numbers of Graduates-In-Training that we have brought on board as part of our initiatives of building a capable state and ensuring skill transfer. Underlying our HPO initiatives is the development of progressive policies and procedures that foster a culture of learning and continuous improvement. We also commissioned an extensive employee survey that gave us valuable insights on what matters most to our employees. Key recommendations and tactical initiatives will be incorporated into our plans to make the working environment a place of growth and a melting pot for inspirational ideas. We believe that this is what will set us apart and make us an employer of choice.

FUTURE OUTLOOK

According to the International Energy Agency (IEA) Global Energy Review, the current Covid-19 pandemic is above all a global health crisis that has had a devastating impact on global economies. With millions of confirmed cases and increasing deaths due to the illness the world is learning to adjust to a new normal. We are learning to live in a world of social distancing, masks and heightened health awareness.

Beyond the immediate impact on health, the current crisis has major implications for global economies, energy use and CO2 emissions. The IEA Global Energy Review analysis has shown that global energy demand declined by 3.8% in the first quarter of 2020, with most of the impact felt in March as confinement measures were enforced globally. This is true for coal, oil and electricity. Renewables were the only source that posted a growth in demand, driven by larger installed capacity and priority dispatch.

Going forward, we see all energy carriers being impacted by Covid-19.

- Industry experts predict that oil demand could drop by 9%, or 9 mb/d on average during the year, returning oil consumption to 2012 levels.
- Coal demand could decline by 8%, in large part because electricity demand will be nearly 5% lower over the course of the year. The recovery of coal demand for industry and electricity generation in China could offset larger declines elsewhere.
- Gas demand could fall much further during the full year than in the first quarter, with reduced demand in power and industry applications.
- Nuclear power demand would also fall in response to lower electricity demand.
- Renewables demand is expected to increase because of low operating costs and preferential access to many power systems. Recent growth in capacity, and some new projects coming online in 2020, would also boost output.

CONCLUSION

As we adjust to the rapid changes in our operating environment caused by Covid-19 and other global trends, new operating models will emerge that will define how to remain relevant and commercially viable in a complex operating environment. For this reason, our Group Corporate Plan 2020–2025 is underpinned by the following key pillars:

1. **Stabilising the CEF Group** and improve long-term commercial sustainability and strategic relevance. This will be about addressing our commercial sustainability and turning around those entities that require serious focus. Key to this pillar are essential initiatives that deal decisively with the challenges at PetroSA to find lasting solutions.
2. **Drive growth and increase market share** through diversification of income streams and product portfolio. In an effort to ensure that we remain commercially viable in the long term, the focus will be on growth with key resources being channelled towards our growth initiatives.
3. **Development of key energy infrastructure programmes** in support of economic development and growth and the creation of much-needed jobs. This is part of the CEF Group's contribution to help re-ignite the economy and support our shareholder.
4. **Group consolidation to exploit synergies** and improve the scale of strategic relevance. On 7 May 2020, during a presentation of the department's 2020/21 Strategic Plan to the Portfolio Committee on Mineral Resources, Mr Mantashe announced the planned merger of iGAS, the Strategic Fuel Fund (SFF) and PetroSA into a single entity that would form the nucleus of an integrated national oil champion.

These strategic pillars have led to the key focus areas or strategic themes for the planning horizon which will guide the Group's various initiatives and ensure alignment and exploitation of synergies to achieve the following:



GROUP CEO'S REPORT continued



- R4 billion return by 2025;
- R1 billion from dividends from new business;
- Improve operational efficiency and automation;
- Return on invested capital of 12% by 2025;
- 3% market share;
- Downstream entry; and
- Established level of enterprise risk maturity by 2025.

During the planning horizon, the Group will focus on stabilising and turning around PetroSA, while executing the planned merger of SFF, PetroSA and iGAS in a systematic and responsible manner. The merger will not create supply disruptions, but will quickly scale up, improve operational efficiency, create value and exploit synergies in the shortest possible time. The task ahead will be no easy feat and will require working very closely with our employees, stakeholders, strategic partners as well as our shareholder. We are confident of success. These focused changes form part of our long-term journey of placing the Group on a path to long-term sustainability and growth.

In closing, I would like to thank the CEF Group Chairperson and the rest of the CEF Board for their unwavering support during this period, as well as our subsidiary management and members of the CEO's Forum, staff and our key strategic partners. Together we can create history in making the CEF Group great again and improving our strategic relevance.

Dr I Poolo
Group CEO



CEF GROUP AT A GLANCE



CEF (SOC) Ltd (“CEF”) is the holding company for a number of subsidiaries and associates that operate across the entire energy-sector value chain to contribute towards the provision of security of energy supply for South Africa. This noble responsibility is at the core of our business operations and defines our existence when executing our mandate that flows from the CEF Act and successive ministerial directives. The core entities that make up the Group are South Africa's national oil company, PetroSA; the South African gas development company, iGAS; the AEMFC; the SFF; and the EPD. The CEF Group is a Schedule 2 state-owned company, incorporated in terms of the Companies Act, No. 71 of 2008, and is governed by the Central Energy Fund Act, No. 38 of 1977.

The strategic relevance of the Group lies in the execution of its mandate in support of the broader objectives of the NDP through various tactical initiatives geared towards national security of energy supply.

The EPD of the CEF focuses on the renewable energy sector. As part of the broader strategic intent, and as directed by the shareholder to diversify South Africa's energy mix, the EPD is expected to grow to a fully-fledged subsidiary within the planning horizon to 2025. In the long term, this will result in improved security of supply and enhance social and environmental benefits. The CEF also administers and manages the Equalisation Fund on behalf of the DMRE.



The mandate of the CEF is to contribute to the security of energy supply of South Africa and the region through exploration, acquisition, development, marketing and strategic partnership. The mandate is derived from the CEF Act (No. 38 of 1977) and subsequent ministerial directives.



The vision of the CEF is to be a leading diversified energy company that provides sustainable energy solutions for Southern Africa by 2040. This way, the CEF contributes to national energy security.



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



The CEF Group of Companies, through the holding company CEF SOC Ltd and supported by its subsidiaries, is to be directed by the following values, which form the acronym ‘BRICS’:



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

We are committed to lead in a responsible manner that ensures caring through professionalism, accountability and custodianship that improves value over time.

CEF GROUP'S PURPOSE

The CEF's purpose is to:

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

LEGISLATIVE ENVIRONMENT

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

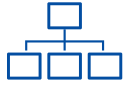
CEF GROUP KEY LEGISLATION

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

OUR INTEGRATED GROUP STRUCTURE

Apart from responding to the need to diversify the country's energy mix as detailed in the Integrated Energy Plan of the DMRE, the CEF Group also exists to support government's broader strategic objectives in line with the NDP, while playing a critical role in enabling economic development. Each entity of the CEF Group focuses on key objectives across the energy sector value chain through the deployment of capital and human resources towards developing and operating mandated strategic projects. Over time, the legal structure of the CEF Group has evolved to meet the changing requirements of the internal and external operating environment and other legislative changes.

CEF GROUP AT A GLANCE continued



The execution of our mandate and Group Strategy is done through our integrated business that operates right across the energy-sector value chain, with commercial, regulatory and development roles. 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, while supporting government's overall strategic intent in line with the NDP.

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

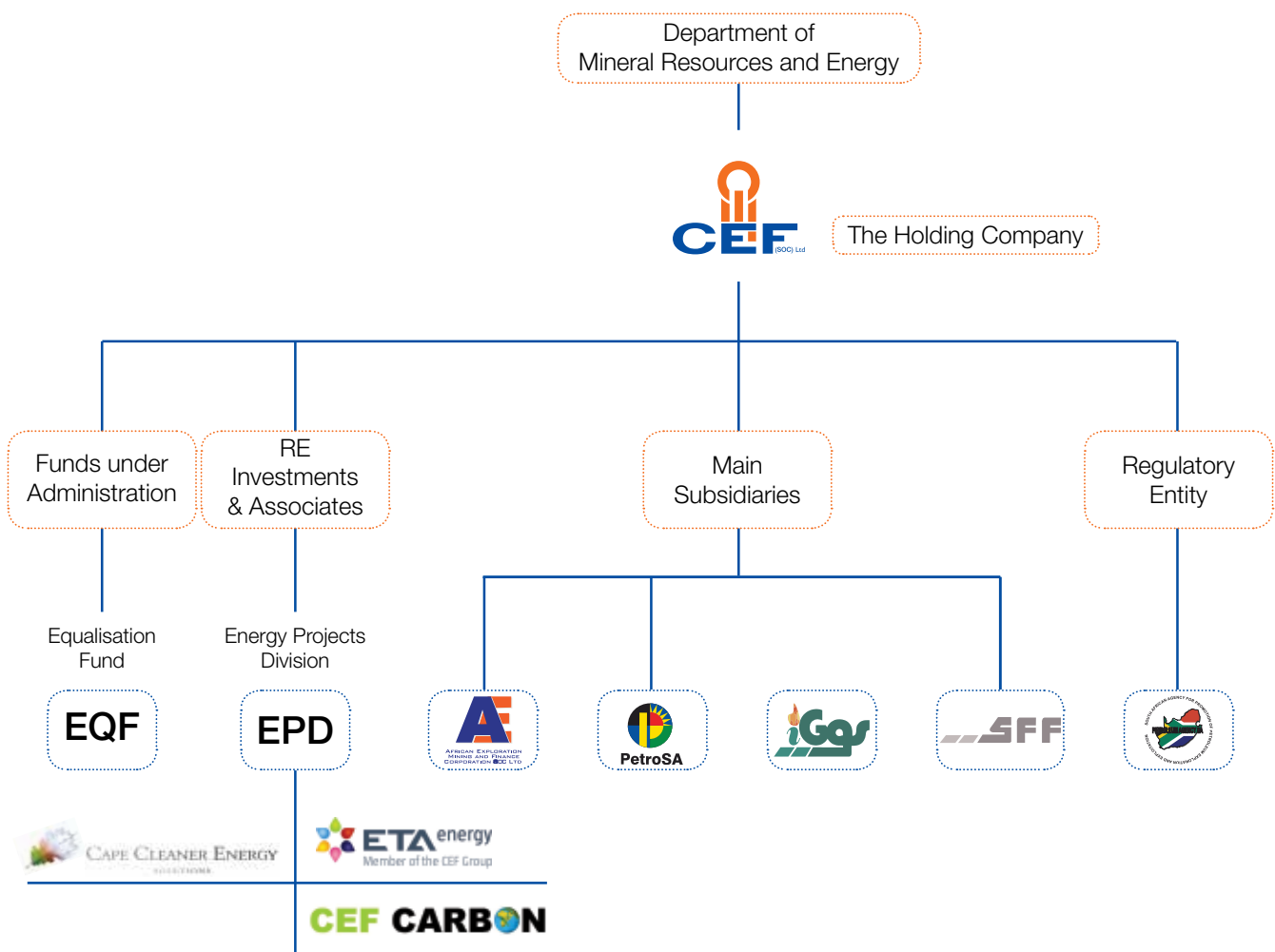


Figure 1: Integrated Group structure



Entity	Overview	Value Chain Participation
PetroSA	PetroSA is the national oil company of South Africa and employs about 1 485 people. Business operations span the petroleum value chain, excluding retail. Its core activity is the exploration, development and production of oil and gas and production of synthetic fuels from gas and condensate (diesel, gasoline, kerosene and specialty products). PetroSA plays a vital role in securing national interest from a refinery and downstream perspective. PetroSA has upstream presence in South Africa and Ghana as well strategic partnerships with entities based in Russia and the Netherlands.	Oil & Gas
SFF	The SFF is responsible for acquiring, maintaining and trading strategic fuel stocks, and providing the country with security of supply of hydrocarbons and related infrastructure in case of emergency. The entity employs about 175 people and most of its business operations is in the Western Cape (Saldanha Bay & Milnerton) and eMalahleni (Ogies). Its core assets include 39 steel tanks, each with 200 000 barrels storage capacity and six in-ground tanks, each with 7.5 million barrels storage capacity.	Storage
AEMFC	The AEMFC is responsible for securing South Africa's energy supply, primarily through the mining and supply of coal for the generation of electricity. It is also responsible for securing other resources that will provide energy for the future, including key minerals for beneficiation in the energy and steel value chain. The entity employs about 493 people and has operations in Mpumalanga supplying coal to Eskom power stations in excess of 1.5 million tons per year.	Coal Mining
iGAS	iGAS is responsible for developing gas and gas infrastructure for South Africa to support the growth of the South African economy through active investment. Through its investment in the Republic of Mozambique Pipeline Company (ROMPCO), which is the commercial operator of the 865 km high pressure gas pipeline connecting the onshore gas fields in Mozambique to South Africa, iGAS plays a strategic role in and development of future mega projects.	Gas Infrastructure
PASA	PASA is responsible for the regulation of the petroleum exploration and production which is regulated by the Mineral and Petroleum Resources Development Act, 2002 (Act No.28 of 2002) (MPRDA). Regulatory functions involve ensuring adherence to the provisions of the MPRDA, undertaken by the Regulation Division comprising the following three departments: (1) Licensing and Legal Compliance (2) Technical Compliance and (3) Environmental Compliance.	Regulatory & Promotion
EPD	The EPD is the catalyst for the commercialisation of new energy technologies, including being a pioneer for energy market development within South Africa. To this end, the EPD already has a number of commercial and developmental projects in progress, including the ACWA Redstone project in the Northern Cape.	Clean & Renewable Energy

Table 1: Overview of each CEF entity

CEF GROUP AT A GLANCE continued



GLOBAL FOOTPRINT

As at the 31st of March 2020, our business operations, investments and strategic partnerships spanned two continents and five countries. These activities are in oil and gas, technology and gas infrastructure, mining and renewables, and represent a diversified portfolio in line with our Group Strategy. These countries are:

- South Africa;
- Mozambique;
- Ghana;
- Netherlands.

GROUP VALUE CHAIN

South African Operations	Mozambique Operations	Ghanaian Operations	Netherlands Operations
Mining, offshore production, refining, renewables investment.	The Mozambique-to-Secunda Pipeline is a 865 km of gas pipeline from the Central Processing Facility (CPF) at Temane in Mozambique to Secunda in South Africa. During the construction phase of LL2 (the installation of a pipeline parallel to the existing pipeline, from scraper station 1, which is about 128 km from the CPF, over a length of 127 km where it connects back into the main pipeline at scraper station 2.	3% stake in the Jubilee oil field off the coast of Ghana. Oil field currently produces between 100 - 120k bpd.	The joint partnership in the cooperative venture company, GTL.F1; PetroSA, Lurgi.

Table 2: CEF operations globally

The Group Value Chain is further strengthened through the formation of Strategic Partnerships. Partnerships allow us to share the risk and reward of capital projects by letting each partner focus on their core capabilities. This is how we extract value for long term sustainability

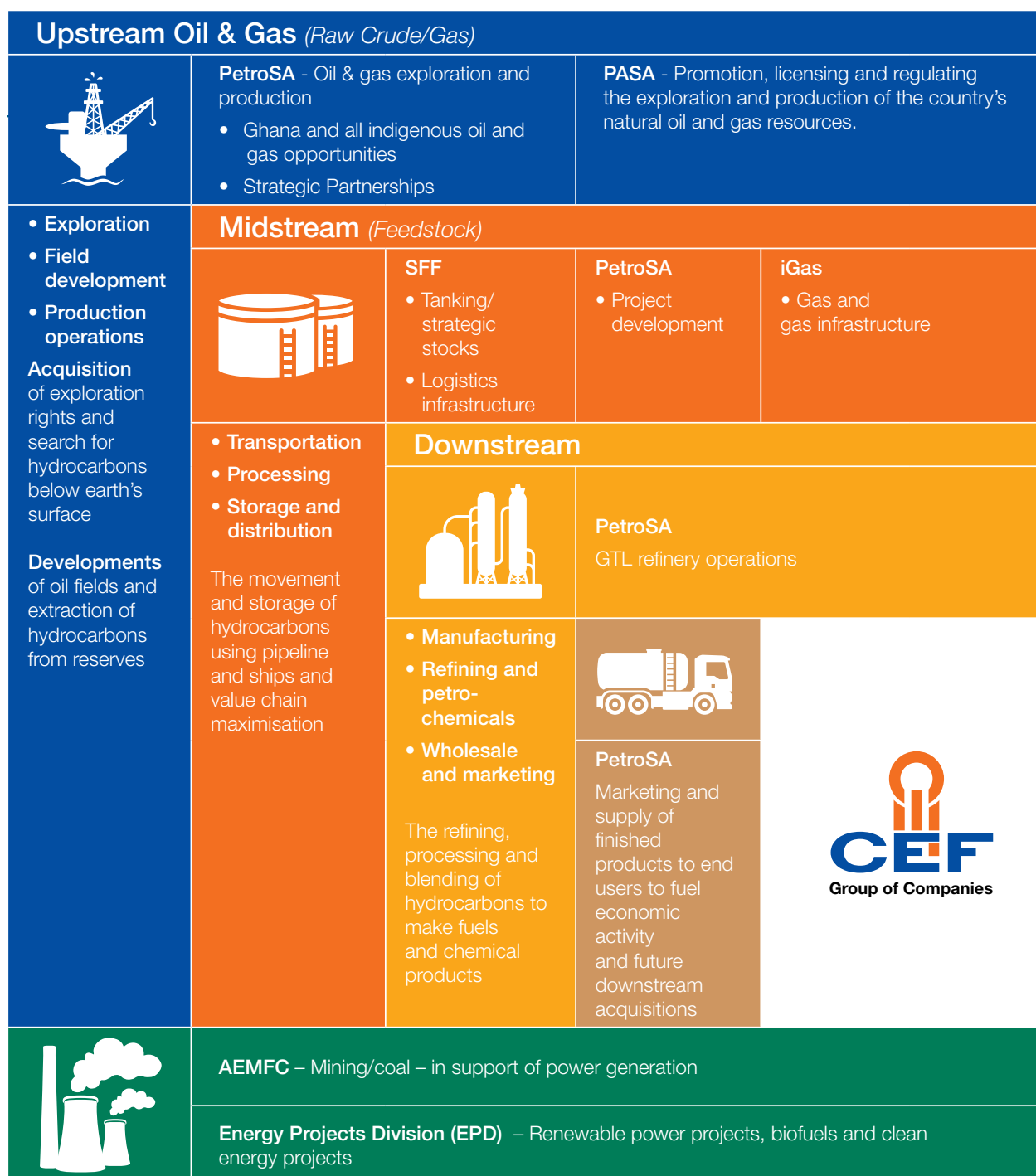


Figure 2: CEF Group value chain

CEF GROUP LEADERSHIP STRUCTURES

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

CEF GROUP BOARD OF DIRECTORS



Ms Ayanda Noah

Age: 54

Ms Noah is a qualified engineer with 29 years' experience in the energy industry. Before going into business as a Managing director of her own engineering consulting firm, she worked at Eskom as the Group Executive for Distribution & Customer Services Division.

Governance experience includes 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.

She was appointed Group Chairperson to the CEF Board in 2020.



Dr Ishmael Poolo

Age: 47

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 & 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.



Mr Nkululeko Poya

Age: 43

Mr Poya is a Civil Engineering Technologist with 20 years' experience in the Road and Railway Industry. He currently serves as a Director of Umtongata Holdings.

Rail makes up a big portion of Mr Poya's experience, having worked for Transnet Freight Rail and Spoornet, as well as heading up the team responsible for the Eastern Cape Department of Transport's Kei Rail project. He was also a Deputy Director General responsible for Road Infrastructure, Public Transport and Traffic Management, and was involved in management of maritime activities within the Eastern Cape province including port infrastructure development and the industrial development zones. Mr Poya also had an opportunity to work as a CEO of the Railway Safety Regulator.

He was appointed non-executive director to the CEF Board in 2020.



Adv. Priakumari Hassan

Age: 49

Advocate Hassan graduated with a law degree from the University of Natal. She established the Women of Africa Investment Group in 2005, which is a women-owned, women-managed, Black-Economic Empowerment company strongly committed to gender empowerment. Its extensive networks, solid reputation as a company of integrity, industry expertise as well as its broad ranging partner relationships with private and state-owned finance organisations positions it to be a reputable service provider in the pharmaceutical, construction, logistics and energy sectors.

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



Ms Nolubabalo Sondlo

Age: 46

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 BOARD OF DIRECTORS continued



Mr Neville Mompoti

Age: 58

Mr Mompoti is a teacher by profession. He has ventured into various business opportunities spanning from retail, petroleum and the mining sector in the past two decades. He is currently also a non-executive director of African Share Housing and Northern Cape Mining, specialising in manganese and iron ore.

He was appointed a non-executive director to the CEF Board in 2016.



Mr Jim Besnaar

Age: 45

Mr Besnaar is currently the CEO for Makomota Investment Holdings (Pty) Ltd and has successfully held senior positions both at provincial and local government level. He also serves as a director/shareholder at Circle Way Trading, Bricksnet, Yard Plant Rentals (Pty) Ltd and Dragon Loo (Pty) Ltd. He is a Chartered Accountant by profession.

He was appointed a non-executive director to the CEF Board in 2016.



Mr Tseliso Maqubela

Age: 55

Mr Maqubela is currently the Deputy Director General for Petroleum and Petroleum Products Regulations at the DMRE. He has 21 years of experience in the energy sector having commenced his career at the Koeberg Nuclear Power Station. He led the drafting team for the Nuclear Energy Policy of South Africa and is currently the chairperson of the Council for Non-Proliferation of Weapons of Mass Destruction. He holds a MAP and a BSc (Hons).

He was reappointed a non-executive director (DMRE representative) to the CEF Board in 2017.



Ms Gosetseone Leketi

Age: 47

Ms Leketi is not a newcomer to the oil, petroleum and gas sector. She is currently a Chief Director: Petroleum and Petroleum Products at the DMRE and also serves as a director at the Chieta-Base Chemicals and Petroleum Chamber. She holds a BCom (Hons) Statistics.

She was appointed a non-executive director (DMRE representative) to the CEF Board in 2016.



Mr Lufuno Makhuba

Age: 39

Mr Makhuba is responsible for the Group financial strategic direction and long-term commercial viability, and oversees the corporate finance functions and key Group investments. He has in-depth experience of financial modelling, preparation of annual financial statements, consolidated and unconsolidated, budgeting/forecast, auditing, due diligence, corporate finance and risk management.

He holds a Masters in Business Leadership from Unisa, BCom Hons (Accounting Sciences), BCom (Accounting Sciences) from Pretoria University and a Senior Management Development Programme Certificate from University of Witwatersrand.

He serves as CEF's Group CFO and Executive Director.

CEF GROUP LEADERSHIP STRUCTURES continued

GROUP CHIEF EXECUTIVES



Dr Ishmael Poolo

Title: CEF Group CEO and Interim iGAS CEO

Age: 47

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

Appointed: June 2020

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.



Mr Mojalefa Godfrey Moagi

Title: SFF CEO

Age: 56

Qualifications: Exec Progs (Wits & Harvard), BCom (Hons) and BCom

Appointed: July 2020

Mr Moagi is an oil and gas executive with 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.



Mr Pragasen Naidoo

Title: PetroSA CEO

Age: 43

Qualifications: MSc (Environmental Man), BSc (Chemical Engineering), Certificate (Leadership Management)

Appointed: July 2020

Mr Naidoo holds a total of 18 years' experience in the oil, gas and petrochemicals sector where he gained exposure and expertise in human capital development and management, technology development, technical engineering, capital project execution, business development, business strategy management, and the commercial and operational environments.

GROUP CHIEF EXECUTIVES continued



Dr Phindile Masangane

Title: PASA CEO

Age: 48

Qualifications: PhD (Chemistry); MBA; BSc

Appointed: July 2020

Prior to her appointment as PASA CEO, she has been responsible for 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.



Ms Zanele Sibisi

Title: AEMFC COO

Age: 42

Qualifications: Certificate (Leadership Dev Prog), Certificate of competency (Mining Manager), BTech (Mining Engineering), NDip (Mining)

Appointed: 2019

Prior to her appointment at AEMFC, she served as Chief Operations Officer (COO) at Wescoal in charge of three opencast mines and a processing plant. She also held various senior leadership roles at South 32-South Africa Energy Coal. Her mining career spans over 20 years in coal mining.

CEF GROUP LEADERSHIP STRUCTURES continued

CEF SOC MANAGING EXECUTIVES



Dr Ishmael Poolo

Title: Group CEO

Age: 47

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



Dr Tshepo Mokoka

Title: Group COO

Age: 35

Qualifications: Phd (Economics), MCom (Economics), Honours in Bachelor of Economic Science & Bachelor of Science

Dr 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 recognized peer-reviewed journals.

He is responsible for the following portfolios: Strategy and planning, business turn around office, managing capital projects, new business development (investments), Information and Technology (IT), Marketing and Communication as well as improving operational efficiency of the CEF Group.



Mr Lufuno Makhuba

Title: Group CFO

Age: 39

Qualifications: MBL, CA(SA), Certificate (Senior Management Dev Prog), BCom Hons (Accounting Sciences), BCom (Accounting Sciences)

Mr Makhuba is responsible for the Group financial strategic direction and long-term commercial viability, and oversees the corporate finance functions and key Group investments. He has in-depth experience of financial modelling, preparation of annual financial statements, consolidated and unconsolidated, budgeting/forecast, auditing, due diligence, corporate finance and risk management.

He is responsible for the following portfolios: Corporate Finance, Supply Chain Management and Treasury Management.

CEF SOC MANAGING EXECUTIVES continued



Mr Abdul Haffejee

Title: Group Company Secretary

Age: 49

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.



Ms Mapula Modipa

Title: Group Executive for Corporate Services

Age: 54

Qualifications: MBA, Certificate (Senior Management Dev Programme), BA (Social Sciences)

Ms Modipa is responsible for overseeing the human capital and facilities departments for CEF SOC. Her experience spreads across various fields such as petrochemical, energy, state security, water and forestry, among others. She also has proven experience in leadership with a prestigious leadership accolade bestowed on her by erstwhile President, Thabo Mbeki.

She is responsible for the following portfolios: Human Capital and Facilities Management.



Ms Brenda Moagi

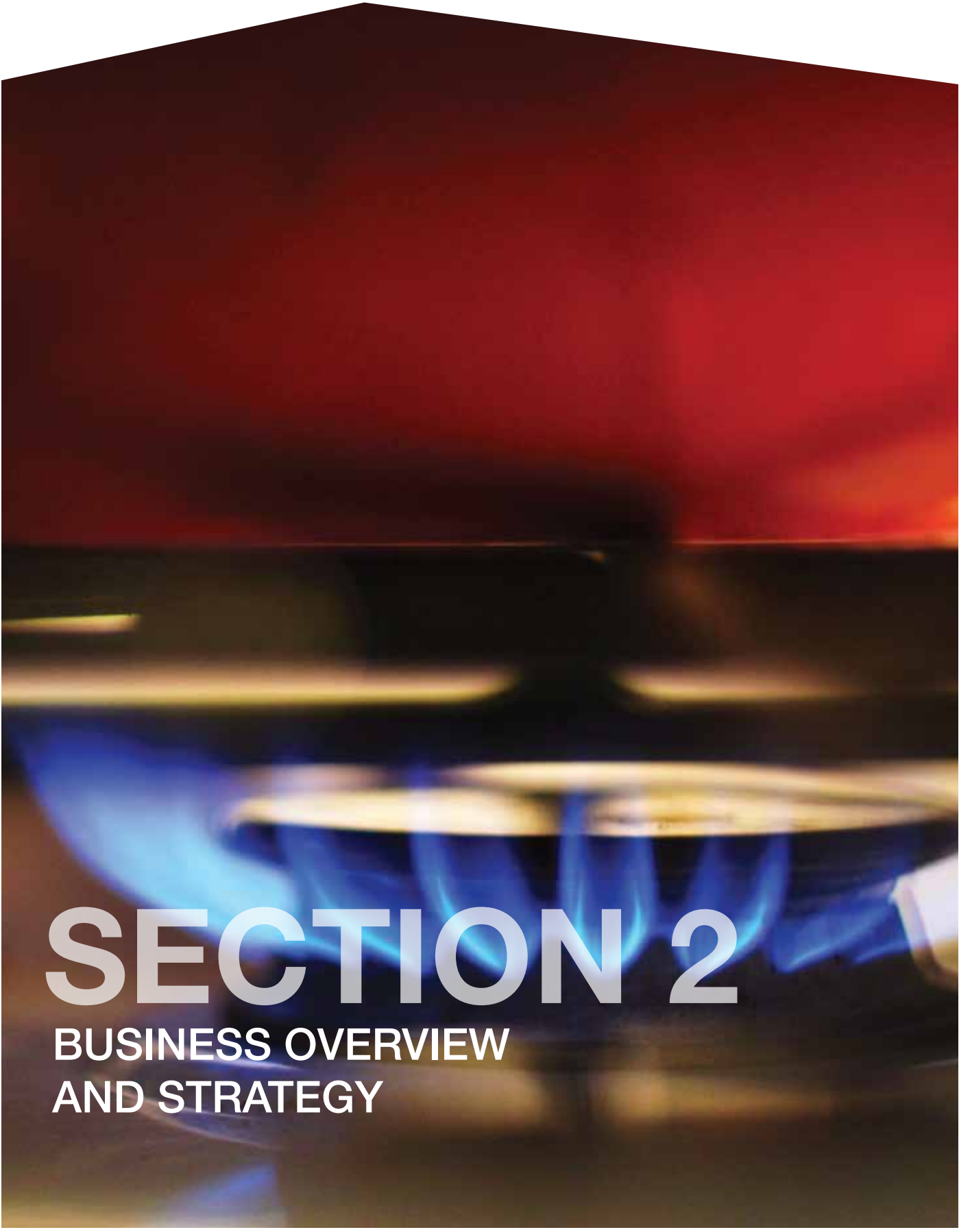
Title: Group Executive for Legal Compliance and Risk

Age: 42

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

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.

She is responsible for the following portfolios: Legal Compliance and Risk.



SECTION 2

BUSINESS OVERVIEW AND STRATEGY

OPERATING ENVIRONMENT



As the implementing arm of the DMRE, our strategy is underpinned by the legislative and energy sector planning framework. This shapes how we organise ourselves and our business operations to support government deliver on its broader strategic objectives and strengthen the role of energy as a catalyst for economic development. The energy sector is inherently complex, capital intensive, risky and is replete with volatility as a result of myriad rapid market forces.

Over the year, the CEF Group has observed with keen interest the global economy and the energy sector at large entering the age of disruptions. Technological innovations, climate change, cybercrime, trade wars, protectionism and more complex geopolitics are reshaping the energy landscape. Governments and policymakers are grappling with the assessment of these macro uncertainties as they try to craft grand strategic responses to deal with the many changes.

Energy systems around the world are going through precipitous transitions that affect many aspects of company strategic and operational activities. The continuation and acceleration of these shifts will bring important changes to the way we relate to energy from a domestic and industrial perspective in the coming decades. Over the past couple of years the world has witnessed comparatively high, carbon-centric energy demand and a marked acceleration in renewable energy developments. A new pattern of geostrategic competition is emerging that is further straining the multilateral system and impacting global trade. The speed and volatility of changes and unevenness of impacts to energy systems are massive. Coupled with poor economic returns, which are limiting investments, emerging economies are facing the biggest risks in managing successful energy transition. Global energy leaders are also challenged to make sense of the rapid changing landscape of innovation in energy. A fresh focus on energy systems innovation and the emerging phenomenon of 'disruptions' is both timely and relevant to energy transition.

Global primary energy demand is expected to plateau around 2030 after more than a century of rapid growth, primarily driven by the penetration of renewable sources in the energy mix. Global energy demand increased by 0.9% in 2019 with slower economic growth and weather conditions as key drivers of the moderate increase. The advent of COVID-19 has had a number of impacts on the energy landscape. It has challenged several key assumptions and reset energy forecasts as demand and supply systems were affected. During the period under review some of the main energy insights that informed our strategic thinking included:



1
Global primary energy demand plateaus after 2035 despite strong population expansion and economic growth.



2
Electricity consumption doubles until 2050, while renewables are projected to make up over 50% of generation by 2035.



3
Gas continues to grow its share of global energy demand—the only fossil fuel to do so—and the plateaus after 2035.



4
Oil demand growth slows down substantially, with projected peak in early 2030s.



5
Carbon emissions are projected to decline due to decreasing coal demand, yet a 2-degree pathway remains far away.

The changes in the energy arena as a result of the COVID-19 pandemic and other drivers have forced the CEF Group to re-evaluate our long-term investments and slowed key strategic partnership projects which required joint evaluation and reprioritisation. This has been on the back of global GDP growth falling from 3.6% in 2018 to 2.9% in 2019, curbing energy demand growth. The economic slowdown was felt across almost all economies. In advanced economies, average economic growth fell nearly 25% between 2018 and 2019. The economic slowdown restricted energy demand growth particularly in India, where economic growth fell from 6.8% in 2018 to 4.8% in 2019, well below the average of 7% since 2010. In China, economic growth dropped from 6.6% in 2018 to 6.1% in 2019. Such subdued growth has a fundamental impact on energy project investments that have long lead times.

OPERATING ENVIRONMENT continued



DOMESTIC ECONOMIC ENVIRONMENT

South Africa has abundant resources, an advanced industrial sector, robust financial systems, progressive legal framework, and is the gateway to other African markets. However, economic growth in South Africa has been very low in the last decade and is now negative, resulting in a high unemployment rate. Furthermore, South Africa's debt is expected to further increase over the next couple of years requiring key economic reforms to reverse the decline. During 2019, prior to the advent of COVID-19, the domestic economy was already ailing. The pandemic has brought many challenges: a decline of about 18% in employment between February and April; job losses and further contraction of the economy. Those at the bottom of the income distribution have suffered a great deal.

As a response to the domestic economic challenges, the government is undertaking structural reforms to facilitate higher and more inclusive growth. Network industries in telecommunications, electricity, ports, rail and roads will undergo modernisation and reform. Trade policies will be reoriented to take advantage of the free trade area in Africa, pursue greater regional integration, and establish South Africa as an export platform to the region. Entry barriers will be lowered to make it easier for businesses to start, grow and compete. Support will be focused on labour-intensive sectors like tourism and agriculture where there is more potential for people to get jobs. Finally, reforms will be implemented to strengthen the governance of state-owned companies.

MACRO-ECONOMIC INDICATORS

Macro-economic factors and industry factors in the operating environment affect our performance. The macro-economic factors that affect our business is the oil price, the exchange rate, interest rate, fiscal policy and government policies.

The average rand/US\$ exchange rate for the 12 months ended 31 March 2020 was R14.79, which is higher than the budget of R14.39. The closing rand/US\$ exchange rate at the end of the year was R17.86, the exchange rate weakened compared to the exchange rate of R14.6 reported at 31 March 2019.

The average Brent crude oil price for the 12 months ended 31 March 2020 was \$61.10/Bbl, which is lower than the budget of \$74.02/Bbl. The Brent crude oil closing price at the end of the year was \$22.60/Bbl, which is a significant decrease from \$67.58/Bbl reported at 31 March 2019.

Movements in oil prices have a major impact on the GTL refinery and storage business' commercial sustainability key performance measures.

Further to the oil price, the performance is affected by the interest rate as 58% of CEF Group investments are held in cash. In the lower inflation and subdued growth rate environment, the interest earned on cash is likely to reduce in future.

POLICY, PLANNING AND REGULATORY ENVIRONMENT

During the year under review, a number of key policy developments took place.

- **The Integrated Resource Plan 2019:** The eagerly-awaited and long overdue Integrated Resource Plan 2019 (IRP 2019) was gazetted by the Minister of Mineral Resources and Energy, Mr Gwede Mantashe, on 18 October 2019, updating the energy forecast for South Africa from the current period to the year 2030.
- **Upstream Petroleum Resources Development Bill:** The Draft Upstream Petroleum Resources Development Bill (Bill) was published on 24 December 2019 as part of government's approach to providing greater policy certainty and a stable environment for investment in the South African oil and gas sector. In terms of state participation, the Bill grants the state, through PetroSA, an option to acquire a 20% carried interest in all exploration and production rights (the non-state holders of such rights can recover development and production costs of the state's carried interest from its portion of proceeds generated from production operations).
- **Biofuels:** The recently published Biofuels Regulatory Framework (gazetted on 7 February 2020) is an important step in the attempt to develop a national biofuel industry and introduce renewable resources at scale into the national transport fuel mix while spawning another industrial sector.

MOZAMBIQUE OUTLOOK

The COVID-19 pandemic impacted Mozambique at a fragile period in its economic history, as the country attempted to recover from two major shocks: the hidden debt crisis and the devastating effects of cyclones Idai and Kenneth in 2019. The pandemic imposes a further setback on the country's economic prospects and further dims the country's short-term growth prospects. The COVID-19 crisis will continue to have a heavy impact on economic activity as travel restrictions (domestically and globally) affect demand for goods and services. At the same time, reduced demand and prices of commodities are slowing the pace of investment in gas and coal, two key industries for Mozambique. With this, growth is expected to decline to 1.3% in 2020, down from a pre-COVID forecast of 4.3%, with significant downside risks. Mozambique is also expected to experience large external and fiscal financing gaps in 2020 and 2021 in a context characterised by exposure to external shocks and limited fiscal space.

The country's main challenges include maintaining the macroeconomic stability considering exposure to commodity price fluctuations, and re-establishing confidence through improved economic governance and increased transparency, including the transparent handling of the hidden debt investigation. Moreover, structural reforms are needed in support of the currently struggling private sector.

Another major challenge is diversifying the economy by moving away from the current focus on capital-intensive projects and low-productivity subsistence agriculture, while strengthening the key drivers of inclusion, such as improved quality education and health service delivery, which could in turn improve social indicators.

Mozambique's strong ties to the region's economic engine, South Africa, underscore the importance of its economic, political and social development to the stability and growth of Southern Africa as a whole. To boot, the Mozambican government is also grappling with Islamic insurgency in parts of the gas-rich province of Cabo-Delgado.

GHANA ECONOMIC OUTLOOK

Ghana's economy continued to expand in 2019, placing the country among Africa's 10 fastest growing economies. Improvements in the macroeconomic environment were accompanied by expansion in domestic demand due to increased private consumption. The industrial sector, with average annual growth exceeding 10%, was a major driver of growth in the three years to 2019.

The country recorded a 6.1% GDP growth in 2019 (IMF), however, many inequalities still thrive among the people as a result of high poverty and unemployment.

Despite new potential oil discoveries and mining growth, GDP will fall to 1.5% in 2020, due to the outbreak of COVID-19 and increase to 5.9% in 2021, according to the latest World Economic Outlook of the IMF (April 2020). The global slump in crude prices is giving Ghana a chance to rethink its dependence on a sector that was its key driver of economic growth in recent years.

Hit by the double-whammy of collapsing oil prices and the coronavirus pandemic, West Africa's second-biggest economy is forecast for subdued growth. This follows three years during which the oil sector more than doubled to fuel annual growth of 6.3% or more.

In 2019, Ghana faced a depreciation of the Cedi. Still, inflation was at 7.2%, close to the centre of the target band of the Bank of Ghana. The inflation rate should increase to 9.7% in 2020 and decrease slightly to 8.5% in 2021 (April 2020 World Economic Outlook, IMF). The overall deficit reached 7% of GDP due to lower-than-expected revenues, spending on flagship programmes, and unexpected security outlays related to emerging security challenges in the region. Gross public debt reached 63.8% of the country's GDP, driven in part by exceptional energy and financial sector costs. Though the financing agreement reached with the IMF was halted, the government declared that reforms aimed at tackling corruption, boosting tax performances and private investment should be pursued. Recurrent power cuts have led the Ghanaian Government to launch an energy diversification strategy, mainly by increasing the share of renewable energy and building nuclear plants. The IMF estimates that the country could benefit from new oil discoveries, higher cocoa prices, and rapid diversification resulting from authorities' industrialisation efforts and realignment of the economy.

OPERATING ENVIRONMENT continued

SOUTH SUDAN

During the reporting period, the SFF entered into an agreement to invest \$1billion into South Sudan's energy infrastructure. South Sudan has the third-largest oil reserves in sub-Saharan Africa, estimated at 3.5 billion barrels, with just 30% of the country explored. The SFF signed an exploration and production sharing agreement with South Sudan for Block B2. The deal will see Block B2 operated by the state-owned SFF, the Ministry of Petroleum, and Nilepet (Nile Petroleum Corporation), the national oil company of the Republic of South Sudan.

South Sudan is one of the most oil-dependent countries in the world, with 98% of the government's annual operating budget and 80% of its GDP derived from oil. Oil is exported through a pipeline that runs to refineries and shipping facilities at Port Sudan on the Red Sea. The economy of South Sudan will remain linked to Sudan for some time, given the existing oil infrastructure. During the period under review, real GDP growth was an estimated 5.8% in 2019, a large increase from 0.5% in 2018. The 2019 rebound was driven mainly by reopening some oil fields, including those in Upper Nile state, and resuming production, and by the peace agreement signed in September 2018. The oil sector remains the key driver of the economy, followed by services and agriculture.

Inflation fell to 24.5% in 2019 from 83.5% in 2018 due to reduced financing of the fiscal deficit. The central bank commitment to reduce monetisation of the fiscal deficit is expected to continue, with resulting inflation declining further to 16.9% in 2020 and 9.7% in 2021.

Even as the civil war in South Sudan ended in February 2020, the sharp fall in global oil prices and the COVID-19 pandemic have dealt the country's fragile economy a double blow. Total production is 170 000 - 172 000 bpd, this is below the projected total of 190 000 bpd. South Sudan had hoped to launch a licence round in the first quarter of this year. The pandemic has pushed back these plans.

The outlook is positive, with real GDP growth projected at 7.4% in 2020 and 6.1% in 2021. Oil exports are expected to reach projected targets, which will boost foreign reserves. Meanwhile, manufacturing will benefit from increased electricity supply. Education, mobile money, and water infrastructure are expected to improve on account of political stability with foreign investment expected to reach \$30 million in the current year.

RESPONDING TO NEGATIVE PRICE SENTIMENTS

Energy prices are renowned for being extremely volatile and unpredictable. Wholesale energy prices are influenced by a range of factors; these include weather, local economic activity, global financial outlook, international prices, resource availability, investment in future resources, government policies, market sentiment, and the physical or mechanical constraints on plants or infrastructure.

The period under review has demonstrated how volatile prices can be. Thus, we have continued with our active risk management approach in relation to the cumulative impact of a number of market risk factors through our three-tiered strategy:

- Constant review of strategic and operational risks and impact in response to emerging negative price sentiments: During the year under review, as part of statutory reporting to the DMRE, risks are regularly reviewed and registers updated. During the 2020/21 financial year, we have introduced monthly business performance dialogues where strategic and operational risk review is a constant feature.
- Prioritisation of strategic initiatives in response to negative price sentiments in line with our internal governance and approval processes: Progress and targets on key strategic initiatives which have been identified as core for ensuring strategic objectives' delivery, are regularly reviewed to assess in line with monthly performance reporting.
- Timely execution of these strategic initiatives across the value chain: The Group has been working very hard to manage the integration and visibility of strategic initiative execution across the value chain through governance forums, such as the Group CEO's Forum.



PORTFOLIO DIVERSIFICATION PROGRESS

Work continues to diversify our portfolio so as to deal with market volatility and shocks while strengthening the Group's overall commercial sustainability. In line with the overarching strategy and trajectory, as the CEF Group, we have divided our portfolio into strategic themes, each with distinctive capabilities, growth strategies, risk management, capital allocation and expected returns.

These themes are also developed along domestic, regional and internal/continental dimensions. This is based on the long-term approach that the company will take to maintain and enhance its enterprise value (short, medium and long term from a portfolio strategy perspective).

Having a Portfolio Strategy is about ensuring that the Group's assets make sense given the company's capabilities and how we have defined our future, while confirming that we are making the right decisions and moving toward improved growth and sustainability.

Our intention is to have an advantageous and resilient position in each strategic theme to drive optimal revenues and returns on investments. When we set our plans and goals, we do so on the basis of delivering sustained returns over the planning period and beyond. When executed, the portfolio management strategy aligns with the enterprise strategy, business planning, and forecasting. It puts the onus on business units to achieve on the overall delivery of the Group Corporate Plan.

- **Sustainability Portfolio:** These are strategic projects and initiatives that are expected to provide predictable strong and steady returns and free cash flow, to enable the future funding of new business development opportunities and strengthening the balance sheet for leverage.
- **Growth Portfolio:** These are the core sustainability projects of the future. The CEF seeks to invest in affordable growth in expedient positions with a pathway to free cash flow and returns in the near future to be able to deliver on our commercial and developmental initiatives.
- **Transformational Portfolio:** These are the emerging opportunities that are expected to become growth priorities after further development and more detailed work. They are in essence the business of the future and consider the changing landscape and other operating environment developments.

As guided by the CEF mandate, our mission is to grow our footprint in the energy sector, and to be the catalyst for economic growth and energy poverty alleviation, while supporting government's broader initiatives as outlined in the NDP. Our value creation business model is underpinned by economic, social, environmental and public perspectives, specifically in relation to how we impact all these areas that are interwoven. This is about leveraging Group synergies across the value chain and creating a competitive edge through scale, while managing the impacts of market forces to achieve our intended outputs in our business operations, as demonstrated in the diagram that follows.

OUR VALUE CREATION BUSINESS MODEL

Exploration	Mine and Field Development	Mining Production
• Oil, gas and coal • Exploration drilling • Seismic acquisition • Processing and interpretation • Finding, identifying and evaluating economically viable oil, gas and coal deposits • Evaluation and design	• Reservoir modelling • Well design, drilling and completion • Production modelling • Separation systems • Treatment systems needed to preserve the environment • Establishing the necessary infrastructure to access deposits via shafts • Material stripping	• Drilling-related engineering services • Bringing oil/gas to the surface • Ongoing field development • Production and maintenance • Transportation and fractionation • Extracting coal from underground and open mines • Transporting of mined mineral resources to plants • Lifecycles cost management
Marketing	Processing & Refining	Storage and Trade
• Wholesale and marketing of gas, transport fuel and clean power to end-users • Liquid fuels storage for industry • Oil and gas data for exploration industry • Business to business • Government to government	• Crude/gas refining and processing • Fractionation of crude oil into petroleum & petrochemical products • Products blending • Washing coal to specified grade for delivery to Eskom power stations • Renewable power generation • Power generation from gas	• Storage terminals • Trading • Gas pipeline transportation • Liquefaction • Coal storage in line with environmental regulations • Mechanised loading/unloading systems • Pollution control • Storage technology partnerships

Table 3: Strategic resource inputs to deliver desired outcomes

Business Development & Continuous Innovation

- Ongoing market analysis and market development
- Strategic partnership
- Operational technological and process enhancements
- High Performance Organisational design & learning culture

STRATEGIC OUTLOOK



During the period under review, the organisation embarked on a strategic journey underpinned by the Group Strategy of Vision 2040+. This grand and visionary approach was designed to articulate the Group's long-term vision, based on a number of megatrends that continue to shape our operating environment. The strategy clearly defines what success will look like in the short, medium and long term. Following, are the key strategic initiatives needed to get us there.

Desired future state	What success will look like
A diversified and commercially sustainable energy company that delivers value to its shareholders/customers.	Significant market share across the downstream fuels, coal and gas (2040)
Clearly defined value proposition and strategic relevance.	Commercial sustainability with average returns of more than 15% on projects and investments.
Active and significant, relevant and leading player across the energy value chain with strategic infrastructure, scale and product mix.	Double current asset value.
Growth through acquisitions, strategic partnerships, operational excellence through a clearly defined collaborative continental, regional and local strategy.	Significant presence in the continent and region.
Diversified revenue streams to drive a meaningful social and transformation agenda.	Diversification of investment and project portfolio.
A catalyst for innovation through the adoption of Energy 4.0 technologies (new energy technologies)	Multiple income streams and not reliant on investment income.
Pioneer and thought leadership in energy policy development and energy knowledge management advisory.	Trusted energy advisor to the department of Energy and energy sector.
Exponential organisation that is an employer of choice and a responsible corporate global citizen	Dependable strategic partner to investors, technology partners, and funders.
Significant contributor to the country's GDP.	- Engaged workforce. Build brand equity and leverage it to achieve customer satisfaction. - Leader in the adoption of new energy technologies. - Meaningful transformation initiatives to lift as we rise to assist with economic transformation imperative.



Organisations that focus on performance are more successful and deliver better financial results.

STRATEGIC OUTLOOK continued

The strategy was further defined by a strategic roadmap that is based on four key phases as articulated in the table that follows, and that gives a summary of key achievements towards the delivery of the Group Strategy during the period under review.

Phase	Progress to date
Stabilise	The period under review saw a concerted focus to stabilise ailing entities within the CEF Group. The initiatives during the stabilisation phase were time bound to prevent the organisation from remaining in a state of perpetual stabilisation. Core to these initiatives were the following: 1. Board capacitation: The capacitation of boards with requisite skills and drive across the Group helped to steady the entities, strengthen governance structures, and improve the proper running of organisations. 2. Leadership stability: Appointment of permanent executives across the Group helped to steer the organisation towards realising the Group Strategy and delivering the operational plans. 3. PetroSA Emergency Plan: The development and execution of the PetroSA Emergency Plan, necessitated by challenges with depleting feedstock, reduced cash balances and poor business performance, was a focal delivery that accounted for almost 50% of the Group Scorecard. The Emergency Plan focused on eight core areas across the organisation and sought to capture short-term gains, and improve operational performance, while creating enough headroom for the development of long-term growth solutions. 4. Focus on poor business performance: Review of the AEMFC business operations to improve overall business performance and deal with a number of legacy challenges across the organisation. These included governance and management execution capability resulting in resources from the CEF being seconded to AEMFC to address poor business performance. 5. Centralisation of business development: The centralisation of business development provided much-needed coordination, and reduced overlaps in mandates as well as internal competition for limited resources.
Transition	The initiatives around the transition phase were geared towards preparing the entities to pivot to the next phase of organisational growth: 6. Group Parenting Strategy: This strategy clearly defines the role of the CEF in relation to value-adding initiatives for the subsidiary. The adoption of the new Group Parenting Strategy brought about much-needed guidance and further strengthened governance structures. This also began the process of discussions around a future-ready Group Operating Model. 7. Shared Services model design: Conceptual design around the development of a future Group Shared Services model to drive the Group Strategy and capture synergies. 8. Exponential Organisation Framework: Creation of a Group model for the development of an exponential organisation primed for growth and biased towards business excellence and superior business performance. 9. Energy 4.0 adoption: Developments and conceptual frameworks on how the Group could benefit and achieve a competitive advantage through the adoption of Energy 4.0 concepts in the energy space. This continues to be exciting work in progress as it also begins to define the future workforce and culture that will be required to drive this.
Accelerate	The acceleration initiatives were geared towards medium- to long-term activities to help the Group be more agile in the market place as part of achieving the desired market share and competitive advantage: 10. Group Strategic Partnerships: This initiative commenced with the process to identify key strategic partners for mutual collaboration in a number of long-term opportunities, and to incorporate memorandums of understanding to shape future developments to improve growth, technologies, scale and access to new markets.
Refocus	Continuous strategy review and understanding of our operating landscape and adjusting key assumptions and plans to address emerging risks and opportunities. A case in point has been the advent of COVID-19 which forced us to review a number of our strategic initiatives and investments.



LOOKING AHEAD

The impacts of COVID-19 and other continuous strategy review sessions provided clarity on what the Group should **eliminate, raise, reduce** and **create** in a strategic and integrated manner, that to ensure long-term sustainability and overall strategic relevance of the Group in achieving the objectives of Vision 2040±. It is thus that our Group Corporate Plan for the planning horizon (to the year 2025) is underpinned by the following strategic pillars:

- Continued stabilisation of the CEF Group and improving long-term commercial sustainability and strategic relevance with the focus on executing the PetroSA initiatives around as well as those for other struggling entities. The stabilisation initiatives are premised on ensuring strategic focus on commercial sustainability through a phased approach of stabilising the business, transitioning the business and then growing the business to return to sustainable profits.
- Drive growth and increase market share through diversification of income streams and product portfolio which will allow us to play a meaningful role in supporting the economic recovery of the country.
- Development of key energy infrastructure programmes in support of economic development and growth in support of security of energy supply and the creation of much-needed jobs and skills development.
- Group consolidation to exploit synergies and improve scale for strategic relevance and reposition the Group for long-term growth. This also refers to the planned merger of PetroSA, IGAS and the SFF to form a single national energy champion.

The strategic pillars gave rise to the key focus areas or strategic themes for the planning horizon which will guide the Group in execution and ensuring alignment. The Group has therefore adopted the following strategic themes as a way of focusing it in dealing with myriad strategic challenges. The CEF Group strategic themes are the main, high-level business strategies that form the basis for the Group's Corporate Plan and connect a portfolio to the strategy of the CEF Group. They influence portfolio strategy and provide business context for portfolio decision-making. The following strategic themes reflect of the Group's Strategy, are stable and will not change during the planning horizon:

- Consolidation and turnaround;
- Strategy and long-term growth;
- Operational efficiency;
- Commercial sustainability; and
- Human capital and organisational alignment.



OUR RISK MANAGEMENT PROCESS



RISK MANAGEMENT APPROACH

During the year under review we embedded an enterprise risk management (ERM) culture within the CEF. We have continued to align our processes and standards with international best practices where applicable, such as ISO 31000, the Public Sector Risk Management Framework and the King IV Report on Corporate Governance. Our drive to ensure an appropriate balance in the management of internal, strategic and external risks is the bedrock of our strategic intent for inculcating a risk management culture across the Group.

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

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

RISK AND OPPORTUNITY MANAGEMENT

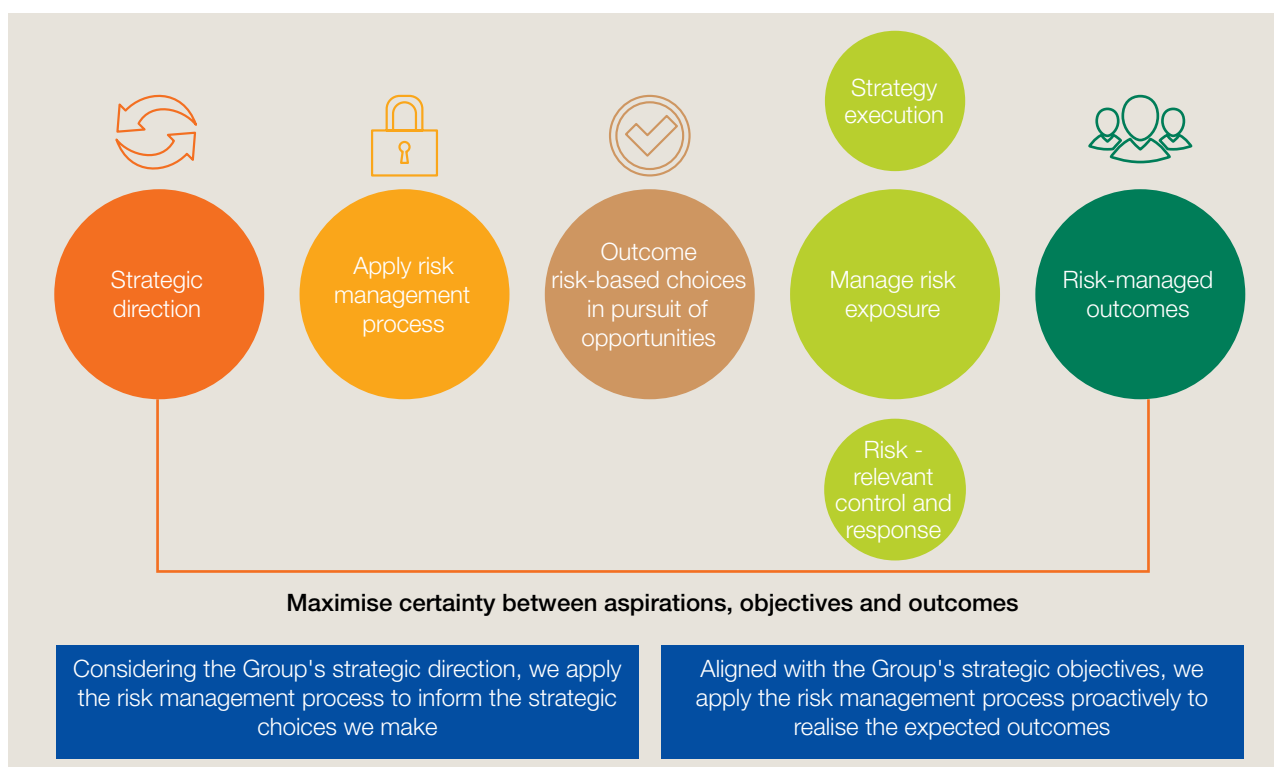


Figure 3: Risks aligned with the CEF's strategic objectives

In the face of current difficult conditions and subdued global economy as a result of the impacts of COVID-19, which has reduced global energy demands and subjected many companies and economies to punitive measures, the role of an effective risk management process is critical. Effective risk management contributes to the achievement of our business objectives and will enhance the resilience of the business through the current, difficult trading times. Key to this is anticipating change and how best to manage it.

BUSINESS OVERVIEW AND STRATEGY continued



RISK MANAGEMENT JOURNEY

The CEF's risk management plan for the 2019/20 financial year detailed ERM objectives, associated activities and initiatives. The objectives for the 2019/20 risk management plans were to:

- Introduce a stabilised ERM;
- Introduce ERM standardisation approaches and processes;
- Introduce a governance, risk and compliance information system;
- Focus on emerging risks and opportunities in terms of strategic initiatives across the business; and
- Become more visible and be an enabler to the organisation for effective risk management.

During the year under review, we strengthened risk management and developed the following strategies for risk, ethics, and business continuity:

- Business Continuity Management (BCM) Policy;
- BCM Framework;
- Incident Management Framework;
- Ethics Framework;
- Ethics Policy; and
- Covid-19 Risk Assessment.

In addition, the CEF Group:

- Conducted an Ethics Risk Assessment;
- Approved a Group strategic risk register and cascaded it into business operations;
- Monitored the top Acts and codes that have an impact on CEF operations; and
- Reviewed the risk appetite of various entities.

RISK GOVERNANCE

Risk management is an essential part of the CEF. However, we understand that if it is not properly managed it can impede growth. That is why we have endeavoured to place risk management at the core of the operating structure of the Group. We recognise that strategy, performance, sustainability and risk are inseparable. Hence, the maturity journey and ERM plans operate within an integrated risk management approach, ensuring that appropriate processes are used to address all risks across the Group. We continue to integrate the risk management approach with the combined assurance model, to drive improved levels of assurance related to our significant risks. The adopted combined assurance model provides independent oversight, assurance and alignment on Group-wide significant risks. Our Board-approved Risk Management Policy guides our approach to risk management. To ensure effective management of risks across the Group, we have a risk management standard in place, supported by an integrated framework.

The Risk Committee, a committee of the Board, oversees risk management on behalf of the Board, through regular feedback by management on all risk management activities. These activities ensure that:

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

We have embedded the process to identify, track and report on emerging risks. The CEF integrated the Group risk management approach with the combined assurance model, to drive integration across risk-related functions such as safety, health and environment, procurement, compliance, internal audit and Group finance. In the year ahead, we will continue to prioritise key risk assessment focus areas, based on materiality, in relation to the CEF's strategy, sustainability issues and shareholder value drivers.

RISK TOLERANCE AND RISK APPETITE

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

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 for our top risks to enhance the monitoring of key trends in relation to each risk.

The 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.

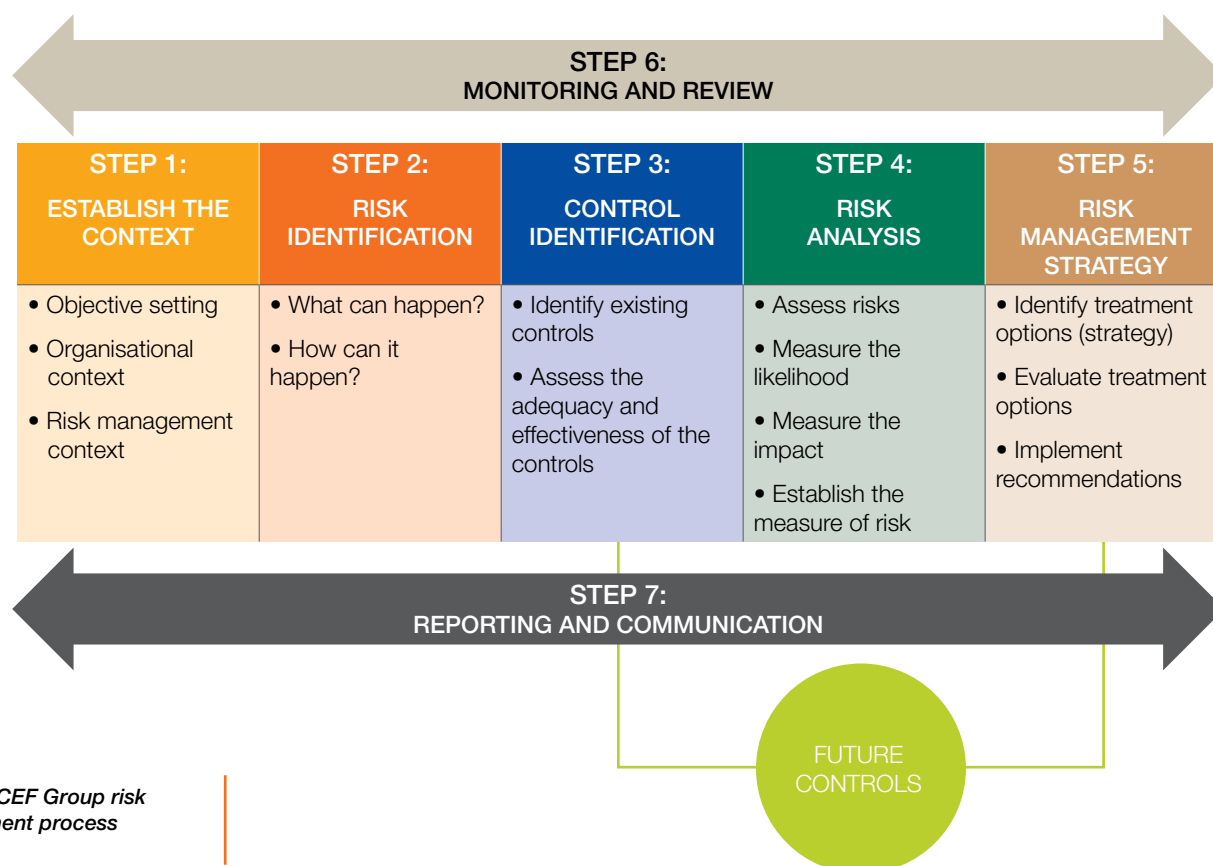


Figure 4: CEF Group risk management process

BUSINESS OVERVIEW AND STRATEGY continued

RISK IDENTIFICATION AND OPPORTUNITIES

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

Accordingly, key focus areas for 2019/20 were identified. We use this process, as outlined earlier, to identify opportunities that the CEF Group has, both now and in the future, and to find ways to leverage these. The CEF Group's management considers the company's key opportunities to include:

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



During the period under review, the organisation embarked on a strategic journey underpinned by the Group Strategy of Vision 2040+.

KEY RISKS FOR THE GROUP

We have used our methodology to identify key risks to our strategic objectives as depicted in **Figure 5**. 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. **Table 4** explains the legend in more detail.

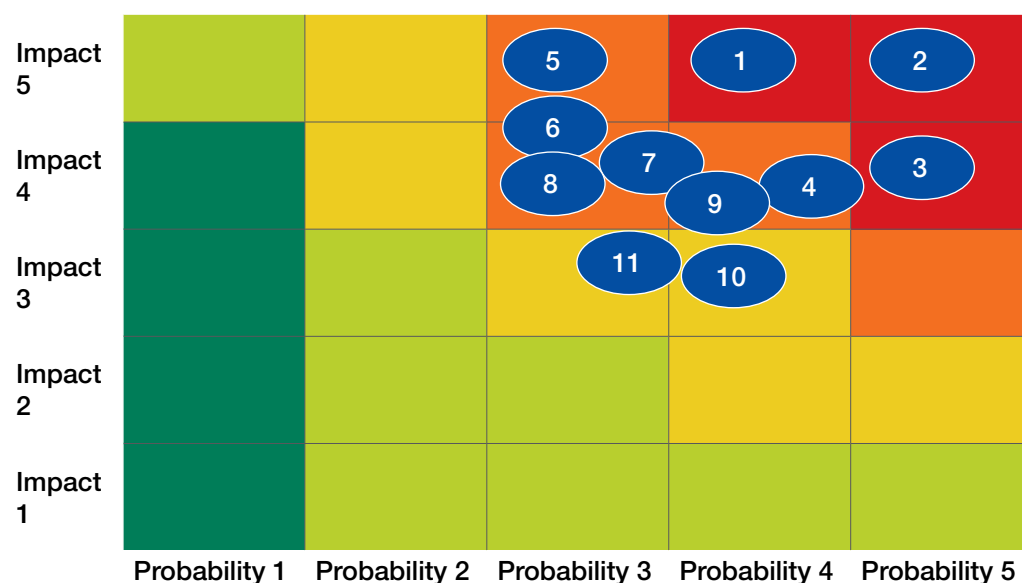


Figure 5: Strategic risk dashboard

Extreme		If it has severe impact and high likelihood. Typically such risks demand the attention of top leadership.
High		If it still has a high likelihood, but the potential impact is less severe so that the treatment resources would be senior management.
Medium		If the risk can be treated and managed by middle managers, due to both impact and likelihood being less.
Low		If the risks can be treated locally.

Table 4: Strategic risk dashboard legend explained

The CEF's structured risk management process, which complies with industry standards, aligned each identified risk 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.

BUSINESS OVERVIEW AND STRATEGY continued

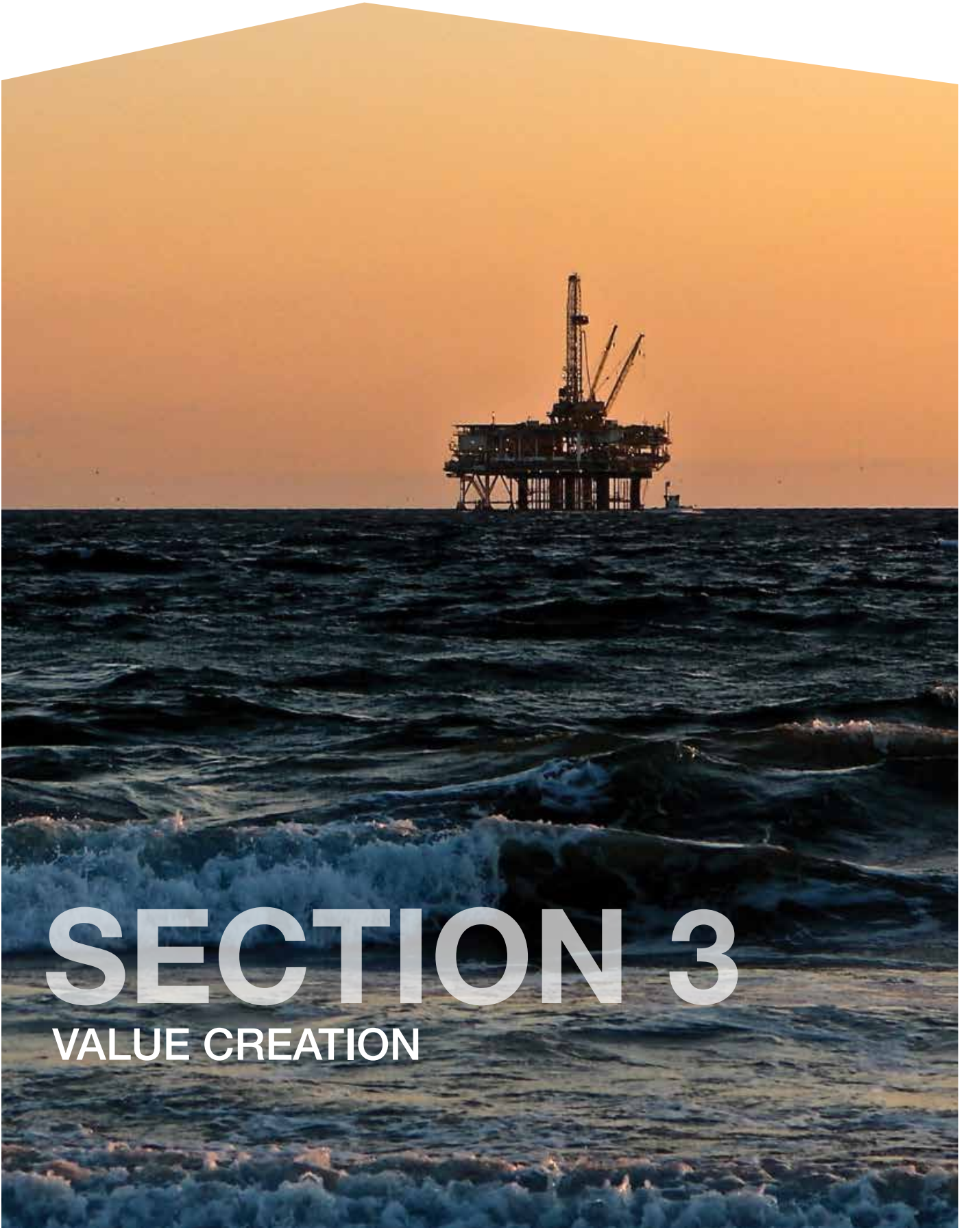
No.	Risk Name	Root Causes to the Risk	Consequences of the Risk	Residual Risk Exposure	Mitigating Action Plans to Further Address the Residual Risk Exposure
1	Financial sustainability	• Rapidly depleting cash reserves • Investment in unprofitable projects • Limited project pipeline for cash generation • Most projects in feasibility stages • Turnaround and feedstock issues (gas) • High operating costs • Liquidity challenges • Funding of the decommissioning liability • Solvency challenges.	1. Unable to operate as going concern 2. Closure of GTL Plant in Mosselbay 3. Retrenchment of staff - financial liability 4. Functions transferred 5. Low staff morale	Extreme	• Implement PetroSA emergency plan • Improve the financial viability of the CEF (profitability, liquidity and leverage funding) • Develop and implement a cost-recovery mechanism for all subsidiaries • Implement group-wide portfolio optimisation model • Target high value products/markets to maximise profits • Achieve economies of scale • Divestment from non-core business • Execute developmental mandate through profits from commercial activities.
2	Strategy Definition and Execution	• Not agile to lead and influence the group and industry • Lack of operational planning processes to address upstream challenges • Lack of appropriate depth of analysis on strategic options • Absence of the integrated funding model • Limited project pipeline for cash generation • Mixing of developmental with commercial projects • Participation in inappropriate areas of the value chain where the company has no competitive advantage • Lack of integrated project execution model	1. Missed opportunities 2. Project failure 3. Reputational damage	Extreme	• Deferment of provision for decommissioning liability • Assist in developing decommissioning methodology • Lobby for separation of petroleum from MPRDA • Lobby for exclusion of legacy wells.
3	Corporate Governance	• Delays in decision Making • Lack of accountability and consequence management • Noncompliance to, MOI's ToR's and policies • Inadequate training and awareness of policies and procedures	1. Governance failures 2. Non compliance	Extreme	• "– Review and Enforcement implementation of MOI's and shareholder compacts – Conduct training and awareness on the policies – Develop Board resolution tracking list to follow up on decision taken or outstanding - enforce adherence to governance processes"

No.	Risk Name	Root Causes to the Risk	Consequences of the Risk	Residual Risk Exposure	Mitigating Action Plans to Further Address the Residual Risk Exposure
4	Decommissioning liability	• Shortfall in the provision for decommissioning liability • Lack of decommissioning methodology • Incomplete separation of petroleum from MPRDA • Stringent and unsuitable decommissioning for petroleum • Unfunded provision for legacy wells"	1. Going concern 2. Financial loss 3. Reputational damage	High	• Deferment of provision for decommissioning liability • Assist in developing decommissioning methodology • Lobby for separation of petroleum form MPRDA • Lobby for exclusion of legacy wells
5	Security of supply	• Demand far exceeds supply • Inability of SFF to respond to market needs in the event of fuel crisis • Inability to maintain required barrels at all time • Inability to meet supply targets for fuel • Inadequate Gas supply feedstock • Operational efficiencies • PetroSA production targets • Shortfall in LPG supply • Shortfall of coal to Eskom impacting load shedding	1. Failure to contribute to national development strategy and security of supply 2. Financial losses 3. Reputational damage	High	• Implement Fuel import strategy linked to IVT plan • Increase GTL production through condensate processing • Maintain strategic stock of crude using OKINAWA model • Develop strategic stock funding for refined product • Develop LPG import strategy in line with new LPG import parity pricing • Acquisition of Coal mines to increase supply Eskom
6	Health and Safety	• Employee disengagement • Environmental contamination, both internally and externally • Fatalities and injuries • Inadequate SHEQ systems	1. Non compliance to legislations 2. Low staff moral 3. Environmental damage"	High	• Benchmark HSEQ across the CEF Group of Companies with regards to HSEQ assurance with best practice and associated tools • Conduct training and awareness on HSEQ as part of greater combined assurance providers • Develop Integrated HSEQ Plan for the group focusing on strategic HSEQ risks at company and group level • Establishment of Combined Assurance Forum to ensure on-going co-ordination of the combined assurance efforts • Safety championing and building trust by strengthening management systems and leadership visibility • Appoint the independent SHEQ investigating team"

BUSINESS OVERVIEW AND STRATEGY continued

No.	Risk Name	Root Causes to the Risk	Consequences of the Risk	Residual Risk Exposure	Mitigating Action Plans to Further Address the Residual Risk Exposure
7	Regulatory and Governance	- Being unaware of the laws or regulations requirements in the countries we operate in - Capacity constraints to adhere to legislation - Inability to identify changes in legislation timeously - Inadequate implementation of policies and procedures within the Group - ineffective compliance structures within the Group - Not keeping up to date with changes in laws, standards etc - ack consistence implementation of consequence management - Ethical culture	- Non compliance to legislations - Project failure - Litigations	High	- Report on compliance universe for the group - Develop Group Combined Assurance strategy - Report on the upcoming legislations - Enforce consequence management - Monitor and report on compliance controls - Research regulations and legislations of countries that CEF intends investing in. - Capacitate compliance across the Group - Training and awareness on Group policies - Capacitate all boards to ensure governance structure are all in place across the group"
8	Stakeholder and Reputation Management	- Misalignment with shareholder - Distrust on delivery - Irrelevance - Governance lapses - Ineffective communication - Misalignment between strategic / developmental and commercial objectives - Misalignment between the group and the shareholder - Poor brand equity - Stakeholder relations inadequate	- Reputational damaged - Low staff moral	High	Develop and implement stakeholder engagement plan
9	Litigation	- Current investigations - Delays in consequence management implementation - Noncompliance culture - Negligence in operations - Reputational damage - Environmental damages - Financial distress	- Loss of key customers - Reputational damage"	High	- Finalise investigations and recover the amount from employees who committed fraudulent activities - Conduct fraud investigations - Implement robust consequence management initiatives - Implement fraud prevention plan initiatives - Review the internal controls and processes - Develop compliance framework"

No.	Risk Name	Root Causes to the Risk	Consequences of the Risk	Residual Risk Exposure	Develop and implement a reputation and media strategy
10	Human Capital	• Ineffective employee engagement strategies • Leadership stability • Leadership vacancies including directors • Limited change management capability • No process for talent attraction and retention • Poor innovation and performance culture • Lack of enforcement of consequence management • Disengaged workforce	1. Disengaged employees leading to high attrition rate 2. Instability at leadership positions within group affect the sustainability of group 3. Loss of reputation 4. High staff turnover 5. Low staff morale 6. Lack of segregation of duties 7. Loss of key skills	Moderate	• Finalise the Group HR Strategy Framework including: • EVP • Skills and talent management • policy review and harmonisation, • sourcing strategy, • human capital development • Leadership capacitation and culture • Finalise the business case and implement the shared services business model • Develop group wide change management model • Develop flexi time policy"
11	Operating Model and Synergies	• Duplications • Operating model not configured to capture synergies • Overlapping mandates/ mandate creep • SILOS • Lack of aligned and harmonized policies	1. Delay in decision making 2. Low staff moral 3. Litigations"	Moderate	• Finalise Vision 2040+ including the CEF Value proposition, new Business and Operating Models, Corporate Structure, Group governance structures to support the implementation of Vision 2040+. • Establish leadership forums to deal with issues of misalignment • Enforce synergies through target setting in the scorecard. • Develop and implement group wide policies.

A large offshore oil rig is silhouetted against a bright orange sunset sky. The rig is positioned in the middle ground, with its complex structure of pipes and cranes visible. The foreground is filled with dark, choppy ocean waves with white foam. The overall scene conveys a sense of industrial activity in a natural, somewhat harsh environment.

SECTION 3

VALUE CREATION

HOW WE CREATE VALUE



The CEF Group of Companies, through the holding company CEF SOC Ltd, is a state-owned company of the DMRE, which is governed by the Central Energy Fund Act, conducting its business through the holding company and its subsidiaries. This together constitutes the CEF Group of Companies and represents an energy security of supply value chain comprising exploration and production, coal and gas supply, liquid fuels processing, a renewables division and liquid fuels storage/infrastructure value chain that is enhanced by regulatory, coal and administrative value chain components.

The CEF's primary value proposition is to conduct its business to provide and enable zero harm sustainable energy security solutions for South Africa that ensure shareholder and stakeholder value and enable its developmental agenda in a commercial environment.

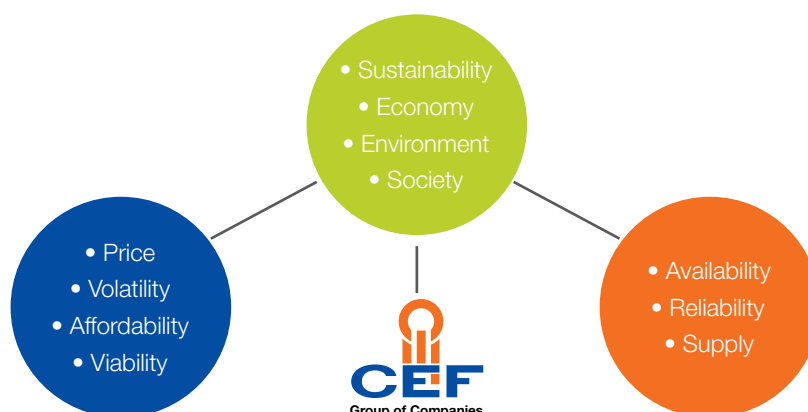
The global macro-economic factors, combined with the South African socio-economic environment and the energy industry requirements, define and demand that the CEF, through its holding company, conducts its business, while enabling and ensuring the strategic pillars of:



The CEF also ensures an attractive EVP that grows our fit-for-purpose human capital and ensures compliance to the relevant legal framework. Within the aforementioned context, the CEF's principle activities and value proposition are to include stabilisation, expansion, diversity and growth of its portfolio by engaging in, among others, an operational and business development agenda that intends to conduct its business within the operating model framework of **Explore, Develop, Operate** and **Sell** by participating in either a single or combination of the following roles: Advisor, financier, regulator, project developer, security champion, operator, marketer or social champion to:

- Enable and deliver on its developmental strategic initiatives and in turn contribute to South Africa's socio-economic growth;
- Enable and deliver on its commercial strategic initiatives and in turn contribute to South Africa economic development;
- Enable and deliver on its energy security of supply and in turn decrease South Africa's dependency on international oil companies;
- Enable and deliver on its energy advisory, assurance and facilitation role and in turn support in developing and sustaining a best-in-class national energy industry, and efficiently and effectively be a South Africa corporate citizen that contributes to the people of South Africa.

To effect the value proposition, the CEF through fulfilling its energy security requirement, ensures shareholder and stakeholder value in both its developmental and commercial portfolio i.e. **CEF value proposition = function (Developmental) and function (Commercial)**.



HOW WE CREATE VALUE continued



The CEF value proposition, considering the energy security definition as follows, is directly aligned with the CEF's strategic intent.

South African definition	"Energy security means ensuring that diverse energy resources, in sustainable quantities and at affordable prices, are available to the South African economy in support of economic growth and poverty alleviation, taking into account environmental management requirements and interactions among economic sectors." – Energy Masterplan Phase 1 (2007)
A more global definition	"...a condition in which a nation and all, or most of its citizens and businesses have access to sufficient energy resources at reasonable prices for the foreseeable future free of major disruption of service." - Barton, B, Redgwell, C, A. (2004): Energy Security: Managing risk in a dynamic legal regulatory, Second ed, Oxford University Press

As the global energy sector is being transformed by three reinforcing trends – decarbonisation, digitalisation and decentralisation – policymakers will come across new opportunities to make progress on the Energy Trilemma. At the same time, they will be required to sustain the advancements made on the trilemma over the past years by managing and actively integrating a greater diversity of market actors and technologies without fragmenting the energy system. The CEF is best positioned through its initiatives to ensure value to the South African Energy Trilemma that is best described as follows:

- Energy security: Effective management of primary energy supply from domestic and external sources, reliability of energy infrastructure, and ability of energy providers to meet current and future demand.
- Energy equity: Accessibility and affordability of energy supply across the population.
- Environmental sustainability: Encompasses achievement of supply- and demand-side energy efficiencies and development of energy supply from renewable and other low-carbon sources.
- Delivering the CEF's commercial and developmental value proposition includes, among others:
 - Diverse, reliable and affordable energy solutions;
 - Energy infrastructure;
 - Energy advisory;
 - Value to the fiscus, employment and people of South Africa;
 - Customer centricity value; and
 - Strategic partnerships to execute the South African energy agenda.

The strategic intent for the CEF is to execute its developmental objectives within the commercial business environment by:

- Stabilising its existing asset base and ensuring a favourable return on the asset base; and
- Pursuing new and diversified business development opportunities to enable growing the asset base, while ensuring a favourable return.

The CEF Group's performance measurement is an overarching approach that is driven by its mission and goals and the nature of the paradigm in which the various initiatives identified exist. It is envisaged that the ongoing monitoring and evaluation of the following key performance areas will improve our value proposition:

- Commercial viability;
- Energy poverty alleviation;
- Governance;
- Operational excellence;
- Human capital; and
- Stakeholder management.

Value is created not only within the traditional boundaries of the CEF Group, but also crosses organisational and geographical boundaries by connecting various value drivers, many of which are intangible. This requires reputable information to inform good decision-making and a clear strategy, business model – all of which rely on internal cohesion created through a clear understanding of what the Group is seeking to achieve and how it is fulfilling its mandate. As a responsible corporate citizen, the CEF Group, through its business model, seeks to operate and grow inclusively, responsibly and sustainably.

The CEF Group strategic decisions made in allocating the limited required resources for our business and advancing our growth are based on integration of the six capitals, namely human, financial, natural, intellectual, manufactured, and corporate and social capital. These capitals are stores of value that, in one form or another, become inputs to the Group's business model. They are also increased, decreased or transformed through the myriad activities of the Group, in that they are enhanced, consumed, modified or otherwise affected by those activities.

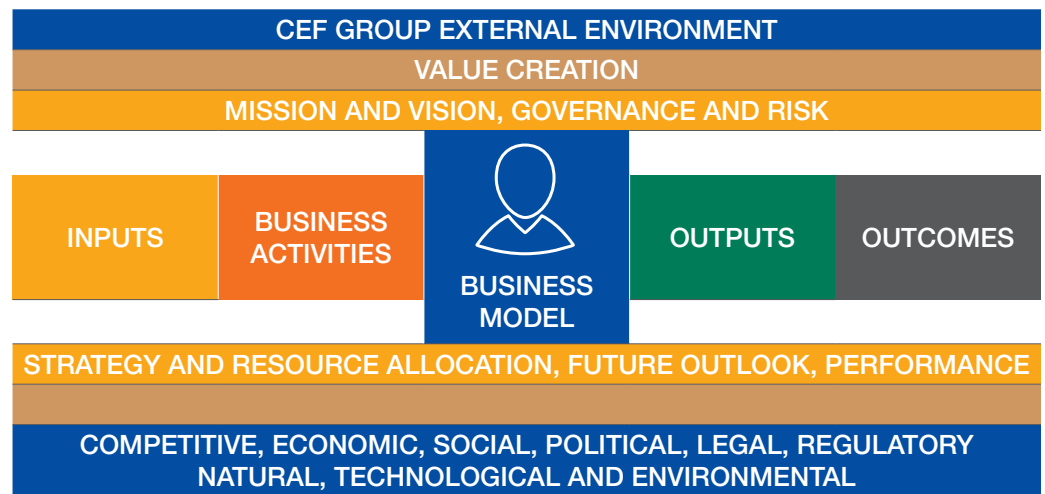
Inputs of each are needed for the effective production and delivery of our products and services, thereby creating value for all CEF's stakeholders. The CEF Group's business model is an integrated system of transforming inputs, through its business activities, into outputs and outcomes that aim to fulfil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

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

With the constant competition for resources in the Group to fulfil strategic objectives, integrated thinking on how resources are better managed and deployed is central to our long-term growth.

This integrated thinking and decision-making is based on an information set that is much broader, more interconnected and more forward-looking than traditional approaches we have used in the past. Integrated thinking is essential in breaking down internal silos, reducing duplication and driving positive behaviours focused on the long-term success of the Group and, thus, creating value for our shareholder, while bolstering our strategic relevance. The business model sits at the heart of the Group, within the context of the external environment.

HOW WE CREATE VALUE continued



HUMAN CAPITAL

To operate our facilities safely, reliably and efficiently and to deliver our Vision 2040+ on time and within budget, the CEF requires high-performing and diverse human capital with the right competencies, capabilities and experience, and the motivation to innovate, including their:

- Alignment with and support for the Group's governance framework and risk management approach, and ethical values such as recognition of the developmental mandate;
- Ability to understand, develop and implement the Group's strategy; and
- Loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate, especially with SOEs, communities and strategic partners.

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

Inputs	Core Activities	Outputs	Outcomes
The business requires a safe, healthy, engaged, innovative and high-performing workforce with expertise and the right experience to grow the business. A diverse and representative leadership team demonstrating value-driven behaviour. Employees: 2 324	• Exploration • Development of projects • Manufacturing of fuel • Distribution of fuel • Coal extraction • Construction of gas • Infrastructure • Transmission of gas • Storage of crude oil • Regulation	The Group is in the business of production and trade of the following: • Petroleum products • Petrochemical products • Coal The Group further conducts the following: • Oil pollution control • Mineral regulation & licensing • Rental of crude oil storage tanks • Transmission of gas	Employee benefits: R1.9 billion

FINANCIAL CAPITAL

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

Inputs	Core Activities	Outputs	Outcomes
For funding our operations and growth, we use retained profits, investments, debt and cash from operations. Capital: R509 million	• Exploration • Development of projects • Manufacturing of fuel • Distribution of fuel • Coal extraction • Construction of gas infrastructure • Transmission of gas • Storage of crude oil • Regulation	The Group is in the business of production & trade of the following: • Petroleum products • Petrochemical products • Coal The Group further conducts the following: • Oil pollution control • Mineral regulation & licensing • Rental of crude oil storage tanks • Transmission of gas	Income: R14.6 billion EBITDA: (R133.2 million) Cash generated from operations: R114 million

NATURAL CAPITAL

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

Inputs	Core Activities	Outputs	Outcomes
The CEF's mandate is to contribute to national security of energy supply. We require gas, oil and coal for production of petroleum and petrochemical products. Further to these, water, land, air and energy are required in the process of conversion of mineral reserves into finished products.	• Exploration • Development of projects • Manufacturing of fuel • Distribution of fuel • Coal extraction • Construction of gas infrastructure • Transmission of gas • Storage of crude oil • Regulation	The Group is in the business of production & trade of the following: • Petroleum products • Petrochemical products • Coal The Group further conducts the following: • Oil pollution control • Mineral regulation & licensing • Rental of crude oil storage tanks • Transmission of gas	Manufactured petroleum product: 4.4 million barrels Crude oil production: 1.6 million barrels Coal: 2.1 million tons

HOW WE CREATE VALUE continued

INTELLECTUAL CAPITAL

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

- Intellectual property, such as patents, copyrights, software, rights and licences;
- Organisational capital, such as tacit knowledge, systems, procedures and protocols; and
- Intangibles associated with the brand and reputation that an organisation has developed.

Within the Group, we see close cutting of boundaries of intellectual capital with human capital and social and relationship capital.

Inputs	Core Activities	Outputs	Outcomes
Licensed technologies, patents to support the business. Technically skilled and experienced employees and external experts. The CEF Group's business processes and management systems.	• Exploration • Development of projects • Manufacturing of fuel • Distribution of fuel • Coal extraction • Construction of gas infrastructure • Transmission of gas • Storage of crude oil • Regulation	The Group is in the business of production and trade of the following: • Petroleum products • Petrochemical products • Coal The Group further conducts the following: • Oil pollution control • Mineral regulation & licensing • Rental of crude oil storage tanks • Transmission of gas	14 patents

MANUFACTURED CAPITAL

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

- Buildings;
- Equipment; and
- Infrastructure (such as roads, ports, bridges and waste and water treatment plants).

Inputs	Core Activities	Outputs	Outcomes
Property, plant and equipment to extract and convert mineral resources into finished products. Property, plant and equipment that operate efficiently, reliable and assist the Group to comply.	• Exploration • Development of projects • Manufacturing of fuel • Distribution of fuel • Coal extraction • Construction of gas infrastructure • Transmission of gas • Storage of crude oil • Regulation	The Group is in the business of production and trade of the following: • Petroleum products • Petrochemical products • Coal The Group further conducts the following: • Oil pollution control • Mineral regulation & licensing • Rental of crude oil storage tanks • Transmission of gas	Petroleum product sales: 1.4 billion litres Crude oil sales: 1.4 million barrels Coal sales: 2.08 million tons

SOCIAL AND RELATIONSHIP CAPITAL

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

- Shared norms, and common values and behaviours across the value chain;
- Key relationships, and the trust and willingness to engage that an organisation cultivates with customers, suppliers, business partners and other external stakeholders; and
- The Group's social licence to operate.

To create an enabling environment for investment, the CEF is committed to integrating the needs of its stakeholders into its business processes. Social and relationship capital is underpinned by our stakeholder management philosophy, which, over the past year, has had to be fortified to deal with a number of Group reputational challenges and misalignment with key stakeholders.

Inputs	Core Activities	Outputs	Outcomes
Developing and maintaining trusted relationships with CEF Group stakeholders. Sustained investor and shareholder confidence. Strong engagement with employees and recognised unions. Effective and timely communication with internal stakeholders, customers, suppliers and industry sector. Positive relationships with government and regulators.	• Exploration • Development of projects • Manufacturing of fuel • Distribution of fuel • Coal extraction • Construction of gas infrastructure • Transmission of gas • Storage of crude oil • Regulation	The Group is in the business of production and trade of the following: • Petroleum products • Petrochemical products • Coal The Group further conducts the following: • Oil pollution control • Mineral regulation & licensing • Rental of crude oil storage tanks • Transmission of gas	CSI: R1.4 million BEE spend: R18 104 278.63



The CEF's primary value proposition is to conduct its business to provide and enable zero harm sustainable energy security solutions for South Africa that ensure shareholder and stakeholder value and enable its developmental agenda in a commercial environment.



SECTION 4

GROUP PERFORMANCE

OVERALL BUSINESS PERFORMANCE



The CEF Group as a state-owned enterprise (SOE) is required to conclude the Shareholder's Compact with the executive authority every year in February. The Shareholder's Compact outlines the key deliverables for the financial year. The Corporate Plan for the financial year 2019/20 focused on seven strategic objectives. These were geared towards supporting the delivery of our mandate in the provision of energy solutions. The strategic objectives are as follows:

Commercial viability and business growth:

Deliver a turnaround on improving the financial sustainability of the CEF Group, growing the market share and diversifying our revenue streams.



Oversight and monitoring of the PetroSA Emergency Plan:

Deliver a turnaround plan for PetroSA, implement the cash preservation initiatives while firming the long-term solutions for the GTL refinery, and improving the business operations of AEMFC.



Implementing the developmental mandate:

The objective focused on the installation of 87 000 units of solar water heater systems in 19 municipalities, and improving the Group's broad-based black economic empowerment (BBBEE) rating by implementing a number of key transformational initiatives.



Governance and business processes:

Improvement of governance processes and strive to attain a clean audit opinion while improving operational efficiency by deploying cutting-edge technologies to reduce cost and time, and improve on quality. This, among other things, related to the automation of Group reporting and performance management.



Group Strategy, monitoring, oversight and evaluation:

Development of a commercially and viable strategy, strategy execution and strengthening the monitoring and evaluation process as part of our long-term outlook towards 2040 and beyond.



Becoming an exponential organisation:

Creation of a culture that is biased towards superior business performance, continuous learning and the development of a sustainable employee value proposition.



Stakeholder and brand management:

Improve brand equity index and the reputation for the CEF Group and thus drive commercial value by being a credible and reliable supplier, stakeholder and corporate citizen. The CEF Group business performance is assessed on a 5-point scale. The weighting for each performance measure is as agreed to in the 2019/20 CEF Group Corporate Plan as outlined in **Table 6:**

Scale	Description
0	Not measured
1	Not achieved
2	Partially achieved
3	Achieved/on target
4	Above target
5	Exceptional performance

Table 6: CEF Group business performance scale

OVERALL BUSINESS PERFORMANCE continued



The scorecard consists of key performance indicators (KPIs) that drive the Group Strategy. Some KPIs measure key production variables while others measure progress on initiatives that are aimed at influencing the overall strategic direction.

In accordance with this rating scale, for the financial period ended 31 March 2020, the CEF Group achieved an overall score of 2.37 or 79%. This score is consistent with the strategic challenges experienced in our operating environment coupled with commercial sustainability issues relating to the turnaround of PetroSA. Other material contributions to the score were delayed procurement approvals, slow progress on key projects as well as the frequent changes in executive leadership which caused a shift in the strategic focus and resultant modification in efforts during the year. The Group has had three Acting CEOs in one financial year. The appointment of permanent boards across the entire Group as well as the recent appointment of permanent executives has done a lot in helping to stabilise the Group and ensure better alignment and direction. A summary of the Group performance follows.

Key Performance Area	Indicator	Year End Score
Commercial viability and business growth	Commercial viability	3.11
Oversight and monitoring of the PetroSA Emergency Plan	Financial sustainability (of PetroSA)	2.50
Implementing the developmental mandate	Strategic projects	2.50
	Transformation	3.00
Governance and business processes	Efficient and effective decision-making	1.50
	Combined assurance	2.30
	Enterprise risk management	2.00
Group strategy, oversight, monitoring and evaluation	Oversight	1.38
	Strategies and measurement	2.00
Becoming and exponential organisation	High performance culture	1.67
Stakeholder and brand management	Stakeholder and communications index	2.00
	TOTAL SCORE	2.37

Table 7: Group performance per key performance area

As part of initiatives for addressing the subdued business performance of 2019/20, a number of CEF Board initiatives are afoot to stabilise the Group and deal decisively with poor business performance. This is part of the new CEF Board Parenting Strategy that seeks to foster strategic alignment and improve business performance.

OUR STAKEHOLDER RELATIONSHIPS – A KEY TO BUSINESS SUCCESS

The CEF Board actively manages a range of key stakeholder relationships, recognising that our success and sustainability depends on their input and involvement. The CEF assesses the quality of relationships through the analysis of the power interest grid and stakeholder engagement assessment matrix to reflect the current level of engagement vs the desired level of engagement. Certain stakeholder relations are being fostered with the newly merged Department of Mineral and Energy and our new leadership. Alignment on the CEF Corporate Plan and delivery of key agreed projects will build a good rapport and increase trust. The CEF Group's reputation is also being furthered with parliament and the media after years of challenges for the organisation.

Throughout the year, the CEF took part in strategic and proactive dialogue with key stakeholders and industry peers on various platforms to deepen its insights into the drivers of its business. To this end, the CEF participated in several industry events and conferences ranging from the Mining Indaba, Africa Oil Week, the Africa Oil and Power Conference, and the Energy Indaba. Closer collaboration between the CEF, the DMRE and government in general, also improved relationships with our peers.

Regular employee forum meetings and open staff meetings, called 'town halls', were held with the aim to openly take staff through business strategy and performance.



Honourable Minister Gwede Mantashe addressing stakeholders at the Energy Oil Week

OUR STAKEHOLDER RELATIONSHIPS – A KEY TO BUSINESS SUCCESS continued

The CEF continuously engaged with government, in pursuit of the vision of becoming a significant player within the energy sector. The CEF Group remains committed to sustainable development and aligns its corporate objectives with its performance as a corporate citizen. Therefore, the CEF engaged the Ministry of Mineral Resources and Energy on various mandate and service delivery matters. The CEF regularly reported to parliament on its initiatives and in the interest of transparency, briefed parliament about all challenges faced by the Group so that its shareholder could optimally fulfil its oversight role. In addition, the CEF frequently reported to National Treasury, especially on major transactions that it hoped to pursue to get the necessary approvals and concurrence. We are working hard to improve this stakeholder's negative perception of the Group, brought about by successive years' challenges to achieve a positive net profit and fully demonstrate project execution capacity.

In an effort to maximise our joint service delivery, the CEF collaborates with key SOEs for the provision of fuels, renewables and the associated infrastructure. In this regard, the CEF had frank discussions with Transnet, Eskom, and the CSIR.

The CEF Group also engaged various other strategic partners, including Saudi Aramco for the new crude refinery project, South Sudan on the upstream project, Ghana on the jointly owned upstream oil producing block, and the MGC as a partner in the ROMPCO pipeline together with Sasol. Their respective governments were also engaged via the DMRE and government international relations.



CEF celebrating National Heritage Day

The CEF believes that “we must lift as we rise”, and hence empowering and uplifting our people in the communities where we operate is key. As a result, the CEF had a strong bias towards BEE companies and had various community upliftment projects. The contribution to communities is severely impacted by the losses at Group level.

Stakeholder	Why they matter	How they engage	Stakeholders' expectation from the CEF
Employees	Employees are the primary interface between us and our key stakeholders and they are critical in meeting our goals and fulfilling our purpose	Human resource business partners through employee opinion surveys, Intranet, newsletter, email communiqués, workshops and performance discussions	A safe, stimulating and rewarding work environment supported by fair remuneration and benefits as well as opportunities for career and personal development
Department of Mineral Resources & Energy	The DMRE is the CEF's only shareholder; the department provides direction to the CEF Group's business	Regular meetings, e-mail communiqués, teleconferences and partnerships for key programmes	Return on investment through strategic growth
CEF Group subsidiaries, partners & associates	The CEF subsidiaries, associates and joint ventures lead to delivery and growth of the CEF Group	Performance and governance meetings, performance audit reports	Mutually beneficial business opportunities in a responsive and relevant manner
Suppliers	Our suppliers provide valued expertise, support, products and services that strengthen the CEF's business	Supplier performance contracts, project meetings, briefing sessions, site visits, surveys and feasibility studies as well as performance reports	Opportunities to fairly present their credentials and be given an opportunity to compete for business in a fair and open way; reasonable contract terms and on-time payment
Media	Central vehicle for most of the company's messages to the public	Media releases, physical meetings, telephonic or electronic communiqués, media briefings, corporate events and project launches	Provide responsible and transparent information on business, societal and environmental issues as well as respond to media queries timeously
Communities, civil society & NGOs	The success of our business depends on the wellbeing of the societies in which we operate – charities and non-governmental organisations enable us to amplify our impact in addressing a number of socio-economic challenges	Community investments through outreach programmes, corporate social investment initiatives, learnerships and bursary programmes	Job creation, meaningful contribution to education and skills development, support and funding of worthy causes, solutions for affordable energy and full compliance with environmental regulations
Government, regulatory & industry bodies	Government and regulatory bodies provide the legal and governing frameworks that guide the way we do business; industry bodies are an important channel through which we engage with these stakeholders	Management meetings, presentations, conferences, participation in government initiated platforms, bilateral engagements	Job creation; alleviation of poverty; contributing to the eradication of inequality; transparent and responsible behaviour; compliance with relevant legislation such as BBBEE, codes and environmental regulations, demonstrate commitment to transformation and innovative solutions for energy security
Investors & analysts	Investors are critical in ensuring we reach our mandate of effecting energy security in the country	Investor meetings, presentations, telephone and e-mail communiqués, briefing sessions as well as financial reports	Return on investment and information share

Table 8: The CEF stakeholder overview

HUMAN CAPITAL



HUMAN CAPITAL AND JOB CREATION

The long-term strategy of CEF Group Human Capital is to facilitate the creation of an HPO. The Group Human Capital Strategy will orbit around four broad pillars, namely:

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

The success of the Human Capital Strategy hinges on its ability to respond to the objectives of vision 2040 through appropriately skilled human capital, digitisation and automated processes. For the strategy to be effective, the technology platform and business support systems have to 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. A compounding challenge is the imminent 4IR, which suggests that integrated technological advances will significantly impact the future world of work, and the Human Capital Strategy should be able to assist the business to respond.

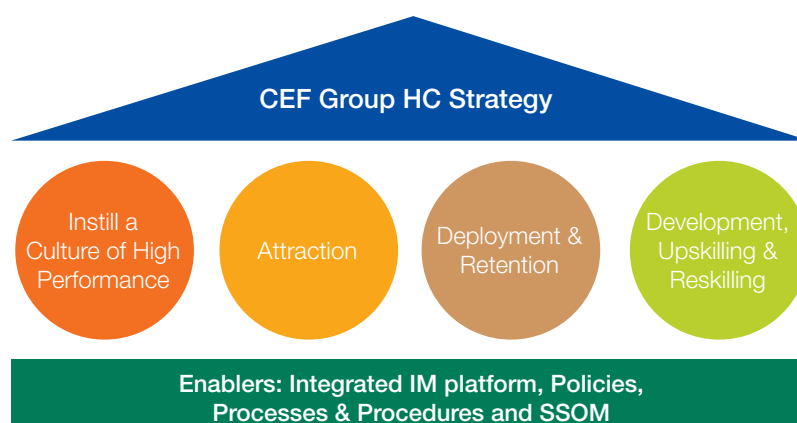


Figure 6: CEF Group Human Capital Strategy overview

CEF Objectives	2019/20 Human Capital Targets
Youth employment and entrepreneurship	Successful implementation of internal/external bursary programme • The Group invested R6.2 million to fund 65 students, ranging from first year to third year, with bursaries in various fields. The CEF led a successful implementation of a bursary scheme with an investment of R10 million to fund 65 (52 tertiary and 13 high school) recipients. Out of the 20 learners selected during the DMRE Learner Focus Week, nine were accepted at different universities, and ten high school science, technology, engineering and mathematics (STEM) learners were offered bursaries for high school. • CEF SOC received 218 applications from the December 2019 recruitment drive, reflecting a huge need to assist students from disadvantaged backgrounds who need financial support to pursue higher education studies. From the 218 pool, the details of students who attained an average of 70% and above were also shared with the AEMFC and PetroSA to consider for funding. • R9.6 million was invested in other youth development programmes, including consolidated Group training. Spend of R15.6 million was reported by the end of 2019/20, with 46% of this cost allocated to the talent pipeline programmes (bursaries, internships, artisans etc.).
	Develop change management strategy with input and role clarity of subsidiaries • A Change Management Framework roadmap was developed in the 2019/20 financial year. Further refinement and customisation will depend on project type and delivery. The Change Management Framework will be used in the implementation of the new organisational structure.

CEF Objectives	2019/20 Human Capital Targets
Leadership capacitation and culture	Capacitate key leadership portfolios • In a drive to stabilise the Group's leadership and reduce the number of acting incumbents in executive positions, the Group commenced the recruitment process to fill all the vacant CEO and CFO roles: - o PetroSA and PASA have appointed their respective CEOs and both are internal Group candidates. - o iGAS' CEO recruitment has been placed on hold pending finalisation of an alignment decision of where to place iGAS within the Group. - o The CEF Group CEO recruitment process is nearly complete pending the shareholder's agreement. - o The AEMFC has appointed a COO who is an experienced female leader in the mining field. - o PetroSA's CFO recruitment is currently underway. - o The CEF commenced with the recruitment process of a COO and a Legal and Compliance Executive during the period under review. Leadership Competency Framework • A Leadership Competency Framework has been developed and was socialised with the CEF's executive committee during the period under review. • The framework is a navigation tool, which outlines the CEF Group's leadership DNA, and which will provide a guideline on the selection, development, upskilling, and placement of the leaders in the organisation. Since every aspect of the business rises and falls on leadership, the framework is a key ingredient of building the high-performance and execution culture within the organisation. • In essence, the framework will form a guide and net for definition of competencies across the business ranging from core competencies, behavioural competencies to technical or functional competencies.
Group HR Strategy Framework including EVP, policy review and harmonisation	Continue to drive towards achieving a common Group HR harmonisation • The various HR teams collaborated in the development of the Group Remuneration Philosophy and Framework which was workshopped and socialised at Exco. • The holding company has shared with the SFF, AEMFC and PASA the seven policies that were recommended by Exco to the Board HR committee for their review and customisation for their respective environment. CEF Group employee value proposition • The Procurement Request for Proposal session for the appointment of a service provider to assist with the design of the Group EVP was held during the period under review. Two responses were received from service providers and the HR team is in the process of evaluating and recommending the most suitable respondent. It is expected that the service provider will be on board during Q1 of 2020/21. • CEF SOC is to lead a CEF Group Employee Value Proposition Project. This project is intended to attract, retain, motivate and re-skill relevant talent required for the future of the Group. An EVP is the deal struck between an organisation and an employee in return for their contribution and performance in an organisation.

HUMAN CAPITAL continued

CEF Objectives	2019/20 Human Capital Targets
Group values and culture	Group values campaign roll-out • As the organisation continues to strive towards a high-performance culture that will increase execution, collaboration, accountability and excellence, the values campaign is one of the various initiatives important to embed the CEF's values as part of our DNA and as a foundation to build organisational culture. • Creating culture through values interventions will yield a cohesive working environment, which aligns the hearts and minds of the individuals and creates a platform for constructive and meaningful contribution.
Shared services business model	Shared services/talent sharing • As part of creating collaboration and efficiencies within the CEF Group, CEF SOC embarked on a review of the support services operating model with the intention to create a Shared Services function for the Group. • An additional benefit of the Shared Services is to ensure that it supports the Group Parenting Strategy. • While the Shared Services business case is yet to be approved, the collaboration between entities has increased and included participation at the Learner Focus Week, Occupational Health Assessment, development of the Remuneration Philosophy, recruitment of bursary recipients, and establishment of a Group Employee Relations Forum (ERF). • Below are some of the initiatives that the Group collaborated on. These leveraged existing competencies, resulting in an increased number of employees being seconded across the Group. • PetroSA seconded a number of employees to: - o The SFF to support the South Sudan Project; - o The CEF to support the New Refinery Project; - o The CEF to support to National Solar Water Heater Project; and - o iGAS to support the liquefied natural gas (LNG) project. • The CEF seconded some of its employees to: - o The SFF to support various expansion projects; and - o The AEMFC to support expansion projects.

Table 9: Progress against 2019/20 Group human capital objectives

GROUP EMPLOYEE MOVEMENTS

Number of employees as at end Q4	2019/20
Headcount as at 31 December 2019	2 436
Add: Appointments	173
Less: broken down as follows	285
resignations (Including end of contracts)	(262)
Deaths	(13)
Dismissal	(3)
Retirements	(5)
Retrenchments (voluntary severance packages)	(0)
Disability	(2)
Total headcount at 31 March 2020	2 324

Table 10: Employee movements from January–March 2020

The Group had **2 324** employees of whom **1 885** were permanent and **439** were fixed-term employees. The overall attrition rate of the Group was 12%, an increase from previous years. The increased number of short- and fixed-term contract terminations may have contributed largely to the increase. Terminations due to employee dismissal amounted to 1%. Gender representation across the Group has remained constant since the previous quarter. PetroSA and the AEMFC are the highest contributors in terms of fixed-term employees and the broader employee population due to the number of short-term contracts.

As at 31 March 2020, the Group employee population consisted of 81% permanent and 19% fixed-term contract employees. It should be noted that the fixed-term employees include short-term contracts as well as graduates/engineers-in-training.

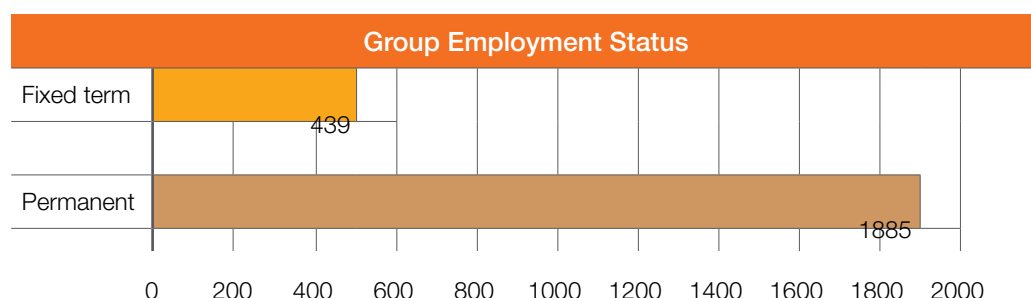


Figure 7: CEF Group workforce per employment contract as at 31 March 2020

GROUP DIVERSITY PROFILE (AGE & GENDER)

Gender disparities remain a challenge within the Group as illustrated in Figures 8 and 9.

At the end of 2019/20, the CEF Group's overall gender representation was 30% female and 70% male, with PASA, iGAS and the CEF attaining an almost equal gender representation. Despite this achievement, all three entities contributed to only 7% of the Group employee profile, while the rest of the entities made up 93% of the Group employee population.

PetroSA, the AEMFC and the SFF who have the highest employee population combined, have more than 68% male representation in their respective demographic profiles and this impacted the overall Group gender profile. Various entities have shown improvement in their gender representation. Figure 9 shows how the respective gender profiles influenced the overall Group profile.

Recruitment remains a key driver to address the gender disparities; however, during the Group CEO's recruitment drive, a low response was observed from suitably qualified female candidates from the market and internally.

HUMAN CAPITAL continued

GROUP GENDER PROFILE PER ENTITY

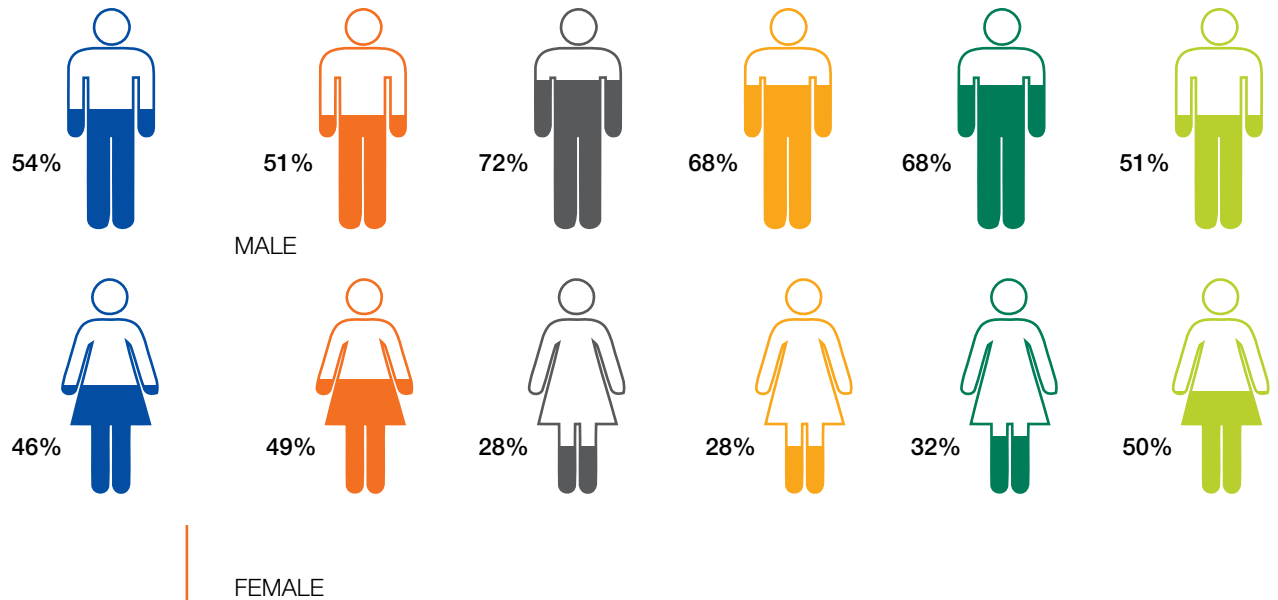


Figure 8: Group gender profile per entity at Q4, 2019/20

CEF GROUP GENDER PROFILE PER ENTITY FOR A FOUR-YEAR PERIOD

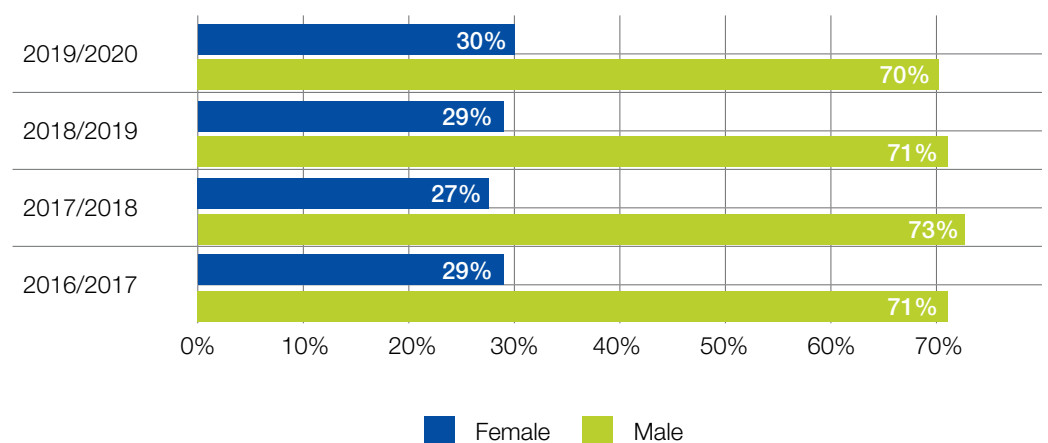


Figure 9: Overall Gender comparison profile between 2016/17 and 2019/20

The following figure illustrates that the gender representation at top management is 29% female and 71% male. It further indicates 27% female and 73% male representation at senior management level. The representation did not change at senior management level from Q3 to Q4.

CEF GROUP TOP AND SENIOR MANAGEMENT PROFILE

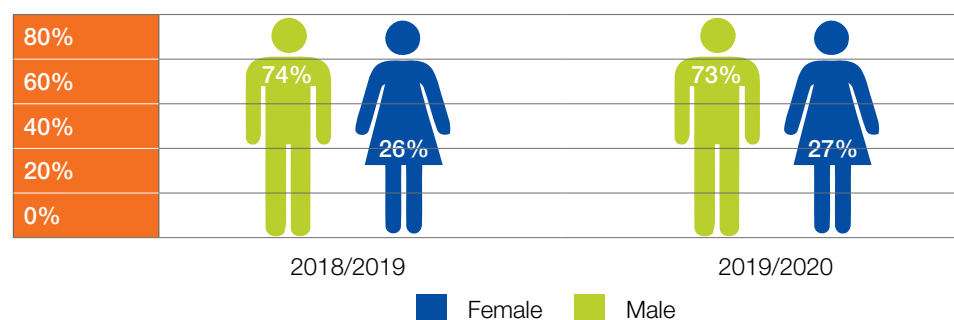


Figure 10: Top and senior management gender profile

Figure 11 illustrates the CEF Group's race profile per CEF entity. As at 31 March 2020, the Group's race profile comprised 98.78% African representation for the AEMFC, which is the highest percentage across the Group, followed by 86% African representation for the CEF and 83% African representation for iGAS. It must be noted that PetroSA, PASA and the SFF's Coloured and White representation is influenced by the Western Cape Provincial Economically Active population figures.

Entity	AEMFC	CEF	IGAS	PASA	PETROSA	SFF
African	98.78%	86%	83%	61%	49%	51%
Coloured	0.41%	3%	0%	32%	33%	39%
Indian	0.0%	5%	17%	1%	2%	1%
White	0.81%	6%	0%	6%	16%	9%

Figure 11: CEF Group race profile per entity

At the end of the reporting period, the Group's age profile was as follows:

CEF GROUP AGE ANALYSIS

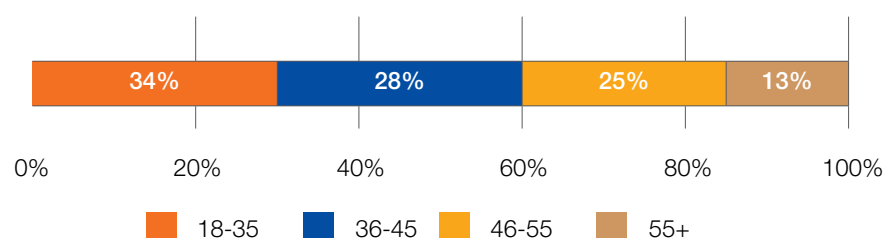


Figure 12: CEF Group employee population age analysis

As at 31 March 2020, the Youth profile (18–35 yrs) constituted 34% of the Group's employee population. The Group generally has a young employee population with 62% of its employees aged between 18 and 45 years. The middle-aged profile (above 55 years) represented 13% of the population. The business has plans to commence succession planning to ensure retention of institutional knowledge and skills of potential successors. This requires focused investment to retain, motivate and grow this talent.

FULFILLING OUR PEOPLE DEVELOPMENTS PROMISE

Employee competency development, youth development and creation of a sustainable and agile organisational culture is but one of the focus areas of the CEF key leadership and people agenda to be executed over the next five years. Over the reporting period, the organisation has moved towards the realisation of an HPO through various initiatives to support and enable business growth and operations in a volatile, uncertain, complex and ambiguous operating environment, with a demand to position the company to evolve and adapt to the 4IR.

HUMAN CAPITAL continued

INTEGRATED TALENT MANAGEMENT—CREATING A SUSTAINABLE LEARNING ORGANISATION

The CEF Group is committed to create an agile environment that enables consistent and streamlined people-development policies, systems, processes and procedures to contribute to the development of 'One CEF'. The Talent Management Committee (TMC), during the 2019/20 reporting period, completed its terms of reference; reviewed the Training and Development Policy to be in line with the market conditions of virtual learning and the 4IR; and oversaw the implementation of the Employee Study Assistance Programme with a budget of R1,6 million. In addition, a key deliverable of the TMC continues to be the oversight on organisational performance vs individual employee performance management, and which in the short to long term will inform the organisation's succession planning processes. The long-term plan is for the TMC to focus on two levels within the CEF Group, executive management level and managerial level. These TMC governance structures will exist to ensure integrated, objective and a systematic approach to talent management processes.

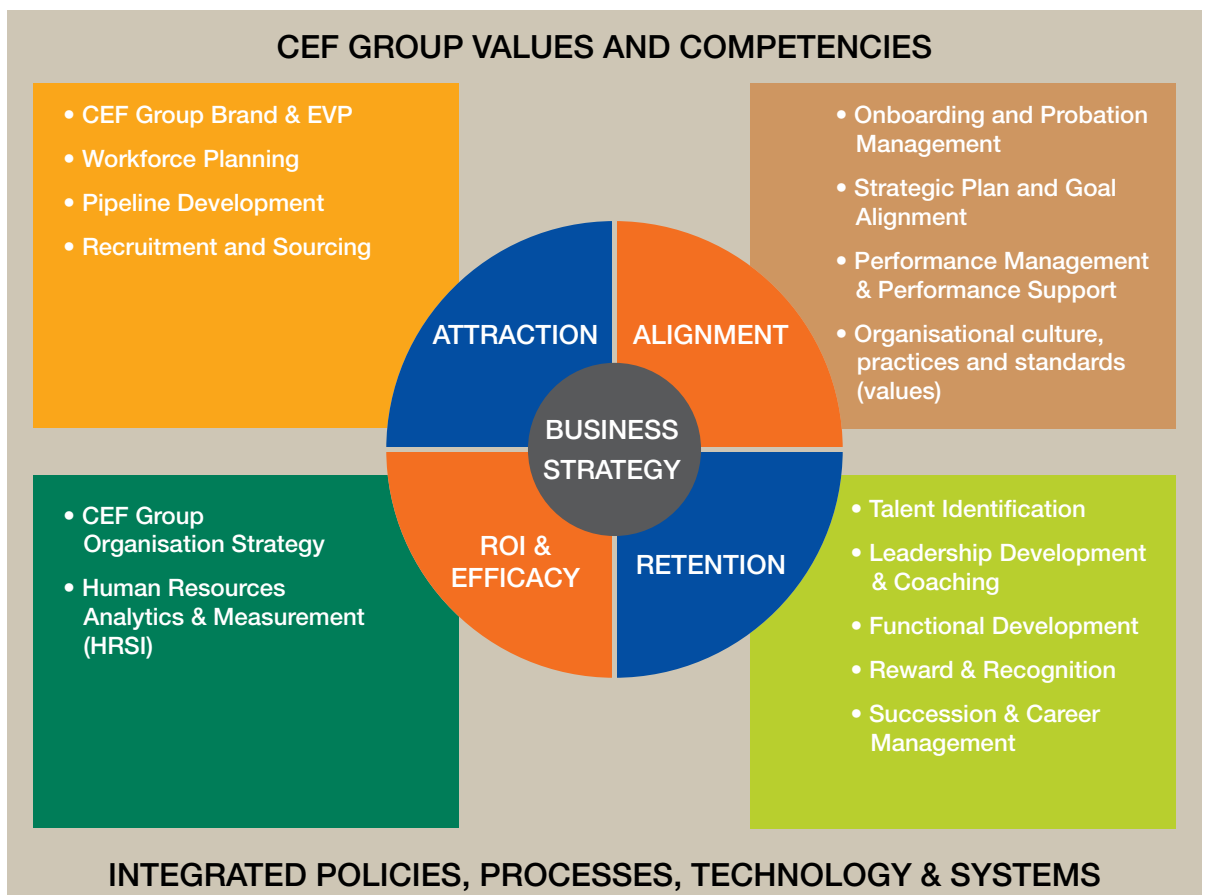


Figure 13: Integrated Talent Management Framework

CREATING A FIT-FOR-PURPOSE VALUES-BASED ORGANISATIONAL CULTURE

The CEF Values Project was piloted during the period under review with the main objective of co-designing with employees a values-based organisational culture. This aims to inform the day-to-day experience of the CEF in how "We do things around here" and how "Our customers and clients will experience the CEF".

The values campaign will drive a performance culture and is foundational to the organisational leadership DNA. Creating culture through the values intervention will yield a cohesive working environment that aligns the hearts and minds of the individuals and creates a platform for constructive and meaningful contribution to the organisational objectives. One of the outcomes of the engagements includes a co-crafted employees' charter.

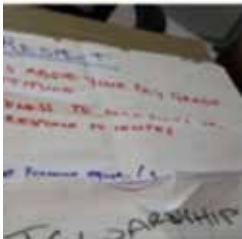
CROSS-FUNCTIONAL TEAM ENGAGEMENT
ORGANISATIONAL CULTURE



Together we went through our current reality.



We also looked at what the ideal state would be.



Finally, we looked at our values and how they could improve our environment.



Team CEF collaborated to design their ideal organisational structure.

HUMAN CAPITAL continued**CREATING VALUE BY IMPROVING EMPLOYEE COMPETENCY**

As part of recognising talent, we measure performance against set organisational performance indicators. While there have been delays in finalising the performance review process, measures are in place to ensure alignment and compliance with the organisational performance cycle. Automation of the process is prioritised for the current financial year to mitigate against the challenges. The latter are also attributed to organisational behaviour and dissonant culture.

SKILLS DEVELOPMENT INVESTING IN OUR PEOPLE TO MEET FUTURE TALENT NEEDS

The CEF Group maintained its commitment to train and develop employees at all levels by investing R15.5 million in training programmes during 2019/20, as reflected in **Table 11**.

The total training investment benefited 1 375 employees of whom 466 are youth (includes talent pipeline, i.e. interns, apprenticeships, Graduates-in-Training, and bursary holders, in-service training participants and employees younger than 36 years).

Category	Costs	Cost Breakdown
Employee Training	R3 291 597.92	Employee-related training and development costs
Travel & Accommodation	R276 464.26	Training-related travel and accommodation
Study Assistance	R2 247 782.86	Employee study assistance
External Bursaries	R6 225 510.94	Bursary amount
Graduate-in-Training (GiT)	R2 828 205.18	GiTs salary
Internship	R79 491.61	In-service students' salary
Apprenticeship	R547 051.18	Stipend paid
Learnerships	R0.00	Stipend paid
Professional Association Fees	R184 258.68	Employees' professional association membership fees
TOTAL AMOUNT PAID	R15 680 362.63	

Table 11: Skills development cost dashboard

TALENT PIPELINE DEVELOPMENT PROGRAMMES

From the Group's R15.6 million spent on skills development in 2019/20, the talent pipeline development-related amount of R9.6 million covered the following programmes: External bursaries, Graduates-in-Training travel, salaries/stipend for Learnerships, Internships and Apprenticeships. On 26 and 27 February 2020, the CEF Graduates-in-Training had a successful visit to the PetroSA Refinery in Mossel Bay as part of their work-integrated learning and exposure to the CEF energy value chain.



CEF GROUP EXTERNAL BURSARY PROGRAMME

To date, the CEF Group has invested R6.2 million in external bursaries, funding tertiary and high school students mainly focusing on STEM-related courses.

During 2019/20, the CEF Group partnered with the DMRE in an annual Learner Focus Week aimed at encouraging young women and men to enter into STEM fields. The partnership gave the CEF Group an opportunity to promote and market its brand to stakeholders within the energy sector. The CEF Group was a platinum sponsor at the Learner Focus Week event and committed to provide 30 bursaries to Learner Focus Week participants.

DELIVERING ON OUR DEVELOPMENTAL MANDATE THROUGH INITIATIVES TO REDUCE YOUTH UNEMPLOYMENT

The GiT programme included the energy sector value chain work-integrated learning and exposure. Some of the highlights included a visit to one of South Africa's leading renewable energy projects in the Northern Cape as well as the PetroSA refinery plant in Mossel Bay, Western Cape. The GiT programme can be easily integrated group-wide and aid in developing requisite skills to optimise the use of the existing technical skills centre in Mossel Bay.



Graduates-in-Training at the PetroSA Refinery in Mosselbay on 26 and 27 February 2020.

HUMAN CAPITAL continued

As illustrated in **Figure 14**, the organisation has funded 47 youth between the ages of 16 and 25, from different provinces within South Africa. Out of the 47 students, 56% of the tertiary institution bursary holders were female and 44% male. The figure also shows that the CEF bursary beneficiaries came from eight of the nine provinces.

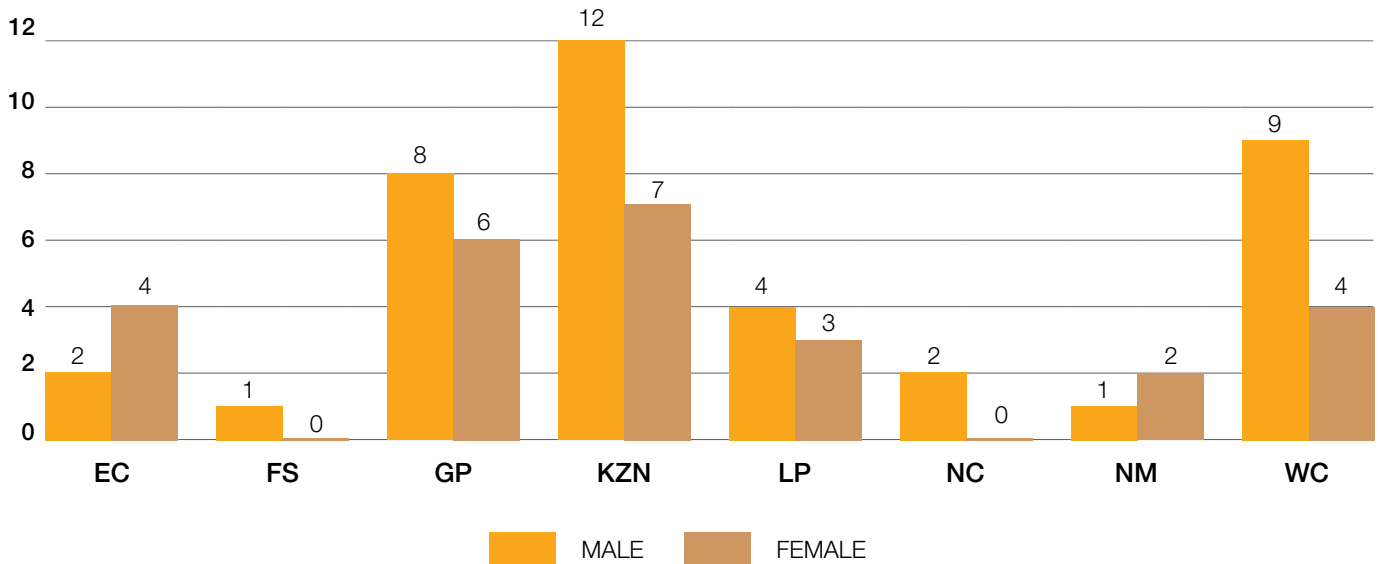


Figure 14: Bursary holders per province

The engagement of bursary students is continuing virtually to ensure they are adequately supported academically, financially as well as emotionally. Due to the COVID-19 pandemic, these sessions are unfortunately limited and the organisation relies on tertiary institutions to contribute to the wellness and success of the bursary holders.



Figure 15: The CEF bursary holder gender representation per field of study

OUR COMMITMENT TO IMPROVE EMPLOYEE ENGAGEMENT

The CEF Group launched an employee engagement survey in 2018/19 to gather insights about what was important to our employees, measure their level of engagement, give employees an avenue for open feedback, and provide the organisation with feedback on what must be prioritised and changed. During 2019/20, the organisation implemented various initiatives in response to the recommendations from the employee engagement survey. The following table outlines progress on initiatives implemented to address the concerns that emanated from the survey:

Recommendations from Employee Survey	Initiatives/Actions implemented in response
Business updates should involve all subsidiaries via group engagements to ensure participation of entities' contribution towards group performance.	- Group business updates are held at Board and Executive levels with the responsibility to disseminate information at entity level to be conducted by individual leaderships. - There are also various group professional forums where functional specialists such as the HR Forum, Risk Forum etc. engage on Group issues.
Increase effectiveness of internal communication by including all levels of staff in strategy development through sharing of corporate plans.	- During 2019/20, the Strategy team led group-wide roadshows to consult all employees on the proposed five-year strategy for the Group. - HR collaborated with the Strategy team during these roadshows aimed at socialising the strategy and obtaining input from all levels of employees.
Employ two-way communication systems where employees have the opportunity to express how they feel and take responsibility and accountability for what they do.	- Corporate Affairs created and manages a platform called "Ask the CEO" aimed at enabling employees to raise their concerns directly with the Group CEO. - Corporate Affairs in collaboration with IT launched a communication tool called Corporate Lan Advertising aimed at sharing information with employees through different mediums such as computer screens and monitors around the CEF House.
Consider quarterly stakeholder engagement sessions with subsidiaries.	Quarterly sessions are held where subsidiaries report performance against their corporate objectives.
Concerns about the lack of consistent employee engagement. A suggestion box was recommended for employees to be able to make anonymous suggestions and share ideas.	Divisional leaders are encouraged to hold regular departmental meetings to cascade information to their subordinates on a regular basis.
Employees noted that communication comes over as defensive.	The CEF leadership are continuously encouraged to share information related to business activities openly and transparently.
Concern about interim placements across the Group.	The appointment of various board members in Q3 of 2019/20 started the stabilisation of leadership within the CEF Group. At the end of the financial year all entities had filled their CEO and some executive vacancies.

EMPLOYEE RELATIONS

The employee relations climate within the Group has been relatively unstable during the 2019/20. The instability arose mainly from PetroSA and AEMFC where labour and management were in disputes over the implementation of the Short-Term Incentive Policy (STIP) Arbitration Award and the payment of 13th cheques, respectively.

The organisation remained committed to improve engagements with various labour bodies through Employee Relations Forums at various entities.

The Group was resolute in the implementation of consequence management at various entities where there were reports of misconduct.

HUMAN CAPITAL continued

Table 12: CEF Group employee relations cases (disciplinary, grievances and CCMA/Labour Court/ Bargaining Councils referrals)

EMPLOYEE RELATIONS CASES

The Group employee relations' case load on grievances, disciplinarys and matters referred to the CCMA/Bargaining Councils and Labour Court has decreased compared to the previous quarter. The overall case load per entity is low, notably from PetroSA and AEMFC. The Group cases overview is reflected in **Table 12**.

CASES	CEF SOC	PetroSA	AEMFC	SFF	PASA	TOTAL
Grievances	0	13	1	8	2	24
Disciplinary	1	4	62	5	2	74
CCMA	1	6	12	8	2	29
LC/ LAC	1	9	0	0	0	10
TOTAL	3	32	75	21	6	137

CEF'S RESPONSE TO COVID-19 AND LOCKDOWN

On the 23rd of March 2020 the President of the Republic of South Africa, Mr Cyril Ramaphosa, addressed the nation on measures that the government will put in place to combat the COVID-19 pandemic. In his address he announced a nation-wide lockdown for 21 days with effect from midnight on Thursday the 26th of March 2020, and that during this period all South Africans will have to stay at home.

COVID-19 necessitated the organisation to develop a response plan and implement its business continuity plans. All meetings that were scheduled during this period were held via teleconferencing. The SFF, AEMFC and PetroSA continued operating as they provide essential services. The SFF provides crude to the Astron Energy refinery, PetroSA provides fuel for the Eskom power plant and the fuel market, while the AEMFC provides coal for power generation.

To ensure that the business operations continued during the Lockdown while employees were working remotely, line managers were requested to implement a performance management process by agreeing on clear deliverables with specific outcomes with their direct report.

APPROACH TO REMUNERATION

The CEF Group acknowledges that it can only achieve better performance and results through its talent. To realise this, the organisation must be in a position to attract, motivate and retain high calibre individuals who will drive its strategies successfully and give it a competitive advantage. In order to achieve this, the CEF Remuneration Philosophy strives to create reward policies and strategies that are competitive, fair, transparent and equitable.



The CEF Remuneration Philosophy strives to create reward policies and strategies that are competitive, fair, transparent and equitable.



Our Reward Philosophy consists of a set of beliefs, which underpins the reward strategy of the organisation, governs reward management and provides a framework that will ensure that remuneration principles and processes are fairly applied. This will be underpinned by:

- **Affordability and sustainability** – the remuneration costs shall be contained within the company's financial limitations.
- **Transparency** – ensuring that the remuneration policies and strategies are conducted openly, in good faith, and with the requisite level of confidentiality.
- **Competitive and market related** – total guaranteed remuneration of all roles will be positioned at the median of the industry and market benchmarks, and any differentiation of employees' salaries will be based on their market value, competence, level of performance and length of service.
- **Total rewards approach** – reward components offered will include total guaranteed package, incentives, subject to applicable modifiers' requirements being met, non-monetary recognition awards, career growth and development, allowances, variable pay, leave.

TOTAL REWARD APPROACH

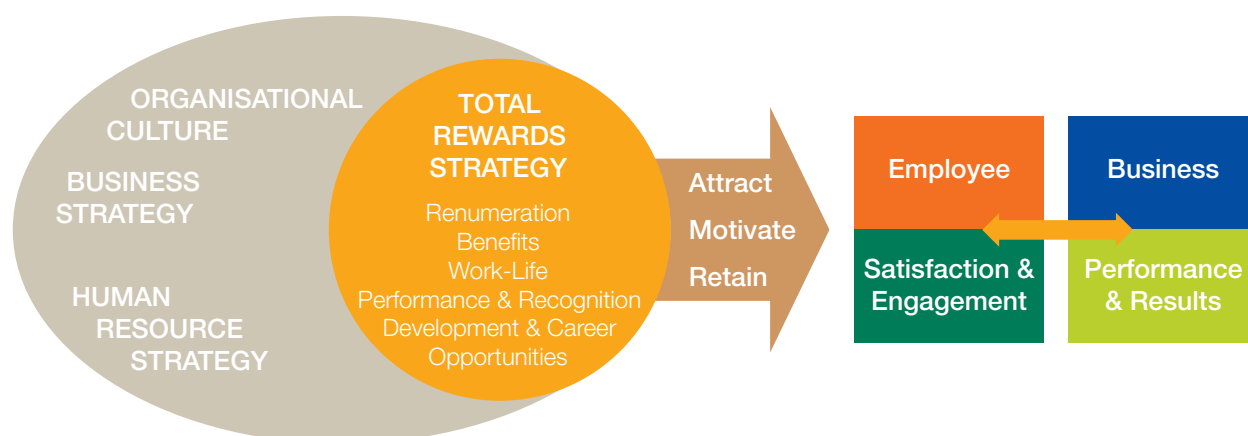


Figure 16: The CEF Total Rewards Philosophy

In order to address the above principles and objectives, and ensure that employees feel equitably rewarded for their efforts, the CEF shall apply the following framework:

- The Group's market position is to pay at the market median, i.e. the 50th percentile relative to the market.
- Target total earnings (total guaranteed package and variable pay) are benchmarked with the relevant competitive markets between median and upper quartile levels.
- The principle of 'equal pay for work of equal value' is recognised and adhered to.
- Regular market benchmarking is done using an appropriate comparator group of competitor companies, through participation in relevant annual remuneration surveys.
- The market median serves as the reference point and quality control measure on pay actions.
- The CEF Group uses a total guaranteed package approach to remuneration. Employees are allowed to structure their remuneration packages as they deem fit, within company policy and tax legislation constraints, meaning that employees can be flexible with:
 - o Car allowance: Employees can structure their respective salary packages with or without a car allowance.
 - o Retirement fund contributions: It is compulsory for all permanent employees and those in three-year or longer fixed-term contracts to contribute towards a company-approved retirement scheme.
 - o Medical aid: It is compulsory for all permanent employees and those in three-year or longer fixed-term contracts to contribute towards a company-approved medical aid scheme.

HUMAN CAPITAL continued

The various Group entities offers risk benefits (Group Life Assurance, Funeral and disability). The Group reserves the right to change both the retirement fund and medical aid schemes in which it participates, or to discontinue participation therein altogether. In an effort to improve our EVP, the HR teams are continuously exploring options to extend the benefits to all employees, considering that the nature of employment will change in the exponential organisation the Group is aspiring to be.

SALARY INCREASES IMPLEMENTED IN 2019/20 AT CEF GROUP ENTITIES

In an increasingly competitive market for limited skills, it is critical that we provide appropriate and market-related remuneration and other benefits to attract, retain and motivate the right calibre of employee. We determine our annual budget increases on the basis of forecast market movements, inflation indicators, company affordability and individual performance.

Each entity implemented different salary increase percentages to a maximum of 6.5%, approved by the boards. **Table 13** illustrates the planned salary bill budgeted per entity and how salary increases were implemented per entity.

Entity	Allocated Salary Bill		Approved Salary Increase Mandate	Application of Approved Increase %
	2020	2019		
CEF	R106.6 million	R103.2 million	6.5%	4.4% based on April 2019 Consumer Price Index (CPI) plus 2.03% performance factor
SFF	R137.2 million	R122.9 million	6.5%	Bargaining unit received 7.0% increase across the board
				Non-bargaining unit received 6.5% CPI plus performance factor
AEMFC	R172.2 million	R160.3 million	6.5%	Bargaining unit received 6.5% increase across the board
				Non-bargaining unit received 6.5% increase
PetroSA	R1.2 billion	R1.14 billion	6.5%	Bargaining unit received 6.8% increase across the board
				Non-bargaining unit received 4.75% increase
iGas	R11.3 million	R10.5 million	6.5%	4.47% based on April 2019 CPI plus 2.03% performance factor
PASA	R82.9 million	R81.9 million	6.5%	6.5% for Bargaining unit & for Non-Bargaining unit.

Table 13: 2019/20 salary budgets per entity

The following factors were among those considered as a basis for determining the annual increases for the 2019/20 period:

- Financial affordability of the business;
- Performance of the business against set objectives;
- CPI as at end April 2019;
- Trade Union/Bargaining Councils agreement;
- Forecasted salary movements in the market;
- Economic situation in the country.

SHORT-TERM INCENTIVE BONUSES BASED ON 2019/20 PERFORMANCE OUTCOMES

Incentive bonuses are paid based on achieving the company's performance that is measured by predetermined and approved objectives in the Annual Corporate Business Plan; and, at an individual employee level, it was done through measuring performance against individual key performance areas, which are linked to departmental/divisional objectives aligned with the overall Group objectives.

The Auditor-General of South Africa's audited performance of the CEF Group for the 2019/20 financial year was 79% . The other contributing factor is that the Group performance is the consolidation of all entities whose performance has lessened the impact of the PetroSA impairment. Incentive bonus paid during 2019/20 was for the performance achieved for the 2018/19 FY.

Group Remuneration	2019/20	2018/19
Guaranteed remuneration	R1.66 billion	R1.53 million
Bonus	R90 million	R96 million
Total remuneration	R1.75 billion	R1.63 billion

Table 14: Group remuneration report for all employees, including executives

The 2019/20 Group remuneration bill reflected in **Table 14** has increased for the year under review when compared to the previous financial year. This was due to several executive roles being filled across the Group, although there were still a high number of incumbents in acting capacity. The incentive bonus paid during 2019/20 was for the 2018/19 performance. It must be noted that the remuneration data in **Table 14** is inclusive of Executives' emoluments.

Table 14's total remuneration includes all earnings (leave provision and variable pay), as reflected in the annual financial statements. Due to a high number of employees in acting capacity at executive, especially in PetroSA and CEF SOC, the Group reported R3.952 million paid as acting allowances.

REMUNERATION OF NON-EXECUTIVE DIRECTORS AND EXECUTIVE MANAGEMENT

The Minister of Energy determines the remuneration of non-executive directors, with the concurrence of the Minister of Finance as per the Central Energy Fund Act No. 38 of 1977. The remuneration of the directors and the Group executives for the year under review is disclosed in Note 41 of the annual financial statements. Non-executive directors receive a fixed rate per hour as engagement fees for CEF Group business-related meetings.

Remuneration of Non-executive Directors and Group Executive Management	Remuneration R million		Bonus and Incentives R million	
	2019/20	2018/19	2019/20	2018/19
Non-executive directors	20,9	17,9	N/A	N/A
Executive members	80,6	90,0	11,9	20,1
Total remuneration	101,4	107,9	11,9	20,1

Table 15: Group total remuneration of non-executive directors and executive management

CONCLUSION

The Group HR remained focused in support of the business by ensuring that the organisational talent is developed, retained and motivated to drive the broader organisational objectives. This has been done under unique challenges posed by the leadership changes across the Group throughout the 2019/20 financial year.

Employment Equity remains a focus area to close the existing gender diversity gaps of 70% male vs 30% female for the Group. The Group will invest in youth and women development programmes to address the gender parity.

The Group maintained its commitment to train and develop employees at all levels by investing R15.5 million on training programmes during 2019/20. COVID-19 and the National Lockdown forced the organisation to rely on technology to sustain business continuity. This has brought the impact of the 4IR to the fore and the realisation that business as usual will no longer be the norm. People strategies, leadership calibre and competencies must be amended to ensure that the organisation remains on course to achieve its objectives of financial sustainability and growth.

CORPORATE AFFAIRS & SOCIAL INVESTMENT

The energy industry sector is a rapidly changing environment. As such, the CEF's Corporate Affairs function plays a critical role of effectively managing the brand perception of the CEF. A well-received brand bolsters the company's efforts to successfully execute its mandate of assisting government to provide security of energy supply for the country. For the reporting period, the Group has undertaken a slow but tactical communication approach that was aimed at ensuring that the CEF Group's voice 'rises above the noise' in the marketplace. This approach also advocated for an increased engagement with all key stakeholders, and influenced key policy directions adopted by respective governance structures of the subsidiaries.

Key highlights for the reporting year included the following interventions.

MEDIA RELATIONS

The CEF played an active role in supporting the Group with all media relations leading to the Group slowly changing its risk averse nature with regards to media and starting to own its narrative through proactive reporting of issues that affect the Group.

Tactical approaches included:

Media statements

- CEF welcomes the awarding of Optimum coal assets to its subsidiary led consortium;
- CEF Group partners with Africa Energy Indaba;
- PetroSA board appoints new Group CEO;
- Dr Monde Mnyande appointed new CEF Chairperson;
- CEF Group maintains a going concern status – generates R1.6 billion cash from operations; and
- CEF board stabilises the Group with appointments of new CEOs.

Issue management

Statements were also issued to address the media enquiries relating to the following issues:

- South Africa and Saudi Aramco's cooperation for a new crude oil refinery and petrochemical plant; and
- PetroSA's Corporate Plan and the entity's future in the face of what the media termed depleting gas reserves.

Reputational insight

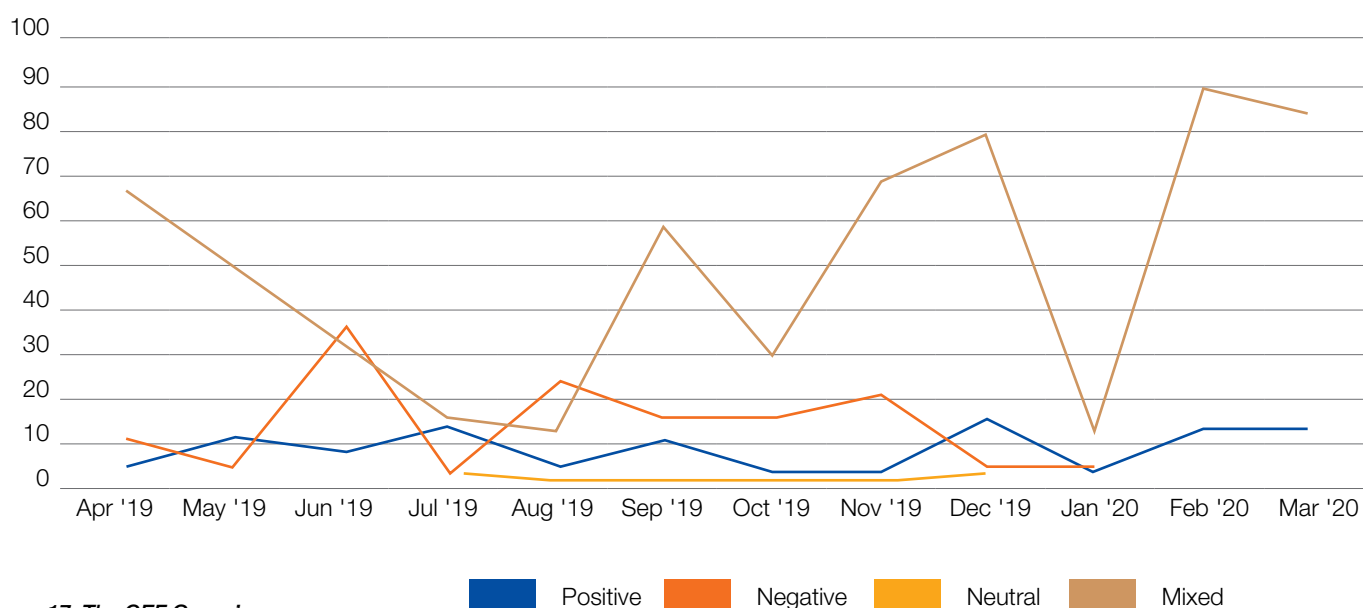


Figure 17: The CEF Group's media coverage in the past financial year



The majority of media coverage related to the fuel price. This was followed by 15% mixed coverage, which was in relation to issues such as the hearing and dismissal of the AEMFC CEO as well as PetroSA's potential 'farmout' deal with Rosgeologia.

The positive coverage was centred around 8% and pertained to the announcement of the new group CEOs, the CEF's partnership with the Africa Energy Indaba as well as the CEF's partnership with Aramco in the construction of a R147 billion oil refinery. The Group did not receive much negative reports, with the 2.4% share of the coverage being about the failed national solar-water heating programme and the appointment of one of the Directors.

TRADE SHOWS AND EVENTS

The CEF initiated the Group's participation as a major sponsor at the following key annual energy conferences: Africa Oil and Power, held from 9–11 October 2019; the Africa Oil Week, held from 4–8 November; as well as the Africa Energy Indaba, which took place from 3–4 March 2020.

With over 1 500 senior leaders and key decision-makers in attendance at each conference, the events were the perfect space for the CEF to showcase its brands, not only through networking and on the exhibition floor, but also through key platforms where in-house specialists participated as speakers and panel members.

The following were the return on investment for the Group's participation:

- **Position the CEF as a thought leader in the energy industry** – The conferences are renowned for bringing together thought leaders to debate, discuss, and define best practices as well as collaborate on energy solutions. Therefore, the Group's association with these partnerships will in the long run strategically position it as a thought leader crucial to the South African energy requirements and beyond.
- **Brand awareness and recognition** – Recognition and acknowledgement as a major sponsor of these high-level conferences raised not only the profile of the Group, but also enhanced its credibility in the energy industry. Awareness and recognition contributed to cementing the Group's key role in supporting government in guaranteeing the security of the energy supply in South Africa and the sub-Saharan region.



As part of improving internal dialogue, the CEF introduced initiatives aimed at engaging employees to play their part in driving and implementing the strategies that are geared to support government in fulfilling its developmental agenda. The initiatives ranged from employee voluntarism programmes, staff engagements and quarterly newsletters etc.

CORPORATE AFFAIRS & SOCIAL INVESTMENT

EXTERNAL COMMUNICATION AND BRAND MANAGEMENT

Master Brand Strategy

Given that over the years, the CEF Group has consciously avoided communicating, branding and marketing its work and services through conventional advertising and communication mechanisms, the current levels of external communication and engagements, particularly through brand position and stakeholder initiatives, were not adequate to optimise the Group's brand relevance in the energy value chain in South Africa and beyond.

This placed more emphasis on the rationale for a well-coordinated Group Master Brand Strategy that will present a single-minded value proposition, targeting all mission critical stakeholders across the oil and gas value chain locally and further afield.

The need for this strategy was further corroborated by the reputational study that the CEF undertook the previous financial year to measure the Group's reputation internally as well as in the public domain. This survey aimed to determine the status of the Group's brand measured against the following reputational drivers set out in **Figure 18**.

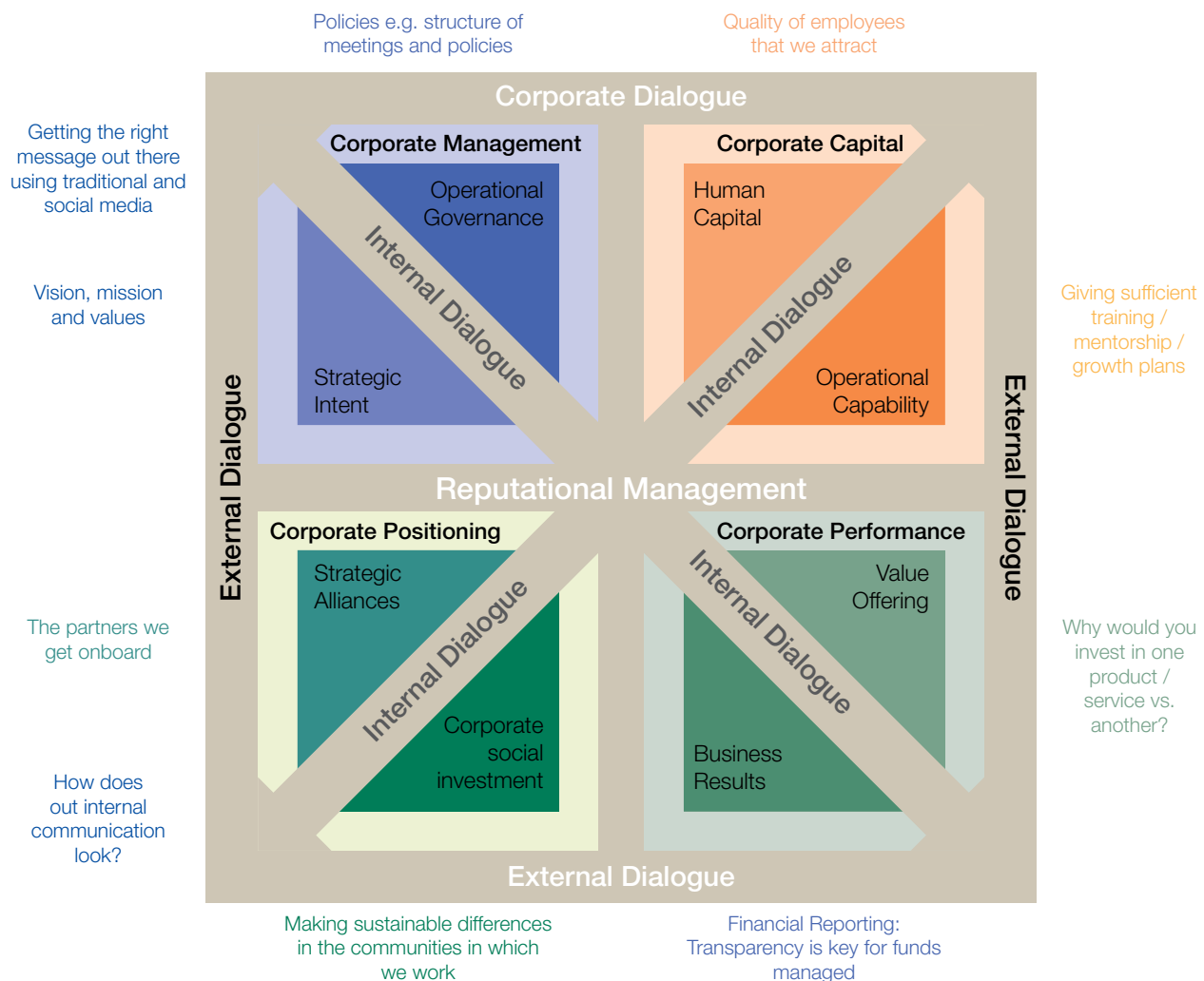


Figure 18: Reputation management and drivers

Analysis of the data based on the reputational drivers saw the Group's corporate reputation score sitting at 46%, which is classified as a low reputation against a universal target score, commonly used as a baseline for an acceptable reputation in the marketplace, of 75%. The rollout of the CEF Group Master Brand Strategy aims to move from a 46% baseline towards a universally accepted score of 75% in the next three years.

CORPORATE AFFAIRS & SOCIAL INVESTMENT

CEF GROUP: A COMPASSIONATE AND CARING ORGANISATION

The CEF Group remains committed to sustainable development and aims to align its corporate objectives with its performance as a corporate citizen. It is against this background that the CEF Group aims to advance the quality of life of historically disadvantaged communities. During 2019/20, a total of R1 429 105.31 was spent in support of these corporate social investment development initiatives.

Table 16 gives an overview of the key focus areas of community development, education, environment, health and sustainable development.

CEF SOC LTD				
PROJECT	DESCRIPTION	DATE	FOCUS AREA	BUDGET
School Shoes Campaign	Donation of school shoes to needy learners from previously disadvantaged areas.	Apr - June 2019	Education	R209 753.91
Mandela Day	Donation of groceries & 128 pairs of school shoes to learners from Gahlanso Primary School in Tembisa, Gauteng.	July 2019	Education	R26 617.00
Mandela Day	Donation of a cheque to the Earth Centre, a non-profit organisation established to provide therapy horse riding for children with physical, mental and emotional disabilities from marginalised backgrounds.	July 2019	Health	R10 000.00
TOTAL				R246 370.91

AFRICAN EXPLORATION MINING & FINANCE CORPORATION (AEMFC)				
PROJECT	DESCRIPTION	DATE	FOCUS AREA	BUDGET
Emalahleni Municipality	Donation of PPE & safety supplies.	Mar - Oct 2019	Health & Safety	R30 871.67
Twoline Relocated Community	Maintenance of houses & donation of gas cylinders.	Mar 2019 - Jan 2020	Social development	R372 474.49
School Campaigns	Donation of school uniforms and backpacks to needy learners from schools in surrounding communities of Venter and Kendal.	Apr - Nov 2019	Education	R118 517.00
Community NOCs	Donation of equipment to Zainap Kitchen, Mavundlela car wash, Pigalle Tyres, Consortia Sky office & Rahema Training Centre.	Apr - Sep 2019	Social development	R478 366.24
Community campaigns	Donation of groceries & transport community campaigns, i.e. Ukuzala Ukuzelula, Coal Safe Mine campaign, SAPS 16 Days Activism.	Apr - Nov 2019	Social development	R89 305.00
Mandela Day	Donation of groceries to elderly people from Phola Community.	Aug 2019	Social development	R93 200.00
TOTAL				R1182 734.40

Table 16: CEF Group overview of corporate social investment



SECTION 5

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE



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

- Ethical culture;
- Good performance;
- Effective control; 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 entity affairs.

ETHICS AND INTEGRITY

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

STANDARDS OF BUSINESS CONDUCT

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

INTERNAL AUDITS

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

CORPORATE GOVERNANCE continued

In 2018, an external quality assurance review was performed by the Institute of Internal Auditors (IIA), reporting positive results and rating the internal audit function as “generally conforming” with the 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.

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. In line with good governance principles, the positions of Chairman and CEO are separately held to ensure a clear division of duties and responsibilities.

THE BOARD RETAINS OVERALL ACCOUNTABILITY

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

- Ensuring that policies and procedures are in place
- Monitoring the performance of the Group against agreed objectives;
- Identifying key performance and risk areas;
- Providing effective leadership on an ethical foundation;
- Ensuring that there is an effective risk-based internal audit function;
- Defining levels of materiality;
- Reserving specific powers to itself and delegating other matters (with the necessary written authority) to the CEO and to its sub-committees;
- 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 Memorandum of Incorporation of the CEF SOC and those of the CEF Group subsidiaries stipulate the minimum and maximum number of directors permitted to be appointed to the respective Boards. The non-executive directors of the CEF SOC Board are appointed in terms of the CEF Act and reappointment is not automatic. The appointment of directors to the subsidiary boards is the responsibility of the CEF and is subject to approval by the Minister of Energy, as per the provisions of the CEF Shareholder's Compact. The boards are required to meet at least once a quarter.



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

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

The CEF ensures that 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 agenda.

Shareholder and the CEF Group and in keeping with the national transformation and empowerment agenda. The performance of the boards as collectives, committees, the chairs and individual members is assessed annually.

COMMUNICATING WITH DIRECTORS

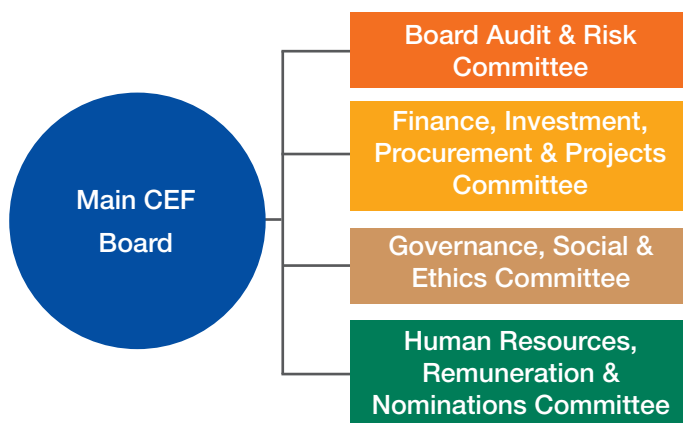
Serving on an SOE, the directors are constantly briefed via the quarterly reporting process in adherence with the PFMA. This affords them the opportunity to assess performance, recommend interventions and engage the Shareholder on performance and progress. Each of the CEF Group entities concludes a shareholder's Compact with the CEF as the holding company, which includes corporate plans and authority levels approved at Group level.

COMPENSATION OF BOARD OF DIRECTORS

The 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 through 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 nonexecutive director or an independent member. Our subsidiary boards of directors provide independent oversight of the respective group entities' affairs.



CORPORATE GOVERNANCE continued

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.
Human Resources, Remuneration and Nominations Committee	The committee is principally concerned with matters relating to the oversight of all Human Resources-related issues as well as the development of an appropriate remuneration policy and adherence thereto. Further to the monitoring of the implementation of HR policies and a regular review of such policies. Further, the role of the committee is to assist the Board with overseeing the appropriate composition of the Board of the CEF and its subsidiaries for the Boards to execute their respective duties effectively; succession planning in respect of Board members, as well as for executive management; the basis for re-election of Board members and implementing a process for nominating, electing and appointing members to the Board and to subsidiaries.
Governance, Social and Ethics Committee	Responsible for monitoring the quality and integrity of corporate governance practices of the CEF Group and general oversight of corporate policies and procedures, involving corporate governance and compliance with significant legal, ethical and regulatory requirements; and for Board development Responsible also for providing leadership and taking responsibility for the CEF Group's transformation, social economic development, human capital development and sustainability, including the management of non-financial issues, within the broader Group strategic framework.
Finance, Investment, Procurement and Projects Committee	The role of the CEF Finance, Investment, Procurement and Projects Committee is to among others: • Recommend approval of budgets to the Board; • Play an oversight role and monitor the utilisation of funds in line with the Business Plans; • Setting Board-approved investment policies and guidelines; • Ensure that Company procurement policies are effective, efficient and that they are implemented and sustained; and • Review all CEF Group project proposals and focus especially on projects which align subsidiary and Group projects strategically and commercially.

MATERIALITY AND SIGNIFICANCE FRAMEWORK

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

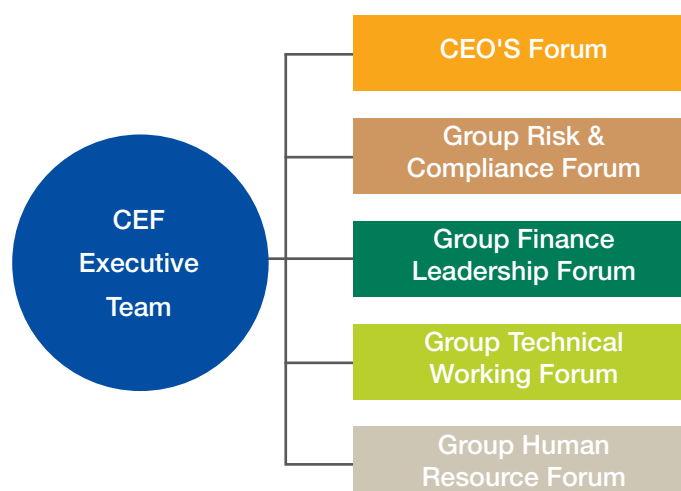
• Significant leadership experience in legal, project management, corporate governance, policy formulation, trading, oil and gas, renewables, corporate finance, and refinery operations • Substantial experience of some of the directors in working for global entities and leading large and complex businesses • Strong independence • Detailed Board induction process • Strategic support and ongoing board development with leading independent institutions	• 80% independence • Well-balanced Board tenure
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The detailed report on committees, meeting dates, appointments and resignations is contained in the Group directors' report in the Financial Statements Report.

EXECUTIVE MANAGEMENT STRUCTURES

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

Exco is constituted 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 and ensure alignment to improve Group performance.



CORPORATE GOVERNANCE continued

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

Management Committee	Strategic Responsibility
CEO's Forum	This is the principal structure to give effect to integrated execution of strategy across the group. The forum is chaired by the CEF Group CEO, with the CEOs of each subsidiary making up its membership. Key CEF executives are invited to the forum, including the CFO, Group General Manager: Corporate Services, Group Head of Risk and Compliance, Group Corporate Planner and General Manager: EPD
Group Legal, Risk and Compliance Forum	This forum informs the state of practice across the Group for dealing with legal, risk management and compliance matters, pursues the mandate of streamlining and improving governance and oversight across the Group for governance, risk management and compliance purposes, and streamline the risk management, compliance and fraud management policies within the Group.
Group Finance Leadership Forum	The purpose of the forum is to lead the CEF Group to achieve a uniformly high standard of practice in corporate financial management, provide financial leadership, drive standardisation of systems and processes, drive the transition to a high-performance financial organisation, and drive integrated financial planning and reporting for the Group.
Group Technical Working Forum	The forum provides technical support to the Project Appraisal and Monitoring Committee, reviews projects before they are tabled at the committee and gives assurance that all projects with a significant technical component are adequately evaluated, as such projects can commit significant amounts of capital, and often for lengthy periods of time.
Group Human Resources Forum	This forum, which consists of human capital business partners across the CEF Group, seeks to achieve a common base of practice and elevate the baseline on human capital management. It: • Formulates a collaborative human-capital agenda that will support group operations in a cohesive, relevant manner; • Aligns the human-capital mandate in the CEF Group through coordination of efforts; • Identifies and manages areas of convergence; - and • Eliminates duplication of policies and processes.



The CEF board members duties are designed to enhance the CEF Group performance as it navigates the Group strategy.



KING IV REPORT

KING IV OBJECTIVES

- Promote corporate governance as integral to running an organisation and delivering governance outcomes such as an ethical culture, good performance, effective control and legitimacy.
- Broaden the acceptance of the King IV by making it accessible and fit for implementation across a variety of sectors and organisational types.
- Reinforce corporate governance as a holistic and interrelated set of arrangements to be understood and implement in an integrated manner.
- Encourage transparent and meaningful reporting to stakeholders.

The table below sets out the 16 principles applicable to the CEF Group, with comments on our application.

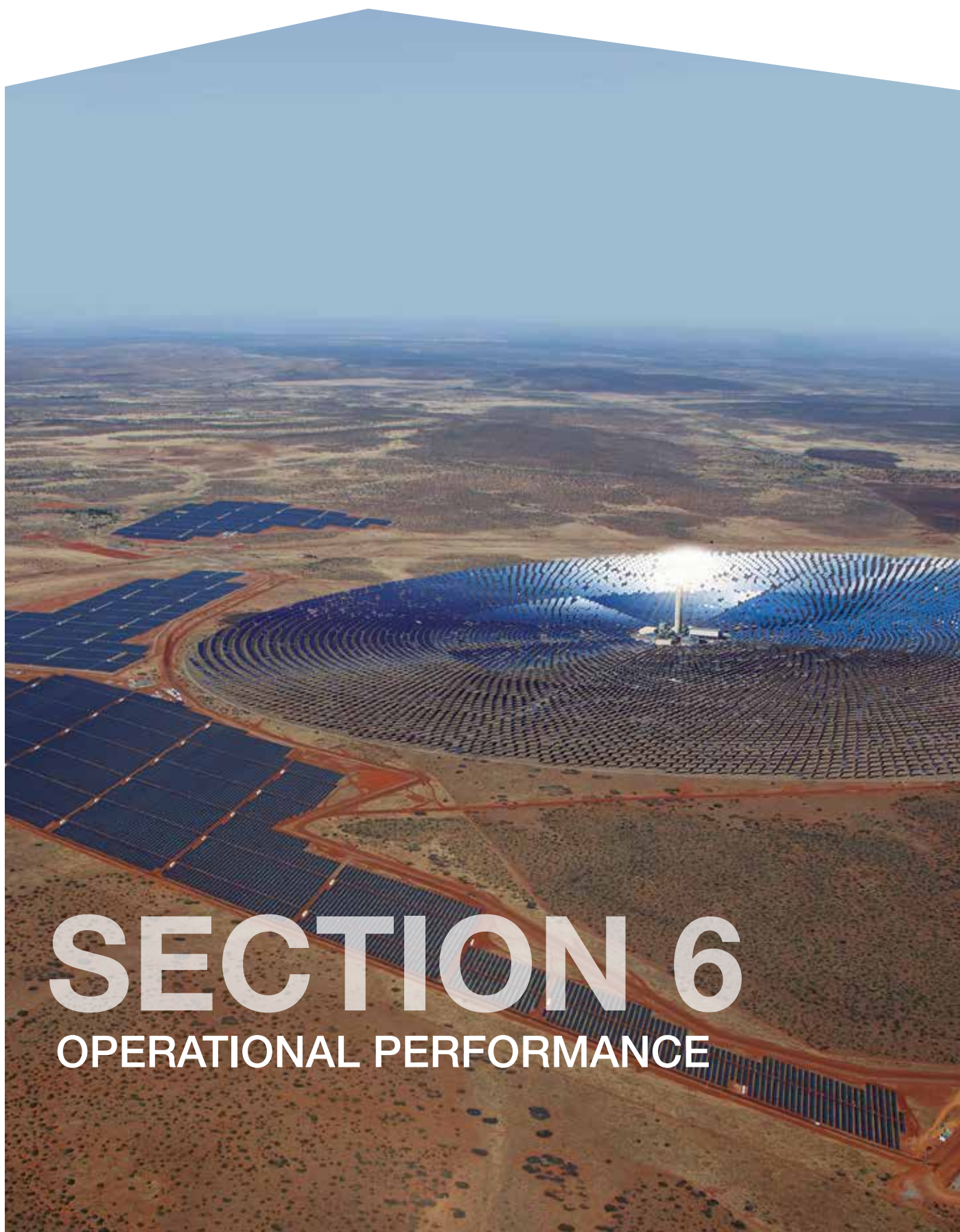
PRINCIPLES	PRACTICES IMPLEMENTED AND EXPLAINED
1. Governance Outcome: Ethical Leadership	
The accounting authority should lead ethically and effectively	The CEF Group's Directors hold one another accountable for decision-making and acting in a way that displays the ethical characteristics stated in King IV. The Social and Ethics Committee of the Board exercises oversight over the ethics management of the Group.
2. Governance Outcome: Organisational Ethics	
The accounting authority should govern the ethics of the SOE in a way that supports the establishment of an ethical culture	The CEF Group has a Code of Ethics in place which is applicable to Directors, Board Committee Members, Executive Management, Employees and Contractors. There is ongoing ethics awareness training for all employees and every employee is expected to have at least attended a training session in the year. Performance evaluations of employees include ethical conduct. The Social and Ethics Committee of the Board exercises oversight over the ethics management of the Group. A fraud hotline exists where all staff are encouraged to report any suspicious activities taking place in the Group. The Board and the executive management annually declare their financial interest.
3. Governance Outcome: Responsible Corporate Citizenship	
The accounting authority should ensure that the SOE is and is seen to be a responsible corporate citizen	CEF Group has an approved CSI policy that guide the Group in identifying beneficiaries to support government development agenda of addressing triple challenges of unemployment, Inequality and unemployment. In pursuit of the Group's vision of becoming a significant player in the energy sector, the CEF Group remains committed to sustainable development and aims to align its corporate objectives in support of the National Development Plan. It is against this background that the CEF Group aims to advance the quality of life of historically disadvantaged communities is central to the Group's CSI philosophy.
4. Governance Outcome: Strategy and Performance	
The governing body should appreciate that the SOE's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.	The Integrated Annual Report demonstrates that organisational performance is understood as both the achievement of objectives and the enhancement of the capitals and relationships that the CEF Group uses and affects, i.e. value-creation. Sustainable development is seen to be a source of opportunity and the CEF Group defines its core purpose, sets and achieves its strategic objectives with reference to risk and opportunity. The Board assesses on a continual basis the positive and negative outcomes resulting from its business model and responds to it as highlighted in the Integrated Annual Report. <i>Refer to sections 2 and 3 of this report for the business overview, strategy and the value creation.</i>

PRINCIPLES	PRACTICES IMPLEMENTED AND EXPLAINED
5. Governance Outcome: Reporting	
The governing body should ensure that reports issued by the SOE enable stakeholders to make informed assessments of the SOE's performance and its short, medium and long-term prospects.	The Integrated Annual Report provides reliable information that the stakeholders will view as holistic, clear, concise and understandable presentation of the CEF Group's performance in terms of sustainable value creation in the economic, social and environmental context within which it operates. In the annual integrated report, the CEF Group details both its historical performance and future outlook. This, together with further information such as corporate plans and quarterly reports, enable stakeholders to make informed assessments of the CEF Group's prospects.
6. Governance Outcome: Role and Responsibilities of the Governing Body	
The governing body should serve as the focal point and custodian of corporate governance in the SOE.	These roles and responsibilities are articulated in the Board Charter and reflected in the board work plan. The Board discharge its duties based on the Board Charter. The board meets once every quarter. Should an important matter arise between scheduled meetings, additional meetings may be convened. Before each board meeting, an information pack, which provides background information on the performance of the group for the year-to-date and any other matters for discussion at the meeting, is distributed to each board member. At their meetings, the board considers both financial – and non-financial, or qualitative, information that might have an impact on stakeholders. The board is satisfied that it fulfilled its responsibilities as detailed in their charters during 2019/20. Details of the board meetings held during the year ended 31 March 2020, as well as the attendance at the board meetings by individual directors, are disclosed in Section 8 of this report.
7. Governance Outcome: Composition of the Governing Body	
The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.	The Board, with the assistance of the Human Resources, Remuneration and Nominations Committee, considers its composition in terms of balance of skills, experience, diversity, independence and knowledge and whether this enables it to effectively discharge its roles and responsibilities. The Group follows the prescripts of its founding legislation the Central Energy Fund Act in terms of Numbers. The MOI and Charter is in place to guide in respect of regulatory meetings, number of members and the mix of non-executive and executive. As and when required, the Board, in consultation with the Shareholder; reviews the Board's composition, structure and succession. The Board is appointed by the Minister in terms of the CEF Act as an when vacancies arise. The directors are individuals of a high calibre with diverse backgrounds and expertise, facilitating independent judgment and broad deliberations in the decision-making process. For details of directors' full names, their dates of appointment as well as brief career and sphere of influence synopsis of each of the directors, refer to page 30 and 31 of this report
8. Governance Outcome: Committees of the Governing Body	
The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement and assist with balance of power and the effective discharge of its duties.	The board established four sub-committees to assist the directors in fulfilling their duties and responsibilities. Each committee has formal terms of reference and reports to the board at regular intervals. The terms of reference, which set out the objectives, authority, composition and responsibilities of each committee, have been approved by the board. Membership of the committees is as recommended in King IV. The composition of the committees of the board and the distribution of authority between the chairman and other directors is balanced and does not lead to instances where individual(s) dominate decision-making within governance structures or where undue dependency is caused. For the members of each committee refer to section 8 of this report There are terms of references for all the committees. There is clear delegation of authority from the Board to its Committees and subsequently to the Group Chief Executive Officer and the organization at large. The Board Audit and Risk Committee (BARC) has satisfied itself that the Auditor-General of South Africa exercised their duties in an independent and objective manner. For the Board Audit and Risk Committee report refer to section 8 of this report

KING IV REPORT continued

PRINCIPLES	PRACTICES IMPLEMENTED AND EXPLAINED
9. Governance Outcome: Evaluation of the Governing Body Performance	
The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.	The performance reviews of the Board structures and its members are performed twice per year. After evaluating their performance in terms of their respective charters, the directors are of the opinion that the board and the sub-committees have discharged all their responsibilities for 2019/20. Induction and training programmes are offered to the new Board members and continuous training is offered to existing members.
10. Governance Outcome: Appointment and Delegation to Management	
The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities	In terms of its formal charter, the board's responsibilities include the appointment of the chief executive officer and the approval of corporate strategy, risk management and corporate governance. The board reviews and approves the corporate plans and monitors the financial performance of the group and implementation of the strategies. A detailed delegation of authority policy and framework indicate matters reserved for the board and those delegated to management. The CEF Group in appointing the CEO follows a transparent process that involves the Board, i.e. the Board initiates the recruitment process and makes recommendations to the shareholder for final appointment. CEF Group Company Secretary with the requisite knowledge, experience and stature provides professional guidance on corporate governance matters and coordinates the functioning of the Board and its Committees.
11. Governance Outcome: Risk Management	
The governing body should govern risk in a way that supports the SOE in setting and achieving strategic objectives.	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. The Board Audit and Risk Committee assists the board with the governance of risk. The board is aware of the importance of risk management as it is linked to the strategy, performance and sustainability of the CEF Group. The audit and risk committee delegates the duty to management to continuously identify, assess, mitigate and manage risks within the existing and ever-changing risk profile of the Group's operating environment. Mitigating controls are formulated to address the risks and the board is kept up to date on progress on the risk management plan. Refer to page 49 – 55 of this report For an overview of the risks to value creation in the CEF Group
12. Governance Outcome: Technology and Information	
The governing body should govern technology and information in a way that supports the SOE setting and achieving its strategic objectives.	The Board audit and risk committee assists the board with the governance of information technology. The board is aware of the importance of technology and information as it is inter-related to the strategy, performance and sustainability of the CEF Group. The IT Steering committee assists management in providing oversight on IT related issues and projects
13. Governance Outcome: Compliance	
The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the SOE being ethical and a good corporate citizen.	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. 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 R660 million per transaction. 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. For a more detail on the fruitless and wasteful and irregular expenditure please refer to note 47 and 48 respectively, of the Annual Financial Statements.

PRINCIPLES	PRACTICES IMPLEMENTED AND EXPLAINED
14. Governance Outcome: Remuneration Governance	
The governing body should ensure that the SOE remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.	The CEF Remuneration Philosophy strives to create reward policies and strategies that are competitive, fair, transparent and equitable. Our Reward Philosophy consists of a set of beliefs, which underpin the reward strategy of the organisation, govern reward management and provide a framework, which will ensure that remuneration principles and processes are fairly applied. For more information, refer to the remuneration approach on pages 83 to 84.
15. Governance Outcome: Assurance	
The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the SOE's external reports.	The CEF has implemented a combined assurance model, which is coordinated and managed by the Internal Audit function. It is satisfied that assurance model is adequate and that it ensures an effective control environment and integrity of reports for better decision-making.
16. Governance Outcome: Stakeholders	
In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the SOE over time.	The CEF Group has identified its stakeholder groups and actively balances their legitimate and reasonable needs, interests and expectations. CEF openly engages with them as frequently as possible with provision of insightful and relevant information that satisfy their needs. The CEF Group seeks to ensure that all stakeholders are treated fairly on an unbiased basis. For information on stakeholder relationships and engagements refer to page 68 to 69



SECTION 6

OPERATIONAL PERFORMANCE



BUSINESS OVERVIEW

CEF (SOC) Ltd is the holding company for a number of subsidiaries that make up the CEF Group of Companies. These subsidiaries also operate in the energy sector with commercial, strategic, regulatory and developmental roles. The holding company's focus is to provide oversight, strategic direction and guidance to its subsidiaries in terms of growth, commercial viability, sustainability, synergy optimisation, developmental objectives, governance and overall business performance improvement.

At an operational level, the CEF reported a net loss of R334 million, which was below the prior year net loss of R1.3 billion by R944 million. The lower loss reported was mainly due to the following:

- The impairment loss recognised in the current year for the investment in PetroSA was R498 million which is lower compared to the R1.58 billion recognised in the prior year. The investment has been fully written down to Rnil as the PetroSA Group liabilities exceed the assets by R4.5 billion.
The increase in operating expenses due to the increase in SWH related spending as well as research and development.
- This was countered by the following :
 - Decrease in investment income of R71 million mainly attributable to the decrease in dividends received from iGas.
 - The increase in finance costs of R31 million due to the increase in interest paid to the subsidiaries and 3rd parties driven by the increased balance of cash held on behalf of others
- The CEF SOC incurred an operating loss of R664 million this means the income generated through management fees and intercompany recoveries is not sufficient to fund the company's escalating overheads, thus the company relies on interest income to fund overheads.

The CEF remains threatened by severe challenges that emanate from the technical insolvency of PetroSA, its biggest subsidiary. PetroSA is in dire need of recapitalisation as it is forecasted to deplete its cash reserves by or before the end of 2020/21. During the planning period, as part of initiatives to stabilise the Group, the CEF embarked on a number of key initiatives. Descriptions of the primary focus areas follow.

COMMERCIAL SUSTAINABILITY & PETROSA EMERGENCY PLAN

Financial and non-financial resources were focused towards the execution of the PetroSA Emergency Plan. The plan targeted the poor operational efficiency of the GTL refinery, cost containment, depleting cash resources and finding long-term, sustainable solutions for the feedstock challenges at PetroSA. The PetroSA going concern challenges still persist and there are initiatives now underway for dealing with these.

GOVERNANCE & LEADERSHIP

The capacitation of the Group boards and the appointment of the Group Chairperson really helped to stabilise the CEF Group and provide much needed direction. This also culminated in the CEF approving the appointment of permanent executive roles. The Group has seen better alignment and collaboration. The various boards have also constituted a number of board sub-committees to strengthen oversight, monitoring and evaluation of business performance.



STRATEGY & GROWTH

In pursuit of long-term sustainable growth, the CEF led a number of key initiatives for laying the foundation for commercial sustainability. This was on the back of the development of the Group strategic roadmap known as Vision 2040+. The roadmap outlines the key four phases that the Group will embark on in the coming years. These are (1) stabilisation, (2) transition, (3) acceleration and (4) refocus. Some of the growth initiatives that underpin this roadmap include the development of the 300 000 bpd new refinery built in Richard's Bay, the ACWA Redstone CSP plant project that is a 100 MW concentrated solar power plant to be built in the Northern Cape, and the acquisition of assets to strengthen the Group's downstream position.

Over and above the commercial projects, the CEF actively perused key social programmes such as the Solar Water Heater Programme, which aims to improve access to modern forms of energy by installing 87 000 units of solar water heater systems in low income households.

GROUP PARENTING STRATEGY

During 2019/20, the CEF Board adopted a hybrid approach of strategic guidance for the new Parenting Strategy. This is based on the uniqueness of each entity and oversight requirements. The Parenting Strategy clearly articulates the role that the CEF will play in the affairs of the Group to:

- Drive the strategy;
- Incubate and finance major capital projects;
- House select support functions;
- Share capabilities to realise economies of scale and synergies;
- Monitor Group performance to strategy execution; and
- Fulfil an economic and energy advisory role.

CONCLUSION

As we move into the new financial year, the CEF will continue to drive a number of key strategic initiatives that are designed to deal with the Group's commercial sustainability. It is thus that under the new strategic themes of commercial sustainability, strategy and long-term growth, operational efficiency, and consolidation and turnaround, the CEF aims to aggressively reshape the Group's future commercial fortunes in a sustainable manner. This entails the restructuring of PetroSA.



As we move into the new financial year, CEF will continue to drive a number of key strategic initiatives that are designed to deal with the Group's commercial sustainability.





BUSINESS OVERVIEW

The AEMFC is a state-owned mining company wholly owned by the CEF SOC, an entity listed under Schedule 2 of the PFMA.

In line with the Act, the AEMFC is self-sufficient and does not receive operational funds from its shareholder, the CEF, nor the fiscus. Although self-sufficient, the AEMFC has relied on the CEF for shareholder funding related to investment in growth projects.

The company was liquid at the end of the 2019/20 financial year with the current ratio of 4.5 and a cash and cash equivalent balance of R159 million. The return assets was 7% and the gearing ratio was at 1.5.

FINANCIAL PERFORMANCE

Financial performance to date shows revenue being 15% behind prior year (R537 million actual vs R635 million prior year), while profit after tax is also behind prior by 25% (R77 million actual vs R103 million prior year). Operating costs, however, were slightly lower than prior year by 1% (R240 million actual vs R242 million prior year). The company was liquid as at 31 March 2020 with a cash and cash equivalents balance of R159 million. Cumulative sales volumes at Vlaktefontein have not been met with a shortfall on prior year of -455 759 tons (1 605 127 tons actual versus 2 060 886 tons prior year).

HIGHLIGHTS

- **Safety, health, environment and quality:** The mine safety statistics remain relatively good as there has been no fatal accident since the operations started in 2011.
- **CSI initiatives:** School uniforms were donated to school children in primary and high school residing in the Kendal area. These were uniforms of children attending schools in different areas, such as Wilge, Phola and Ogies.
- **Maintenance of good governance:** A forensic audit was completed and relevant employees were dismissed.
- **Plant availability:** The plant availability over the quarter was relatively high and the utilisation low, mainly because the crushing and screening was limited due to low run-of-mine availability.
- **Glencore:** A meeting was held with Glencore on 12 February 2020 to discuss the surface rights agreements and opportunities to work together. A Non-Disclosure Agreement was signed by Glencore and is to be signed off by the AEMFC to share information between the two companies.
- **COO:** Appointment of the COO with mining experience to stabilise the organisation.



LOWLIGHTS

- **Optimum Coal Mine:** The AEMFC, with its equity partner LURCO Group, has submitted a bid to acquire the optimum assets. The AEMFC Board has resolved to withdraw from the project because LURCO was unable to raise the capital.
- **Profit:** The AEMFC generated a gross profit of R230 million (gross profit margin: 43%), which is an improvement from prior year of R218 million (gross profit margin: 34%), driven by the containment of production expenses and emphasis on cost savings initiatives. This was however negated by the R27 million decline in operating income resultant from lower volumes compared to prior year.
- **Klippoortjie Mine:** Due to the time lapse since the feasibility study was completed (June 2015), a review of the study's financial model needs to be undertaken with the Klippoortjie Life-of-Mine plan prior to continuing any work on the project.
- **Sales and production volumes:** Cumulative sales volumes at Vlakfontein fell short of prior year for Q4 to date by -455 759 tons (1 605 127 tons actual vs 2 060 886 tons prior year).
- **Sustenance projects:** The failure of the AEMFC to develop its sustenance projects has had a negative impact on its production volume. The latter is below budget by 36%.
- **Blast approvals:** Delays in the AEMFC is due to delays in securing approvals to blast within 100 meters from the SFF oil bunkers.
- **Loss of revenue:** Eskom is only taking 70% of contracted volume of coal supply agreement, with resultant loss of revenue and reduced revenue projection for the future.

CONCLUSION

South African coal production is expected to endure in the medium term despite global pressure to shift energy generation away from coal. Coal is abundant in South Africa and a significant portion of it is utilised for electricity generation. In the medium term, renewable energy is expected to emerge as a competing source for electricity generation, in line with global trends.



South African coal production is expected to endure in the medium term despite global pressure to shift energy generation away from coal.



BUSINESS OVERVIEW

The South African Gas Development Company SOC Ltd (iGAS) is a wholly owned subsidiary of the CEF (SOC) Ltd established through Cabinet Memorandum 3 of 2000. iGAS' mandate is to act as the official state agency for the development of the hydrocarbon gas industry in Southern Africa; to promote the diversification of energy usage into hydrocarbon gas; and iGAS may develop, lead and participate in ventures that will facilitate the usage of hydrocarbon gas in the region.

As per the directive, iGAS may from time to time and in accordance with sound business principles enter into joint ventures and should not rely upon state funding other than the resources of the CEF. iGAS has achieved this through joint venture participation with private and other public sector companies and project finance for its 25% share in the ROMPCO Mozambique to Secunda gas transmission pipeline from private sector banking and the CEF. These loans have since been repaid via dividend income from ROMPCO.

iGAS' investment in the ROMPCO pipeline is regulated under the National Energy Regulator Act. This Act overarches the Gas Act 2001 and the Gas Regulation Act in terms of the tariff that ROMPCO charges for the transportation of gas.

FINANCIAL PERFORMANCE

iGas has prudently managed its equity share in its primary asset, the ROMPCO Mozambique to Secunda gas pipeline. The company has performed well during the financial year under review. iGas has achieved a profit in excess of R440 million, cash reserves exceed R1.355 billion and iGas declared a dividend of R76.8 million to its shareholder. To date, iGAS has managed to pay off all its debts regarding investment in ROMPCO.

HIGHLIGHTS

The highlights of iGAS' performance and progress towards achieving the Corporate Plan are:

- **ROMPCO revised operating model (Project Transformer):** The e-business model proposed by the independent advisor was adopted by shareholders and implementation was initiated. The current focus areas are the ROMPCO office and appointment of the management staff.
- **Gas trading:** Q4 saw very positive developments between iGAS and its Mozambican counterparts, resulting in a meeting in Maputo between the parties and the 'in principle' agreement for the sale of 2 MGJ/a to iGAS, which iGAS can then sell to customers, such as power generation and industrial consumers. A Gas Sale Term sheet has been received from ENH and procurement activities are underway for transaction advisors to develop the suite of buy side and sell side agreements to conclude the deal by Q2 of 2020/21.
- **Acquisitions:** Sasol has announced an asset sale to raise cash to service its debt burden. iGAS is in discussions with Sasol for the purchase of half of Sasol's 50% shareholding in ROMPCO, and together with the CEF Group for the purchase of other Sasol gas assets, it has indicated willingness to sell.
- **Coega LNG Terminal:** iGAS has engaged with the DMRE, the Peakers Consortium, and the Coega Development Corporation on the supply of the LNG to the Dedisa Open Cycle Gas Turbine power plant and other customers in the Coega industrial development zone. The Concept Study Report has been completed; and the Pre-Feasibility Report has been drafted and is being finalised.
- **Gas Master Plan:** iGAS supported the DMRE with the development of the Gas Master Plan. The first phase of this process (the baseline study, consultation document and roadmap) has been completed and the document has been submitted to the DMRE for final review and approval. A meeting with the DMRE was scheduled in Q4 to kick off Phase 2 of the Gas Master Plan Development which included alignment with the National Gas Strategy. This was, however, postponed and the recent global economic crisis necessitates a review of the approach.



LOWLIGHTS

- **Projects delays:** The projects for gas trading, market development, and for acquisitions are all delayed.
- **Dividends:** iGAS received a total dividend for the year of R317.5 million, which is R178 million below the prior year.
- **Performance:** This year's performance is well below the R366.75 million budget, mainly due to lower volumes and the ship-or-pay dispute between ROMPCO and Sasol Gas which impacted iGAS by R92 million for 2019/20; this was partly offset by the deferral of large capital expenditure, specifically the filtration project and pipeline inspection to 2020/21.

CONCLUSION

For the 12-month period ending 31 March 2021, iGAS plans to generate a net profit of R185.8 million. The lower net profit anticipated compared to the previous years is mainly due to the lower dividend income expected from ROMPCO and investment into growth projects, particularly the Coega LNG project. Additionally, the shippers have informed ROMPCO that, with the decreased energy demand under the current economic and lockdown conditions, they are declaring Force Majeure and will therefore not be honouring their ship-or-pay obligations. ROMPCO must still define the impact of this on its income and subsequently, on the dividend stream to the shareholders.

GOALS

During the reporting financial year, iGAS supported the DMRE with the development of the Gas Master Plan which is aimed to be aligned with the National Gas Strategy.



BUSINESS OVERVIEW

The South African Agency for Promotion of Petroleum Exploration and Exploitation

PASA is a state-owned entity incorporated in 1999. In terms of the PFMA, PASA is a Schedule 2 listed entity reporting through its shareholder, CEF SOC Ltd, to the Department of Energy. The Agency receives its mandate from the 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 DMRE.

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

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

LEGISLATIVE AND REGULATORY REFORM

I) Draft Upstream Petroleum Resources Development Bill, 2019 (UPRD)

On 24 December 2019, the Minister of Mineral Resources and Energy (the Minister) published the Draft Upstream Petroleum Resources Development Bill, 2019 (the Draft Bill). The Draft Bill aims to:

- Strike a balance between the need to attract investment into the upstream, while also seeking to ensure that the potential of the upstream petroleum industry benefits all South Africans.
- Legislatively establish PASA as the national regulatory authority for the upstream petroleum sector. It therefore formally recognises PASA as a juristic person. PASA continues to be tasked to carry out the functions referred to in chapter 6 of the MPRDA, i.e.
 - o Provide technical support to the Minister;
 - o Receive and evaluate applications for permits and rights;
 - o Monitor and enforce compliance with permits and rights, store;
 - o Interpret and evaluate all geotechnical data; and
 - o Collect the prescribed fees in respect of those permits and rights and perform any other function in respect of petroleum resources, which the Minister may determine from time to time.

In addition to the above-mentioned functions, the Draft Bill also requires PASA to formulate the following:

- o Exploration strategy to achieve the objects of the Act;
- o Licensing guidelines for each licensing round; and
- o Licensing terms and conditions that reflect the risk profile of specific areas.
- Govern the internal workings of the Petroleum Agency. This includes the:
 - o Composition and functions of the Board and Chief Executive Officer of the Petroleum Agency;
 - o Meetings of the Board and Committees, which may be established by the Board; and
 - o Remuneration of the CEO and the members of the Board and committees.





- Enable a hybrid funding model, i.e. rates of administrative fees for meeting costs associated with the regulation of the upstream petroleum industry will be determined by PASA, based on the activity costing framework or any other appropriate costing model.

The promulgation of the Draft Bill will undoubtedly have a significant impact on the operations of PASA. Apart from additional functions, it would also amend the way the oil and gas industry operates. For example, the new licensing system (i.e. from an open application system to a licensing rounds or application by invitation system).

It is anticipated that the Bill would be promulgated in the next 12-24 months.

FINANCIAL PERFORMANCE

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

Self-Generated Income: R20.5 million (excluding the allocation of R92.5 million)

NON-FINANCIAL PERFORMANCE

The 2019/20 financial year was a satisfactory year for PASA as it continued to remain steadfast on realising its mandate while facing a number of strategic and operational challenges, which adversely affected the company's operations. Key among these challenges is the finalisation of the UPRD Bill that replaced the MPRDA Amendment Bill. The latter lapsed in 2019. PASA staff have played a significant role in the drafting of the new bill and have ensured that funding and revenue generation under the new Act will see the Agency being able to sustain itself, thus placing less reliance on government funding. PASA continues to drive operational efficiencies and accountability across the value chain.

MATERIAL PROJECTS UNDER STUDY

PASA manages two material projects, the Shale Gas Strategic Project and Extended Continental Shelf Claim Project.

A) Shale Gas Strategic Project

South Africa has long been identified as a country potentially holding large shale gas resources. Cabinet has subsequently prioritised the evaluation of shale gas as a potential source of indigenous energy whereafter it tasked PASA with the Shale Gas Strategic Project. The project comprises five main studies to assess the background situation in the Karoo before any shale gas exploration activity commences, making it possible to quantify the effects (if any) of shale exploration and production activity on the environment. The five aspects being examined are:

1. **A regional surface geochemistry survey** to map petroleum micro-seepage within the Karoo basin to assess the petroleum potential and gather relevant environmental baseline data and support the assessment on the risk posed by abandoned historical exploration wells.
2. **Evaluation of the shale gas resource** to arrive at estimates of the resource size together with associated levels of uncertainty.
3. **The establishment of a regional baseline groundwater monitoring network** to assess occurrence of groundwater and prevailing water quality conditions.
4. **Assessment of the integrity and risk posed by legacy exploration wells.** Past petroleum exploration in the Karoo basin has led to abandonment of old exploration wells.
5. **Deploy a network of seismic sensors to monitor background seismic** activity in the vicinity of proposed shale gas exploration and production.



B) Extended Continental Shelf Claim Project (ECSCP)

South Africa's ECSP seeks to claim an additional zone to its existing maritime territory called the Extended Continental Shelf (ECS). The ECS is that portion of the continental shelf beyond 200 nautical miles that is included in a coastal state's maritime territory in terms of the United Nations Convention on the Law of the Sea (hereafter the Convention). Article 76 of the Convention makes provision for states to claim the ECS. South Africa has made two submissions to the United Nations in May 2009. The first submission relates to the continental shelf surrounding the South African mainland, while the second submission relates to the region of the Prince Edwards Islands. The claims amount to approximately 1.87 million square kilometres, which ranks among the 10th largest claims in the world; and if endorsed by the United Nations will more than double South Africa's maritime territory.

The project has many benefits for South Africa. These include the potential for mineral resources including oil and gas, manganese nodules and crusts possibly enriched with precious metals, exploiting the pharmaceutical and medical benefits of microbes associated with the inhospitable ultra-deep ocean floor and toxic hot water geysers. Many of these benefits are not immediately quantifiable with the current knowledge and technology but through the success of the project, access to these could be assured for the coming generations of South Africans

The ECSP has the potential to contribute to the realisation of the vision of the NDP by growing future investment, outputs, exports and employment in the minerals sector, including oil and gas.



BUSINESS OVERVIEW

The Petroleum Oil and Gas Corporation of South Africa (SOC) Limited (PetroSA) is the national oil company of South Africa and is registered as a commercial entity under South African law. The company holds a portfolio of assets that spans the petroleum value chain, with all operations run according to world-class safety and environmental standards. PetroSA was formed in 2002 upon the merger of Soekor E and P (Pty) Limited, Moss gas (Pty) Limited and parts of the SFF, another subsidiary of the CEF.

The core business activities of PetroSA are:

- The exploration and production of oil and natural gas.
- The participation in, and acquisition of, local as well as international upstream petroleum ventures.
- The production of synthetic fuels from offshore gas at one of the world's largest GTL refineries in Mossel Bay, South Africa.
- The development of domestic refining and liquid fuels logistical infrastructure.
- The marketing and trading of oil and petrochemicals.
- The operation of the FA-EM, South Coast gas fields as well as the Oribi and Oryx oil fields. The producing gas fields provide feedstock to the Mossel Bay GTL refinery.
- The production at the GTL refinery of ultra-clean, low-sulphur, low-aromatic synthetic fuels and high-value products converted from natural methane-rich gas and condensate using a unique GTL Fischer-Tropsch technology.
- Key commodities produced include unleaded petrol, kerosene (paraffin), diesel, propane, liquid oxygen and nitrogen, distillates, eco-fuels and alcohols. Its world-class synthetic fuels and petrochemicals are marketed internationally.

FINANCIAL PERFORMANCE

The 2019/20 financial year has proved to be yet another challenging period for the PetroSA group, marked by the declining indigenous gas feedstock to the GTL refinery, significant decline in crude oil prices, and a weak rand.

The company recorded a net loss of R4.9 billion against the prior year net loss of R2.2 billion, thus resulting in a negative variance of R2.7 billion for the period ending 31 March 2020. This negative performance is largely attributable to challenges at the GTL refinery that have resulted in below prior year and budget manufactured product volumes. These challenges include the gasloop production incidents that affected plant availability and delays in supply of condensate, which resulted in low rates achieved. When PetroSA Ghana 's financial performance is incorporated, the PetroSA Group's consolidated net loss for the current year is R5.6 billion compared to the R2.1 billion loss reported in the prior year

The Group's cash balance increased by R216 million from the R2.7 billion reported in prior to the R2.9 billion current year closing balance. The Group generated R563 million from operating activities (mainly interest income) , utilised R386 million in investing activities and repaid external debt of R153.2, therefore remaining with free cash flow of R24 million. The Group's USD denominated cash also increased by R192 million which is the main contributor to the increase in the cash balance of R216 million.

As at 31 March 2020 the PetroSA is technically insolvent with liabilities exceeding assets by R4.5 billion (R6 billion at company level)



HIGHLIGHTS

- **Leadership:** A permanent CEO was appointed for PetroSA. This was a key step towards stabilising the executive leadership.

LOWLIGHTS

- **Total production:** The year-to-date total production was below target by 28% at the end of the financial year.
- **Non-indigenous production:** Non-indigenous production for the quarter was 49% below budget (0.506 MMbbls) due to condensate supply.
- **Indigenous production:** Indigenous production for the quarter was 49% below budget (0.506 MMbbls versus 1.000 MMbbls) due to gasloop interruption incidents.
- **Pending litigation from the South African Revenue Service:** Emanating from a 'Duty at Source' audit conducted for the period May 2015 to March 2017 with a possible contingent liability of about R1 billion.
- **Refinery performance:** The Gasloop efficiency was below budget at 57% versus 67%.
- **Operational efficiency:** Refinery operational efficiency has not shown any positive improvement for the whole year.
- The **litany of challenges** despite the statutory refinery shutdown in November and December 2018 is not justifiable.
- **No catch-up plan** being proposed or operations recovery plan as previously requested.

CONCLUSION

In the transition period, as of the beginning of this planning period, an Emergency Plan was implemented to ensure that the company remains liquid, solvent and a going concern. This included significant austerity measures, such as deep cuts in capital expenditure and operational costs, disposal of non-core assets and portfolio rationalisation. Revenue generating initiatives were aggressively pursued to improve PetroSA's profitability and cash flow position.

Concerted effort will continue to be made to improve efficiencies and the reliability of the GTL refinery, while processing affordable feedstocks that generate profit margins. The importation of finished products will also be aggressively pursued to increase revenue and improve profit margins, thus allowing making of appropriate 'make or buy' associated with the emerging operating model.



Concerted effort will continue to be made to improve efficiencies and the reliability of the GTL refinery, while processing affordable feedstocks that generate profit margins.



BUSINESS OVERVIEW

The SFF Association is a strategic oil reserves agency of the Republic of South Africa. The SFF owns three crude oil storage facilities across the country, of which only one, Saldanha Bay, is still operational. The Saldanha Bay crude oil storage terminal capacity is 45 million barrels and is the biggest facility by capacity in the southern hemisphere. The facility is used to store government-owned reserves of crude oil, and any excess storage capacity is leased out to international crude oil trading entities.

ECONOMIC AND REGULATORY FRAMEWORK

The primary legislations regulating the core activities of the SFF are the National Energy Act 34 of 2008, the Central Energy Fund Act 38 of 1977, and the Petroleum Pipelines Act 60 of 2003. The activities of the SFF, insofar as these relate to the storage of strategic stocks, are regulated by s17(1) of the Energy Act. The Energy Act empowers the Minister of Minerals and Energy to direct the SFF to maintain strategic reserves of crude oil in accordance with the published government policy or strategies.

The utilisation of proceeds that the SFF receives from the sale of crude oil is regulated by s3 of the CEF Act. The maximum tariff that SFF can charge the market for leasing the excess crude oil storage capacity in Saldanha Bay is regulated by the National Energy Regulator Act 40 of 2004, and the setting of the maximum tariff by the Authority is a condition of the SFF's license to operate the crude oil storage facility. Other relevant legislations are the National Environment Management Act 107 of 1998, the National Water Act 36 of 1998, the Companies Act 71 of 2008, and the Income Tax Act 58 of 1962, among others.

FINANCIAL PERFORMANCE

This financial year ended 31 March 2020 marks the third year running where our revenues have been on downward slide owing to the operating environment that has been very difficult due to the Crude Oil prices hovering way above \$50 per barrel and thus dis-incentivising the Oil Traders from procuring crude oil and storing it in our facilities with the expectation that they will catch an upswing of Crude oil prices in future. This depressed operating environment has resulted in revenue decreasing by 14% to R212 million SFF.

Towards end of March 2020 when South Africans were coming to terms with the announcement of Moody's that our economy was below investment grade, at an international level another development that had a negative impact on SFF's financial performance was what has become to be known as COVID-19 pandemic that forced countries of the world to lockdown their economies and thus resulting in oversupply of crude oil and thus prompting a the short-lived price war that erupted between Saudi Arabia-led OPEC and Russia-led OPEC+ countries, as a consequence of these factors, we witnessed the crude oil prices plunging. The impact of a deteriorating Rand to Dollar and the low Crude Oil prices whipped off over half Billion Rand (R579 Million) of SFF's profits and the company closed the financial year at a Net Loss of R388 million.



HIGHLIGHTS

- **Positive outlook:** During backwardation, the market structure of crude oil storage flattened in February on the sharp decline in oil prices and concerns about market oversupply amid softening global oil demand due to the spread of COVID-19. The SFF has locked contracts that will lift our revenues significantly for the next two years.
 - The judgement of the Western Cape High Court resulted in SFF re-instating the Strategic Stock back in the Statement of Financial Position.
- **Health and safety:** The SFF handled three oil tankers during Q4, with no oil spills or health, safety and environmental incidents.
- **Environment:** The SFF purchased a new oil containment boom to secure that the entity continues providing sufficient oil pollution services to its clients.

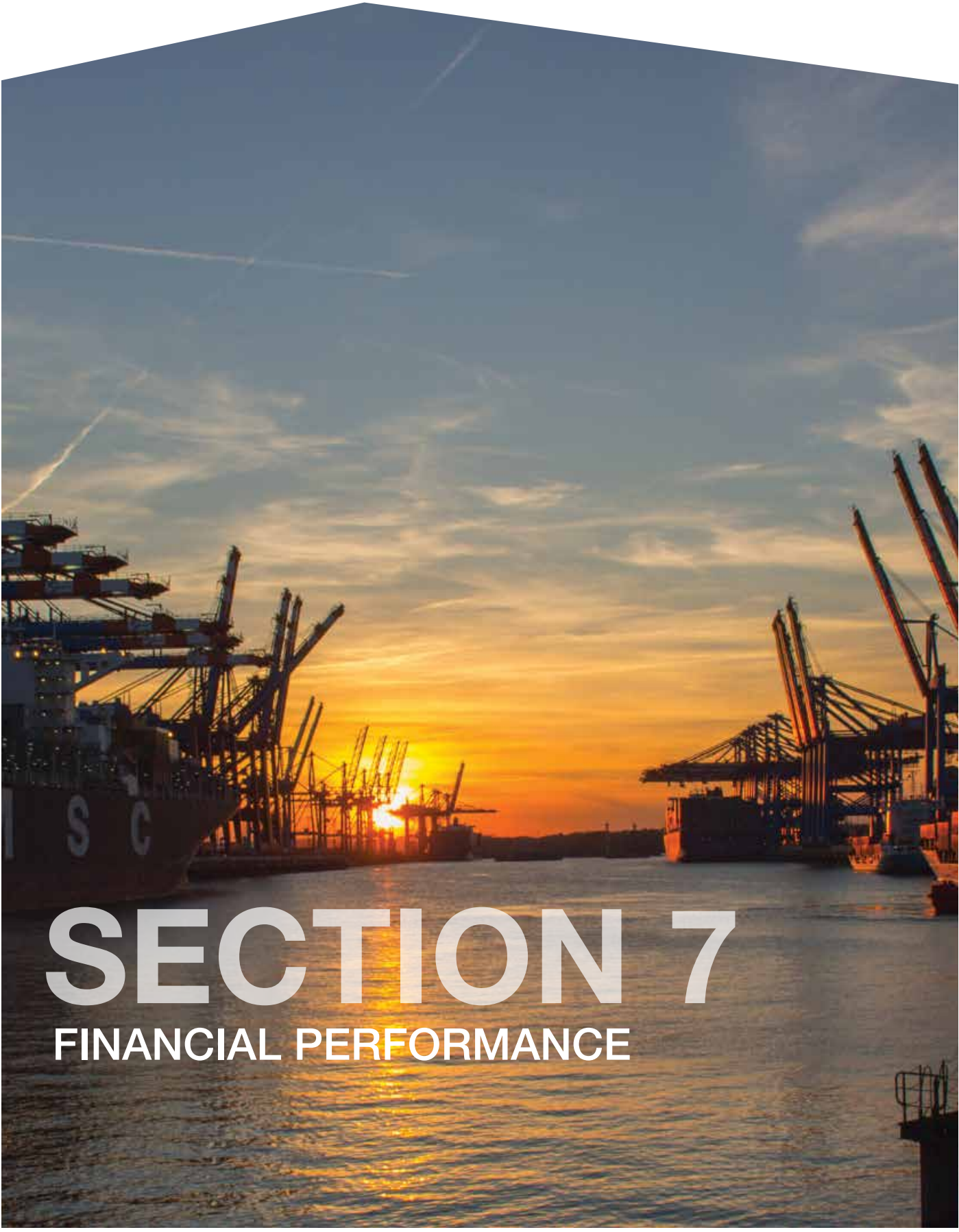
LOWLIGHTS

- **PFMA delay:** The continued delay of approval of the PFMA section 51(1)(g) request is having a detrimental effect in the South Sudan work programme. South Sudanese legislation requires that the SFF incorporate an entity in South Sudan before carrying out the crude oil exploration work.
- **Contract delays:** Delays in finalising the contract agreement to market crude oil pursuant to the government-to-government allocation between Nigeria and South Africa.

CONCLUSION

The SFF will continue working towards improving maintenance regimes at both terminals to optimise operations and introduce flexibility to accommodate new products and offer a wider variety of services. Pursuing and building on diversification strategies, which include trading to assist PetroSA, as well as looking at ways to accommodate sour crudes and/or heavier fuels by emulsification or the introduction of additives.

While focused on securing lucrative contracts during this favourable period, the SFF will continue to execute the Revenue Diversification Strategy so as to remain on the upward revenue curve, even when the market structure changes to backwardation.



SECTION 7

FINANCIAL PERFORMANCE

GROUP CFO'S REPORT FOR THE YEAR ENDED 31 MARCH 2020



INTRODUCTION

The financial statements convey the business activities, the financial position and the financial performance of the Group from 01 April 2019 to 31 March 2020. These 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. The CFO report will highlight the material items that have had an impact on the 2019/20 financial year.

The CEF is a Schedule 2 public entity in terms of the PFMA. Schedule 2 entities are quasi commercial entities because they do not receive funding allocation from the fiscus to fund their operations. Therefore, the entities are expected to be self-sufficient. For this reason, the CEF is expected to earn a profit from its operations to fund its commercial activities and developmental mandate.

FINANCIAL PERFORMANCE HIGHLIGHTS

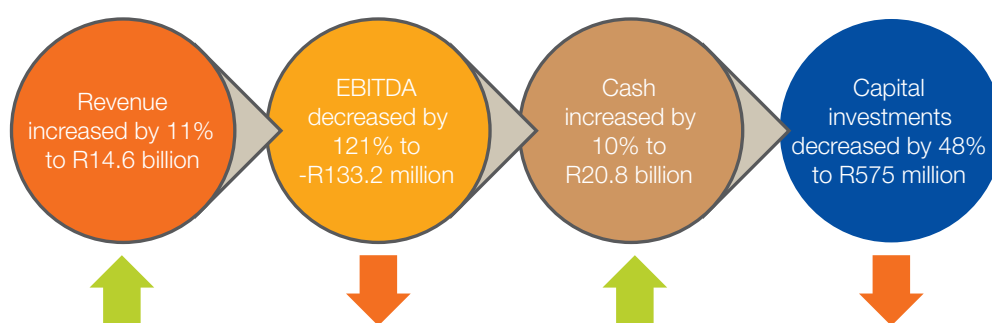


Figure 20: Overview of performance highlights

The Group performance was affected adversely by the operating environment. The key factors in the operating environment that affect our performance are macro-economic factors and industry factors such as the oil price, the exchange rates, interest rates, fiscal policy and government policies, demand and supply, price of commodities, competition, new technologies and government policies and regulations.

MACRO-ECONOMIC FACTORS AFFECTING OUR FINANCIAL PERFORMANCE

Crude oil prices

The average crude oil price per barrel dropped from US\$70.8 in the prior year to US\$61.1 in the current year. The lower price was mainly a function of weaker global growth conditions as the trade war between the US and China, as well as Brexit uncertainty, continued to weigh on sentiment. Real GDP growth in the G7 industrialised countries slowed from 2% in 2018 to 1.6% during 2019. 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 products 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 traders to store products at the storage facility with the intention to sell the products when prices increase.

Exchange rates

The average rand/US dollar exchange rate weakened from R13.75 in the prior year to R14.79 in the current year. The weaker performance of the currency over the past 12 months can be explained by South African-specific factors as well as global trends. The rand/US dollar volatility has a significant impact in the following:

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

GROUP CFO'S REPORT FOR THE YEAR ENDED 31 MARCH 2020 continued

Operating environment

During Q4 of this financial year, the Group encountered serious headwinds that were caused by the COVID-19 pandemic. COVID-19 has resulted in the demand for commodities plummeting, where the demand for fuel has decreased by more than 65% while the demand for coal has also reduced as Eskom informed the coal suppliers that it cannot accept deliveries due to the subdued demand for electricity.

The closing rand/US\$ exchange rate at the end of the year was R17.86; the exchange rate weakened compared to the exchange rate of R14.6 reported at 31 March 2019 and the Brent crude oil closing price at the end of the year was \$22.60/Bbl, which is a significant decrease from \$67.58/Bbl reported at 31 March 2019.

Further to the oil price, the performance is affected by the interest rate as 59% of CEF Group investments are held in cash. In the lower inflation and subdued growth rate environment, the interest earned on cash is likely to reduce in future.

Besides the macro-economic factors, the Group performance is also affected by the industry factors. The key industry factors affecting the oil and gas sector is competition from the traders who are selling petroleum products at very low prices, which forces PetroSA to reduce its price to below cost of production.

In the coal industry, junior miners are under pressure to reduce the cost of primary energy and this is likely to affect the profitability of the AEMFC in future. The local funders are under pressure to withdraw funding for coal projects and coal power stations. The lack of funding for coal projects from local funders will stunt the growth of the coal business. Further to the lack of funding, government is imposing carbon tax, which will reduce the profitability of the coal business.

The power generation sector, in particular the independent power producer programme, has stalled for more than three years due to the debate on the affordability of renewable energy. The lack of predictable demand in renewable energy will likely affect the growth prospects of the renewable energy division. Bio-fuel regulations were published during Q3 of the financial year and these regulations provide certainty to the bio-fuel industry. This might provide an opportunity for our renewable energy division to establish itself as a commercial entity.

In October 2019, the Minister of Mineral Resources and Energy published the IRP, which outlines the energy demand and possible supply options. In the IRP it is proposed that an additional 8100 MW of gas be procured between 2026 and 2029. The demand for gas bodes well for iGAS and the renewable energy division.

During December 2019, the Minister of Mineral Resources and Energy published an Upstream Petroleum Bill that designates PASA as a standalone entity and proposes that PetroSA be designated as a state carrier for the 20% interest in all exploration blocks.

CEF GROUP CAPITAL ALLOCATION

Capital allocations in R'000			Returns in R'000		
Asset Class	Asset	Allocation	Net Returns	Allocation	Blended Return
Cash	20 822 759	56%	1 094 820	5%	2.9%
Operating assets	10 339 399	28%	(6 511 230)	-63%	-17.5%
Associates	1 228 260	3%	511 410	42%	1.4%
Non-operating assets	4 906 183	13%	(358 874)	-7%	-1.0%
Total	37 296 601	100%	(5 263 874)	-14.1%	-14.1%

Table 17: CEF Group capital allocation

As at 31 March 2020, the Group held assets of R37.5 billion comprising:

- 56% 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 is 7%, the rest of the return relates to foreign exchange gains.

- 28% 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 dwindling gas reserves thus generating a return far less than the cost capital.
- 3% of the assets are invested in associate companies with the bulk invested in gas infrastructure. The investment in gas infrastructure comprised the shareholding at ROMPCO and the investment is currently generating a return that is above the cost of capital.
- The non-operating assets constitute 13% of the total Group assets. Non-operating assets mainly comprise the line fill 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 R359 million relates to the fair value adjustments for the line fill and oversale liability. The adjustments are due to the changes in the oil price.

The Group returns are currently below the cost of capital at -14.3%. The majority of the Group's assets are in cash generating a blended return of 2.9% while the operating assets are making losses at a blended return of -1759%. The returns are exacerbated by the suboptimal performance of the oil and gas cluster. Currently, the GTL refinery is operating at 18% of its capacity, and the crude oil terminal's utilisation is at 13%. In addition, the low production of coal at the Vlakfontein coal mine of 1.6 MT, which is 36% lower than the prior year, also contributed negatively to the returns generated by the Group.

FINANCIAL PERFORMANCE SUMMARY

To drive the financial sustainability of the Group, the CEF Group has identified the following key drivers: profitability, liquidity and solvency.

Profitability

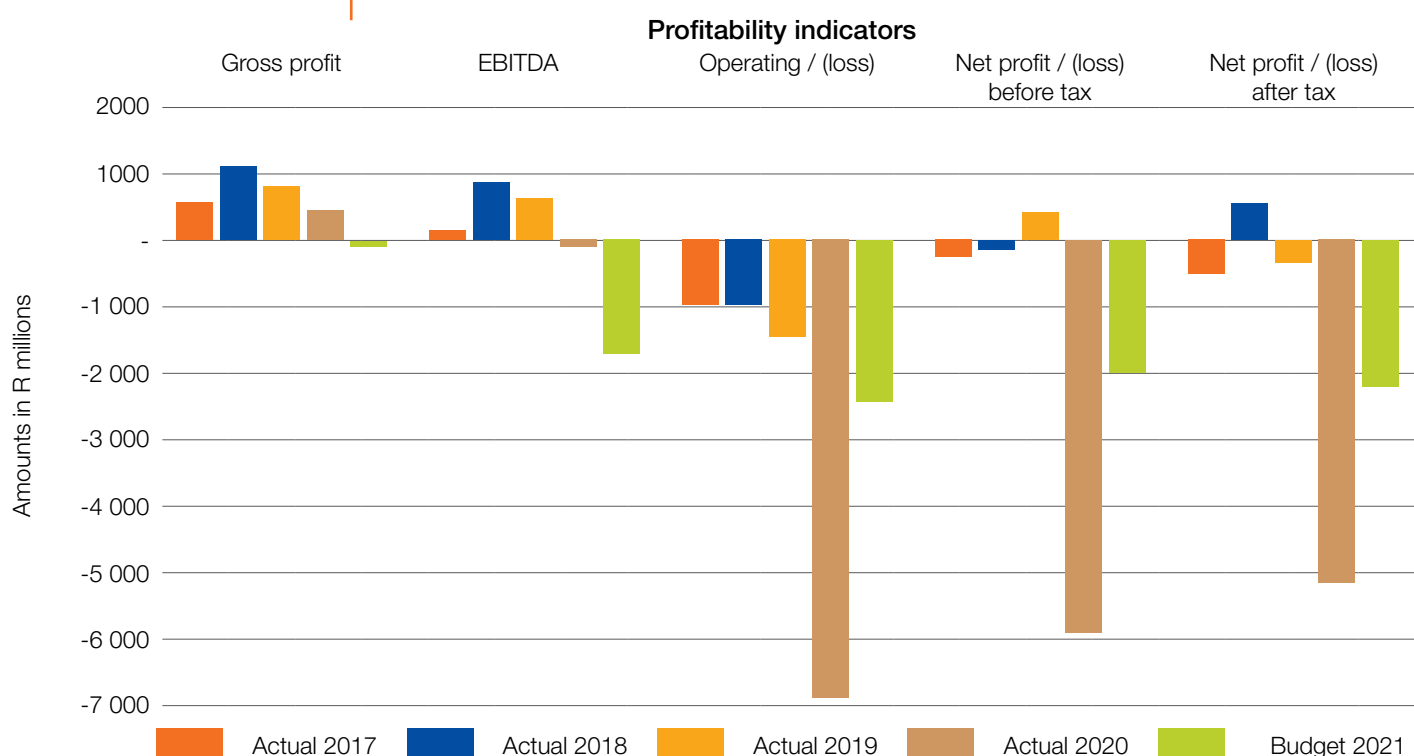


Figure 21: CEF profitably indicators

GROUP CFO'S REPORT FOR THE YEAR ENDED 31 MARCH 2020 continued

Profitability

Prior net loss vs Actual Loss in R million.

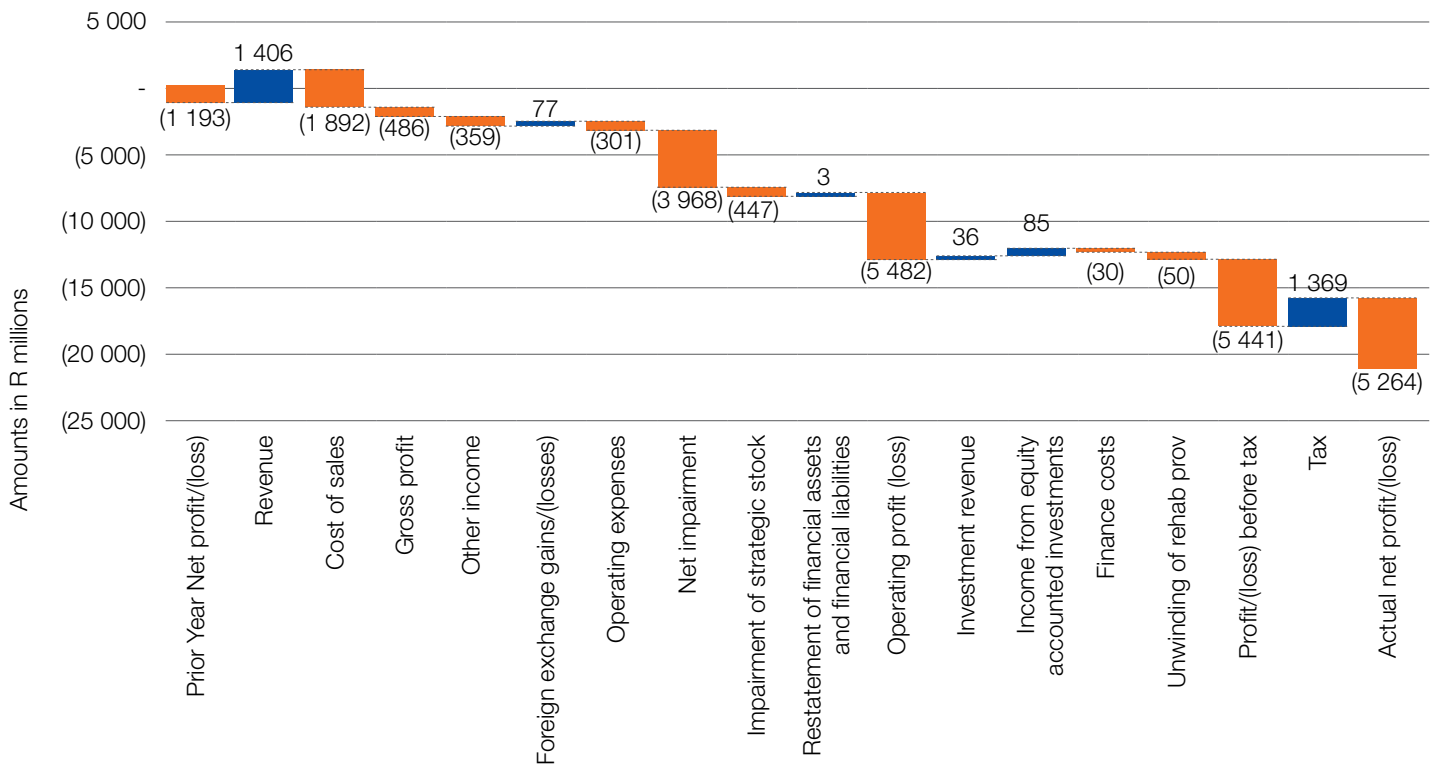


Figure 22: CEF profitability prior year net loss vs Actual loss

■ Increase ■ Decrease

The Group has reported a net loss of R5.3 billion compared to the net loss of R1.2 million reported in the prior period. The net loss increased from the prior year by R4.1 billion mainly due to the impairment of assets of R5.1 billion, decline in the gross profit generated by the business of R486 million whilst operating expenses (net of other operating income) increased by R660 million. The net loss reported above has been offset by tax credits of R589 million. Without the effects of the macro-economic environment, the Group would have reported a net loss of R191 million.

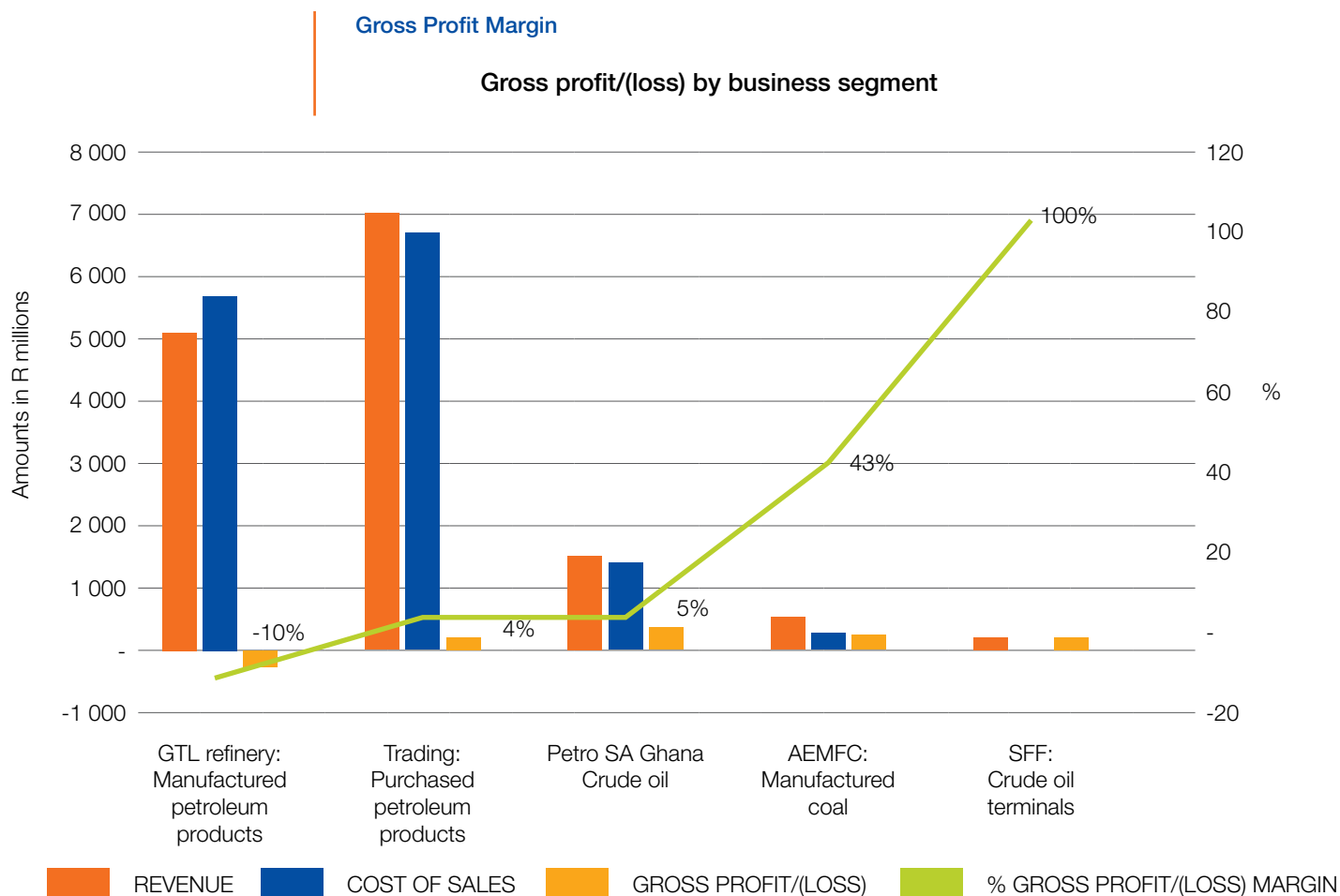


Figure 23: Gross profit/(loss) by business segment

The Group reported a gross profit of R378 million (margin of 3%) compared to R864 million (margin of 7%) reported in the prior year. The lower gross profit is attributable to the low production volumes from the GTL refinery and Vlaktefontein coal mine, low utilisation of the crude oil tank farm, low oil price and high fixed cost structures.

GTL Refinery

The refinery generated a gross loss of R532 million (margin of -10%) from the sale of manufactured petroleum products due to low production volumes. The refinery currently operates below a third of its design capacity of 46000bbl/d. Low production volumes are primarily driven by declining indigenous feedstock (gas reserves), which was further exacerbated by the lower plant availability and low non-indigenous feedstock (condensate) availability. Despite the low volumes produced, the fixed production cost remained high, therefore eroding the contribution generated by the refinery.

Purchased petroleum products sales

A gross profit of R271 million (margin 4%) was realised from the sale of purchased petroleum products. The low production volumes were augmented by sourcing finished petroleum products; however, the margins generated from sale of purchased petroleum products were inadequate to fund the gross loss generated by the refinery.

Crude Oil Sales

PetroSA Ghana generated a gross profit of R82 million (margin of 5%), from the sale of crude oil due to decline in the oil price during the current year.

Vlaktefontein coal mine

The coal mine generated gross profit of R230 million (margin of 43%) due to low production volumes. Low production volumes were mainly driven by poor coal quality, plant availability and low plant utilisation.

GROUP CFO'S REPORT FOR THE YEAR ENDED 31 MARCH 2020 continued

Crude oil terminals

The crude oil storage business generated a gross profit of R212 million (2019:R246 million, the decline is due to low storage tank utilisation. The low utilisation rate of the crude oil storage tanks was due to backwardation.

EBITDA

EBITDA to Operating profit / (loss)

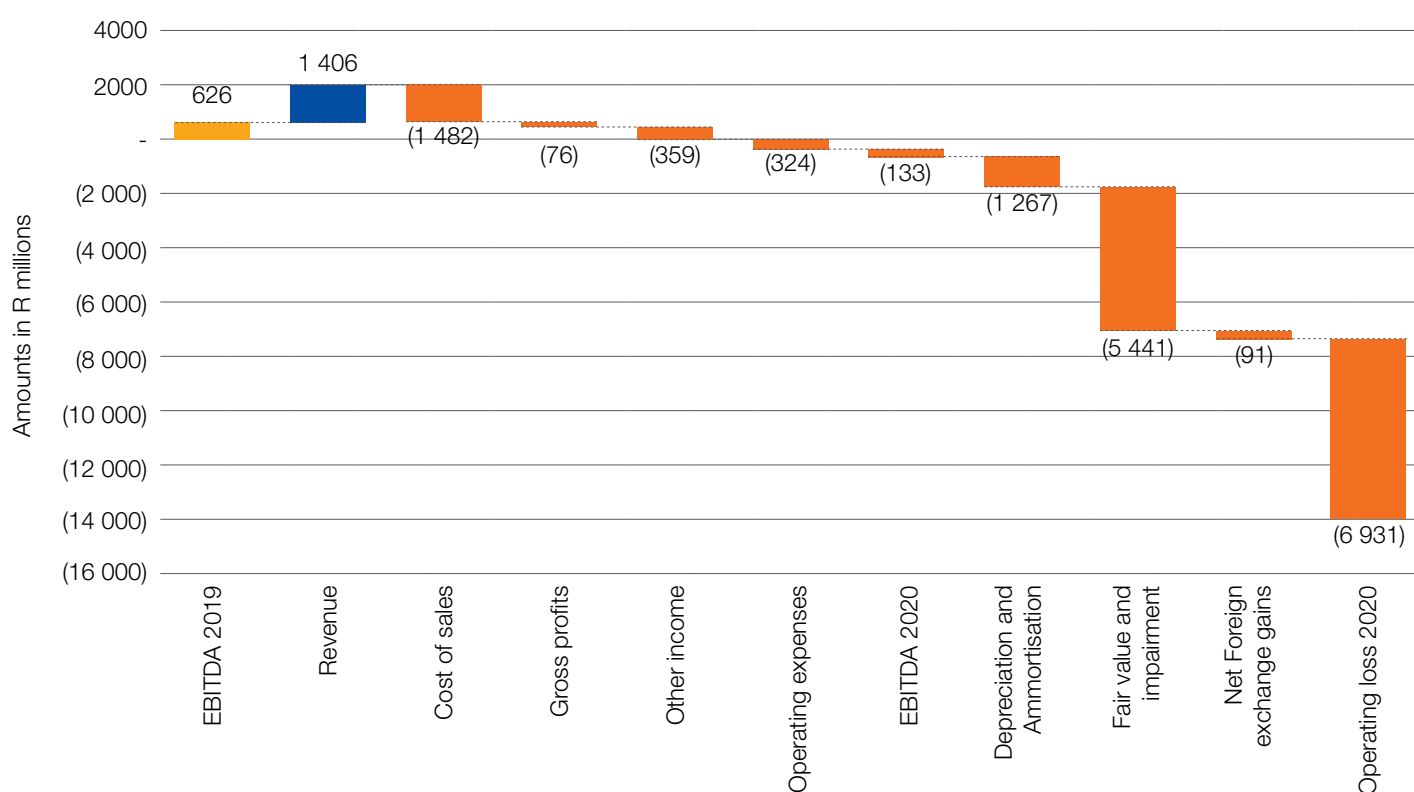


Figure 24: Reconciliation of EBITDA to operating loss

■ Increase ■ Decrease

The Group generated EBITDA of -R133.2 million (margin -0.9 %) compared to R626 million (margin: 4.8%) generated in the prior year. The decrease of 121% is due to the decline in gross profit, other income and an increase in cash operating expenses.

Operating profit/ (Loss)

Further to the EBITDA generated of -R133.2 million, the Group reported an operating loss of R6.9 billion (2019: R1.4 billion), due to the impairment of assets of R5.1 billion. The impairment of assets of R5.1 billion relates to the Mossel Bay GTL refinery (R10 million), the Ghana blocks (R2.6 billion), unpumpable crude oil (R211 million) and the increase in the rehabilitation provision by R2.2 billion. The increase was exacerbated by the foreign exchange losses from the weakening of the rand against the US dollar.

Net profit/ (Loss)

In spite of the operating loss generated of R6.9 billion, the Group reported a lower net loss after tax of R5.3 billion (2019: R1.2 billion), due to the investment income of R1.2 billion and tax credits of R589 million.

Investment income

The Group reported investment income of R1.7 billion compared to R1.6 billion reported in the prior year. The increase is mainly attributable to interest in money market investments and profits from coal mining investments.

Finance costs

The Group's finance costs increased by 15% from R535 million in prior year to R615 million in the current year, largely due to unwinding of the rehabilitation provision and finance lease.

Income Tax Expense

The income tax expense decreased by 176% from a tax expense of R780 million in the prior year to a tax credit of R589 million in the current year. The tax credit is attributable to the decrease of the deferred tax liability as a result of the impairment of PetroSA Ghana production assets in the current year.

GROUP CASH GENERATION, UTILISATION AND FINANCING

The free cash flows for the Group declined by 20% from R840 million in the prior year to R672 million in the current year due to the capital investment in the current year of R575 million.

Cash generated, utilised and retained

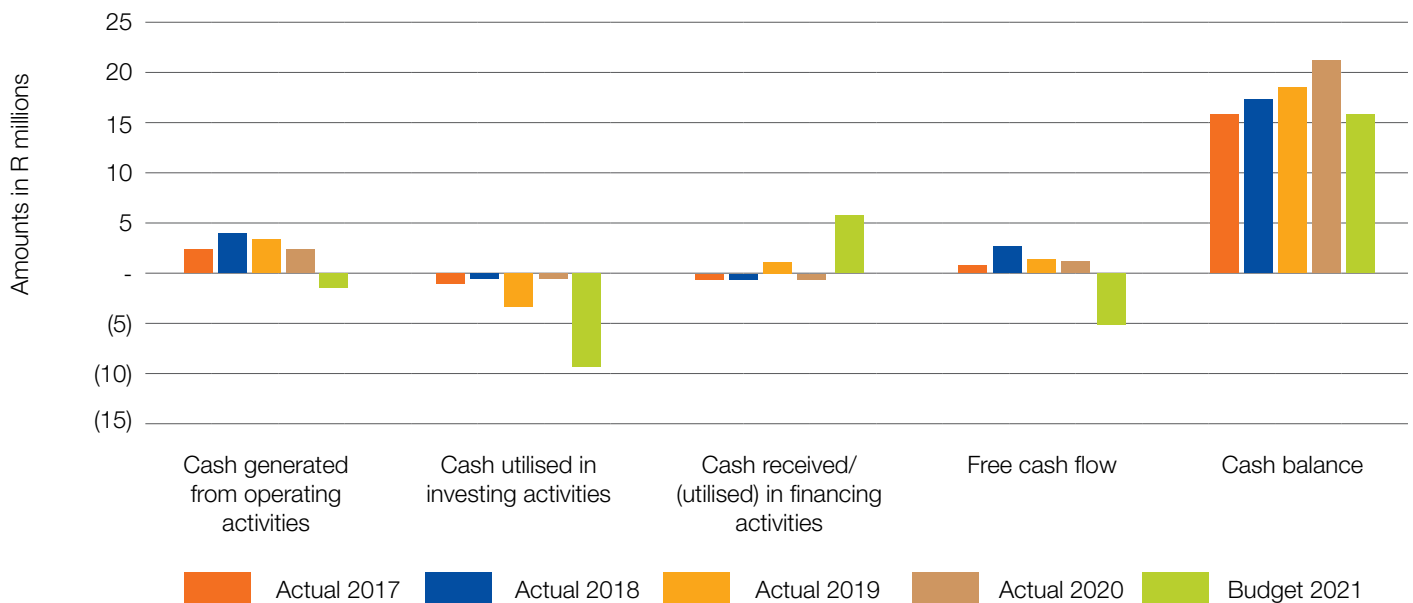


Figure 25: CEF Group cash generated, utilised and retained

The cash for the Group increased by 10% from R18.9 billion in the prior year to R20.8 billion in the current year, mainly due to cash flows generated from operating activities and effects of the exchange rate movement on the opening cash balance.

GROUP CFO'S REPORT FOR THE YEAR ENDED 31 MARCH 2020 continued

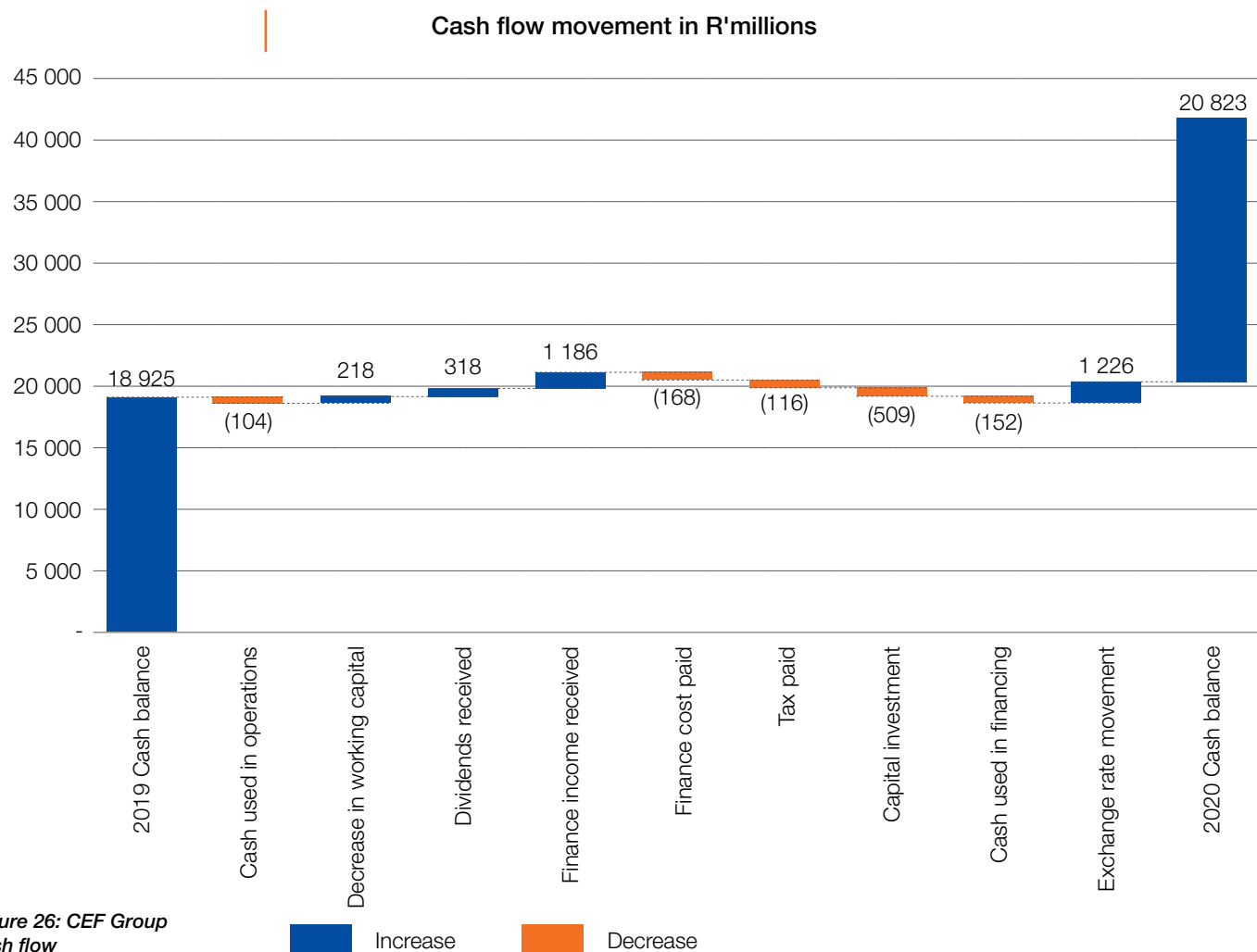


Figure 26: CEF Group cash flow

Cash Generated from Operating Activities

Cash generated from operating activities of R1.3 billion (2019: R1.6 billion), emanates from cash generated from operation of R114 million, interest income of R1.2 billion, dividends received from ROMPCO of R317.5 million, this was offset by finance cost of R168 million and tax paid of R116 million. The Group generated lower cash from operations of R114 million compared to the R276 million generated in the prior year, mainly due to the low gross profit and operating losses generated.

Cash Utilised in Investing Activities

During the year, the Group invested R575 million (2019: R1.1 billion) towards sustenance and growth. The capital investment mainly relates to the Vlaktefontein North block mine construction work, PetroSA Ghana development and maintenance projects, and PetroSA company maintenance projects.

Cash Flows from Financing Activities

The capital spending is currently funded through cash generated from operations and retained cash. There were no additions to external loans during the period. The Group repaid R87 million towards the finance lease and PetroSA made a \$7million payment towards the RBL facility due to the redetermination of the borrowing base in December 2019.

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

Table 18: CEF Group external interest bearing debt

Figures in R'000	Actual 2020	Actual 2019
Petro SA Ghana finance lease	1 106 972	949 127
Reserve-based lending facility	1 092 577	968 271
Vlakfontein coal mine finance lease	110 757	140 261
Right of use lease liability	203 554	-
Total external debt funding interest bearing	2 513 860	2 057 659
Short term	269 945	89 617
Long term	2 243 915	1 968 042
Total external debt funding interest bearing	2 513 860	2 057 659

Effect of Exchange Rate Movement on Cash Balance

The movement of R1.2 billion relates to the exchange rate movement effects on the proceeds on sale of strategic stock and PetroSA Ghana cash held in US\$ denominated accounts.

LIQUIDITY AND SOLVENCY

Key indicators for solvency

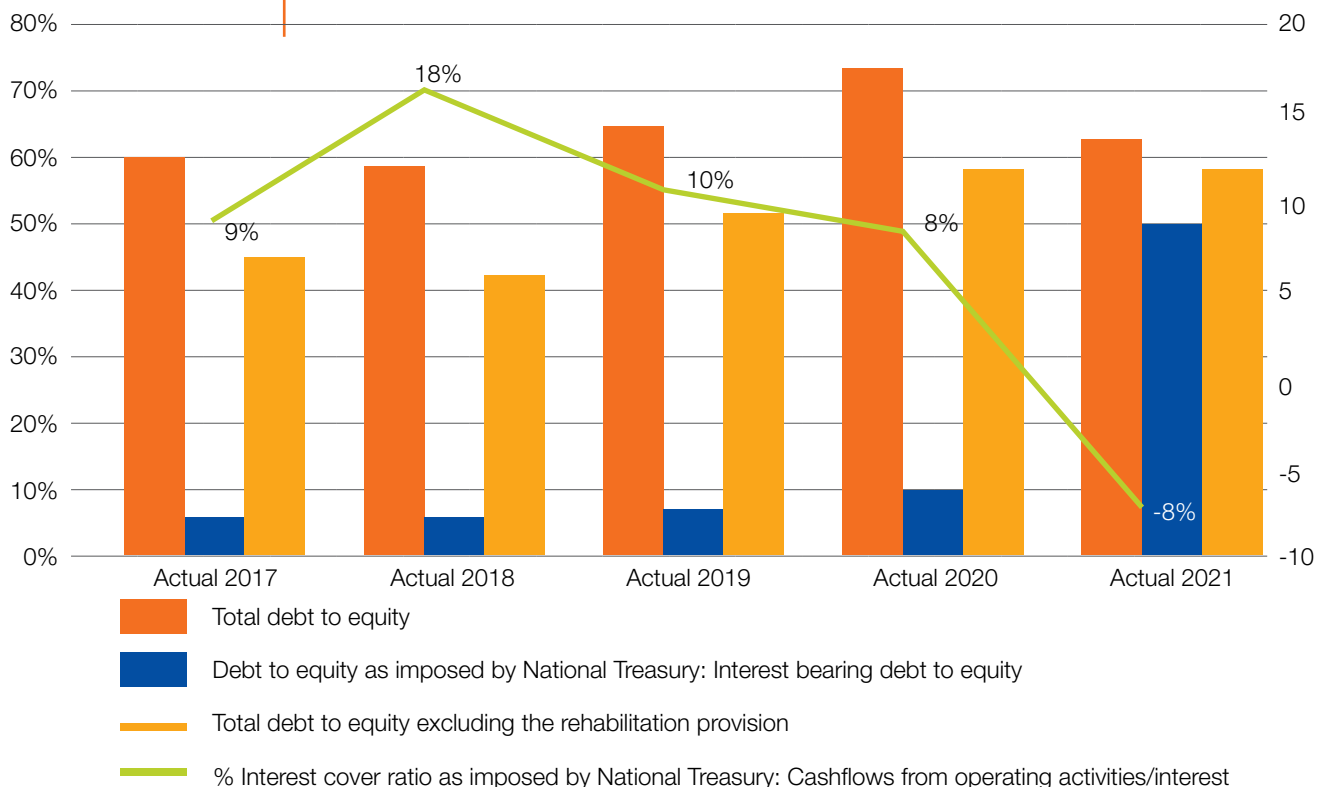


Figure 27: CEF Group solvency

Liquidity

The Group has sufficient cash resources to fund its short-term debt and working capital requirements through cash generated from operations, banking facilities and retained cash. The cash position for the Group continues to improve year on year; this is achieved through cost containment, low debt financing, and an improved cash conversion cycle.

The cash conversion cycle is eight days and the operating cash flow ratio is low at 0.15:1. The cashflows generated from operating activities is not sufficient to cover the short-term debts and maintenance costs, as a result the Group is currently utilising its reserves to fund the operations.

GROUP CFO'S REPORT FOR THE YEAR ENDED 31 MARCH 2020 continued

Despite the lower operating cashflow ratio reported, the Group continues to maintain a current ratio, which is above the norm of 2:1.

National Treasury requires the CEF Group to maintain a cash interest cover ratio of at least two times and above. The cash interest cover ratio for the Group is eight times; therefore, it is above the target set by National Treasury.

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 is 60% equity and 40% interest bearing debt. The Groups gearing ratio is 88% equity: 12% interest bearing debt. The PetroSA Group liabilities exceed the assets by R4.5 billion due to the accumulated losses and rehabilitation provision balance.

Total debt to total equity ratio is 74% total debt: 26% total equity; the total debt to equity ratio exceeds the limit 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 58% debt: 42% equity.

The CEF Group liabilities mainly comprised of the rehabilitation provision (R13.4 billion), external interest bearing debt (R2.5 billion), Sale of strategic stock related payables (R5.4 billion), deferred tax liability (R1.6 billion) and other trade 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 to the PFMA and by preventing irregular expenditure and fruitless and wasteful expenditure.

The Group incurred irregular expenditure of R114 million during the year. The cumulative balance of irregular expenditure is R574 million. The irregular expenditure incurred in the current year mainly relates to expenditure in contravention of the procurement regulations.

Fruitless and wasteful expenditure for the current year is R55 million. The cumulative balance is R21.8 million. The fruitless and wasteful expenditure incurred in the current year mainly relates to R52 million penalties and interest paid to the South African Revenue Service as well as R2.8 million due to fraudulent activities.

As part of corrective measures, we will continue investigating and taking appropriate action to recover any losses and address areas where weaknesses in our systems have been identified. 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. In the current year the Group has recovered R43 000 and written off R52.4 million.

KEY CHALLENGES AFFECTING THE CEF GROUP

Profitability

The Group profitability is severely challenged because the return on capital employed of -14% is below the cost of capital of 15%. The suboptimal performance is due to the declining gas reserves at PetroSA and slow rollout of diversification projects. Over the recent years, the gross profit has been declining due to the decline in production volume and increase in cost of sales as result of utilising condensate as result of dwindling gas reserves.

Strategic Crude Oil

The SFF, together with the CEF, has lodged an application in the Western Cape High Court to set aside the disposals of the strategic crude oil stock on the grounds that these disposals were unlawful, invalid and unconstitutional. Should the court rule in favour of CEF/SFF, the SFF will have to

repay all proceeds from the transactions, and all storage income received from the buyers for storing these barrels from the date of transfer, including all interest earned and other associated costs.

The estimated total amount repayable at 31 March 2020 is R5.9 billion (2019: R5 billion), based on the prevailing foreign exchange rate between the rand and US Dollar. Should the court rule that the transaction is valid, according to Paragraph 3A(c) of the CEF Act no 38 of 1977, the proceeds from the sale of crude oil received by the SFF Association, shall be payable into the Equalisation Fund, provided a determination by the Minister of Energy with the concurrence of the Minister of Finance has been received.

The Western Cape High Court delivered the judgement of the Strategic Stock Court Case on the 20 of November 2020 and at that stage even though the SFF Annual Financial Statements (AFS) were audited and signed off those AFS were yet to be published and therefore had to be updated with the Court Case Outcome.

The impact of the Judgement on the Annual Financial Statements was that SFF's Strategic Stock was re-instated and the proceeds received in respect of the Strategic Stock sale which is an amount approximately R5.662 billion was raised as a payable to the parties who had bought the Stock in December 2015 and early 2016.

The judgement had also insisted on SFF paying for Out-of-pocket expenses to the Buyers but the Boards of SFF and CEF are objecting to it hence on the 7th of December 2020 the Group had filed a notice to appeal the judgement as far as the payment of out-of-pocket expenses which could amount approximately R2.5 billion.

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 R12.5 billion, which is currently not fully funded, as there is a shortfall of approximately R9.7 billion. The Group has to work with various stakeholders to ensure the regulations do not have an adverse impact on the liquidity of the Group when these come into effect. The Group has a total provision of R13.4 billion, the balance of which does not fall within the provisions of the NEMA Act.

OUTLOOK

The Group is projected to generate an average net loss of R1.6 billion per annum for the first two years (2021 and 2022) of the planning period and an average net profit of R837 million per annum thereafter (2023 to 2024); however, tough decisions relating to non-performing assets need to be made. For the Group to achieve its target returns, the following actions will be taken in the planning period:

Restructuring: The Group will roll-out the Group Parenting strategy and rationalise the three entities into a National Petroleum Company.

Efficiency: The Group will need to reduce its operating costs by restructuring PetroSA, where PetroSA will need to reduce its overheads and this will be achieved through the consolidation of head offices, establishment of a shared services centre and reducing the use of consultants.

Commercial sustainability: The Group will achieve a net profit over the planning period from its assets. The increase in the net profit will be due to improvement in the production output at the mine, increased utilisation of the tank farm, increased shareholding in top performing assets/ investments where we are minority shareholders, and changing the customer mix from low margin to high margin customers.

Growth: The Group will roll-out the Growth Strategy and utilise R19.6 billion in capital investments over the planning period. The cash will be invested in the new mine development, LNG terminal, acquisitions, fuel storage and cleaner energy technologies.

Funding: Of the R19.6 billion to be utilised in capital investments, the Group will raise R16.3 billion funding over the planning period. R7.3 billion will be raised from the fiscus, R9.1 billion will be raised from external loans and the rest will come from cash generated from operations and retained earnings.

GROUP CFO'S REPORT FOR THE YEAR ENDED 31 MARCH 2020 continued

CONCLUSION

The Group generated operating losses of R1.4 billion, excluding the impairment and fair value adjustment due to the declining feedstock, deteriorating GTL plant performance, inefficient operating model that has high fixed costs, suboptimal performance of the coal mine, and failure to lease out the storage tanks to maximum capacity.

Moreover, the execution pace for sustenance and growth initiatives is too slow to sustain PetroSA beyond December 2020, while the other operational entities have struggled with meeting their targets.

Besides the suboptimal financial performance, the CEF as the holding company is confronted with severe challenges that emanate from its technical insolvent subsidiary, PetroSA. PetroSA Group liabilities exceed the assets by R4.5 billion (company: R6 billion).

The revised Group key strategic themes and the strengthening of business performance management is geared towards ensuring that in the new financial year, the Group can perform much better.

THANKS AND ACKNOWLEDGEMENTS

I would like to thank the CEF Board, led by the late Dr M Mnyande and the CEF EXCO, led by Dr Poolo, for providing strategic direction and insightful input on how the CEF can be transformed from being a struggling SOE to a powerful SOE that is able to fulfil its mandate of ensuring that South Africa has adequate energy at affordable prices.

The CEF Group has lost an august leader, who had a brilliant business mind, clarity of thought and inimitable insight on key levers for economic and business growth. From day one, which was in October 2019, when Dr Mnyande assumed office, he articulated his ideals of building a commercially viable CEF Group that is able to fulfil its mandate of energy security.

Prior to Dr Mnyande joining the CEF Group, the Group had a brusque time because it had destroyed economic value through the write-off of projects, and its reputation was low because of the governance lapses that resulted in illegal sale of the strategic stock. Given the suboptimal economic performance and infamous reputation, the CEF Group was then gripped with inertia, which resulted in strategic drift. Despite the CEF reputation being quite low, Dr Mnyande was kind to associate his resplendent reputation with the CEF Group.

Within 10 months of joining the CEF Group, the great Dr Mnyande broke the inertia by articulating his vision and followed on by executing his vision by appointing capable leadership within 9 months of his appointment. Further to the appointment of the CEOs across the Group, he led the development of the Group strategy and made tough decisions relating to the PetroSA business.

The CEF Group was indeed blessed to have had a leader of Dr Mnyande's calibre. Death has robbed the CEF of a great leader who had a clear vision relating to the Group. We are impoverished as a Group because we lost a great Chairperson. His great qualities have left an indelible mark on our hearts and the least we could do to honour our great Chairperson is to build the CEF Group to become a world-renowned energy company. Thank you, Dr Mnyande, for having shared your life with the CEF Group, albeit for a short period.

Lastly, my gratitude goes to the finance team, who made sure we produce annual financial statements that meet the requirements of our stakeholders. Without the commitment of the finance team and the support of the subsidiaries, these financial statements would not have been possible.

Let us not get tired of doing what is required because in due time we will reap the reward.

Mr L Makhuba CA(SA)
Group Chief Finance Office





SECTION 8

FINANCIAL STATEMENTS

GENERAL INFORMATION

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

Country of incorporation and domicile	South Africa
Nature of business and principal activities	The CEF group mandate is to provide energy security through Exploration of energy minerals, development of energy infrastructure and supply of energy.
Directors	Dr. M. Mnyande (Former CEF Chairperson) † Ms. A Noah (CEF Chairperson) Mr. J. Besnaar CA (SA) Ms. G. Leketi Adv. P. Hassen Mr. L. Makhuba CA (SA) Mr. T. Maqubela Mr. N. Mompoti Dr. I. Poolo Mr. N. Poya Ms. N. Sondlo CA (SA)
Registered office	Block C, Upper Grayston Office Park 152 Ann Crescent Strathavon Sandton 2199
Business address	Block C, Upper Grayston Office Park 152 Ann Crescent Strathavon Sandton 2199
Postal address	P O Box 786141 Sandton 2146
Website	www.cefgroup.co.za
Ultimate holding company	The South African Government represented by the Minister of Mineral Resources and Energy
Bankers	ABSA Bank Limited Standard Bank of South Africa
Auditors	Auditor General of South Africa
Company secretary	Mr A Haffeejee

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DIRECTORS' RESPONSIBILITIES AND APPROVAL

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

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 behavior 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 2021 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 annual financial statements have been examined by the Group's external auditors and whose report is presented on pages 149 to 163.

The Consolidated Annual Financial Statements set out on pages 168 to 262, which have been prepared on the going concern basis, were approved by the Board on 31 March 2021 and were signed on its behalf by:

Ms A Noah
CEF Chairperson

31 March 2021

Mr J Besnaar
Independent Non-Executive

31 March 2021

DIRECTORS REPORT

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

1. INTRODUCTION

The Board has pleasure in submitting its report on the Consolidated Annual Financial Statements for the Group for the year ended 31 March 2020.

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; and
- 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 2020, 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
Dr M Mnyande (Chairperson) (†)	Non-Executive	Appointed: 18 October 2019
Mr J Besnaar CA(SA)	Non-Executive	
Ms G Leketi	Non-Executive	
Adv. P Hassen	Non-Executive	Appointed: 18 October 2019
Mr L Makhuba CA(SA)	Executive	
Mr T Maqubela	Non-Executive	
Mr N Mompoti	Non-Executive	
Dr I Poolo	Executive	Appointed: 01 June 2020
Mr N Poya	Non-Executive	Appointed: 18 October 2019
Ms N Sondlo CA(SA)	Non-Executive	Appointed: 18 October 2019

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Meeting attendance

Name of Director	26 April 2019	30 April 2019	03 May 2019	14 May 2019	28 May 2019	25 Jun 2019	07 June 2019	31 Jul 2019	09 Aug 2019	30 Aug 2019	4 Sept 2019	25 Oct 2019	30 Oct 2019	27 Nov 2019	05 Dec 2019	19 Dec 2019	10 Jan 2020	30 Jan 2020	28 Feb 2020
	SB	SB	SB	SB	SB	SB	SB	B	SB	B	B	B	B	SB	B	SB	SB	B	SB
Dr M Mnyande (†)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Y	Y	Y	Y	Y	Y	Y	Y
Mr J Besnaar	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	A	Y	A	Y	A	Y	Y	Y
Ms G Leketi	A	A	A	A	A	A	A	Y	Y	Y	Y	Y	Y	Y	A	A	A	A	A
Adv. P Hassen	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Y	Y	Y	Y	Y	Y	Y	Y
Mr L Makhuba	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	A	Y	Y	A	Y	A
Mr T Maqubela	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	A	Y	Y	Y	Y	Y	Y
Mr N Mompoti	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Dr I Poolo	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mr N Poya	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	A	Y	Y	Y	Y	Y	Y	Y
Ms N Sondlo	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Y	Y	Y	Y	Y	Y	Y	Y

Notes:

B – Board

SB – Special Board meeting

Y – Attended 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 the special Board meetings.

Board Audit and Risk Committee – The committees consisted of the following members:

Name		Changes
Mr J Besnaar	Non-Executive (Chairperson)	
Mr N Mompoti	Non-Executive	
Mr N Poya	Non-Executive	Appointed: 18 October 2019
Ms N Sondlo	Non-Executive	Appointed: 18 October 2019
Ms G Leketi	Non-Executive	Resigned: 18 October 2019

Meeting attendance

Name of Director	30 Jul 2019	28 Aug 2019	29 Jan 2020
Mr J Besnaar (Chairperson)	Y	Y	Y
Mr N Mompoti	N/A	N/A	Y
Mr N Poya	N/A	N/A	Y
Ms N Sondlo	N/A	N/A	Y
Ms G Leketi*	Y	Y	N/A

*Ms G Leketi was an interim member until the reconstitution of the Board.

Notes:

Y – Attended meeting

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

DIRECTORS REPORT continued

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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 as delegated by the Board. In order to meet these requirements, the committee reviews 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		Changes
Mr N Poya Appointed:	Non-Executive (Chairperson)	Appointed: 18 October 2019
Mr N Mompoti	Non-Executive	
Mr T Maqubela	Non-Executive	
Adv. P Hassan	Non-Executive	Appointed: 18 October 2019

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.

Meeting attendance

Name of Director	16 Jan 2020	24 Jan 2020	18 Feb 2020	26 Feb 2020
Mr N Poya (Chairperson)	Y	Y	Y	Y
Mr N Mompoti	Y	Y	Y	Y
Mr T Maqubela	Y	Y	N	Y
Adv. P Hassan	N	Y	Y	Y

Note:

Y – Attended meeting

N – Did not attend meeting

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

Name		Changes
Ms G Leketi (Chairperson)	Non-Executive	Appointed: 18 October 2019
Dr M Mnyande (†)	Non-Executive	Appointed: 18 October 2019
Mr L Makhuba	Executive	

Finance, Investment, Procurement and Projects Committee – The committees consisted of the following members:

Name		Changes
Adv. P Hassan (Chairperson)	Non-Executive	Appointed: 18 October 2019
Mr J Besnaar	Non-Executive	
Ms N Sondlo	Non-Executive	Appointed: 18 October 2019

Meeting attendance

Name of Director	06 Feb 2020
Adv. P Hassan (Chairperson)	Y
Mr J Besnaar	Y
Ms N Sondlo	Y

Note:

Y – Attended meeting

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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	2020	2019
Revenue	14 555 764	13 150 205
EBITDA	(133 202)	625 796
EBITDA margin %	(0.9)	4.8
Net asset value	10 634 473	15 274 526
Return on capital employed %	(14)	(3)
Return on equity (ROE) %	(49)	(8)
Cash generated from operations	114 233	276 360

Due to the operational challenges, the Group reported a loss of R5.3 billion and generated cash from operations of R114 million. The Group reported a negative EBITDA of -R133 million (margin -0.9%) compared to the R626 million (margin: 4.8%). The decrease is mainly due to the decline in gross profit.

Revenue increased by 11% compared to prior years, however there was a decline in the margins, return on capital employed as well as return on equity.

The cash generated from operations decreased by 59% from R276 million in the prior year to R114 million.

Non-financial summary

The CEF Group provides energy solutions by participating in the energy industries mentioned below:

- o Oil and gas industry, through PetroSA, Strategic Fuel Fund, iGAS and PASA;
- o Coal mining industry, through AEMFC; and
- o Power generation industry, through the renewable energy division.

The CEF Group with the exception of PASA does not receive funding allocation from the fiscus; therefore, the Group is expected to be self-sufficient by generating income from the sale of energy solutions; and to earn dividends from its investments.

The operating environment

The Group's performance is affected by the operating environment. The key factors in the operating environment that affect performance are macro-economic factors and industry factors. The macro-economic factors that affect the business are the oil price, the exchange rate, interest rate, fiscal policy and government policies. The industry factors that affects the business are demand and supply, price of commodities, competition, new technologies and government policies and regulations.

During the 4th quarter of the financial year, the Group encountered serious headwinds that were caused by the COVID-19 pandemic. The COVID-19 pandemic resulted in the demand for commodities plummeting, with the demand for fuel decreasing by more than 65%. The demand for coal similarly decreased following Eskom's announcement that it could not accept deliveries due to the subdued demand for electricity.

The average rand/USD exchange rate for the 12 months ended 31 March 2020 was R14.79 which is higher than the budgeted rate of R14.39 and the prior year rate of R13.80 however, the closing rand/USD exchange rate of R17.86 at the end of the period, was considerably weaker than the R14.60 reported at 31 March 2019.

The average Brent crude oil price for the 12 months ended 31 March 2020 was USD61.10/Bbl, which is lower than the budget of USD74.02/Bbl and the prior year rate of USD70.40/Bbl. The Brent crude oil closing price at the end of the reporting period was USD22.60/Bbl, which is significantly lower than the USD67.58/Bbl reported at 31 March 2019.

Further to the oil price, the performance is affected by the interest rate as 58% of the CEF Group investments are held in cash. In the lower inflation and subdued growth rate environment, the interest earned on cash is likely to reduce in future.

Besides the macro-economic factors, the Group's performance is also affected by industry factors. The key industry factor affecting the oil and gas sector is competition from traders who are selling petroleum products at very low prices. This forces PetroSA to reduce its price to below cost of production.

DIRECTORS REPORT continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

In the coal industry, junior miners are under pressure to reduce the cost of primary energy and this is likely to affect the profitability of AEMFC in future. Local funders are under pressure to withdraw funding for coal projects and coal power stations. The lack of funding for coal projects from local funders will stunt the growth of the coal business. Further to the lack of funding, government is imposing carbon tax, which will reduce the profitability of the coal business.

In the power generation sector, the independent power producer programme in particular has stalled for more than three years due to the debate on the affordability of renewable energy. The lack of predictable demand in renewable energy will likely affect the growth prospects of the renewable energy division. Bio-fuel regulations were published during the third quarter of the financial year and these regulations provide certainty to the bio-fuel industry. This might provide an opportunity for our renewable energy division to establish itself as a commercial entity.

In October 2019, the Minister of Mineral Resources and Energy published the Integrated Resource Plan (IRP), which outlines energy demand and possible supply options. The IRP proposes that an additional 8 100 MW of gas will be procured between 2026 and 2029. The demand for gas bodes well for iGAS and the renewable energy division.

During December 2019, the Minister of Mineral Resources and Energy published the Upstream Petroleum Bill that designates PASA as a standalone entity and proposes that PetroSA be designated as a state carrier for the 20% interest in all exploration blocks.

Group performance for the financial year ended 31 March 2020

Profitability, liquidity and solvency

The Group has reported a net loss of R5.3 billion compared to the R1.2 billion loss reported in the prior period. The negative Group performance is mainly due to impairment losses of R5.1 billion related to the Mossel Bay GLT refinery (R10 million), the Ghana Blocks (R2.6 billion), an increase in the rehabilitation provision (R2.2 billion) and an impairment loss on unpumpable crude oil at SFF (R211.8 million). The Group reported a gross profit margin of 3% compared to the 7% reported in prior year. The lower net margin is mainly due to the lower production volumes from the GTL refinery, which (28% below target); lower production from the coal mine, which was 36% below budget; and lower tank utilisation rate (at 13%).

The Group capital structure consists of 29% equity and 71% liabilities. The Group capital structure is tenuous and is likely to deteriorate due to the suboptimal performance of PetroSA, which is technically insolvent.

Projects

In order for the Group to make an impact in the energy sector, it needs to grow its market share. An increase in market share can only be attained through acquisition of operating assets within the sector, development of organic projects and diversification into new sources of energy. Below is a summary of the Group's key growth projects:

- **New Refinery:** The proposed project is focused on establishing a new crude oil refinery at Richard's Bay, which will produce clean fuel and has an estimated production of 300 000 barrels per day. The project commenced in the first quarter of this financial year pursuant to the signing of the cooperation agreement. The pre-feasibility study was completed in March 2020; however, the report has not yet been adopted by the steering committee.
- **ACWA Redstone CSP Plant Project:** The project involves a 100 MW concentrated solar power plant which will be built in the Northern Cape. The project was expected to reach financial close by April 2019; however, this has not been achieved close because Eskom has not yet agreed to extend the term of the power purchase agreement.
- **Downstream Acquisition (Oil and Gas Industry):** The Group plans to improve its margins through the acquisition of operating assets in the downstream value chain. The Group has assessed opportunities of acquiring shareholding in various downstream businesses. The CEF Group wrote expression of interest letters to all the potential target companies and is currently busy conducting due diligences examinations.
- **South Sudan Exploration Project:** The SFF has been allocated an exploration block (Block B) in South Sudan for which it has paid USD4 800 000 as part of acquiring the block. The outstanding approval from the Minister of Finance to establish SFF International as an entity has resulted in delays with the commencement of the exploration project.
- **Liquefied Natural Gas (LNG) Terminal Project:** The LNG Terminal Project commenced in August 2019. The project is currently at pre-feasibility stage, which is expected to be finalised in the next financial year.
- **Storage Infrastructure:** The SFF plans to acquire storage infrastructure for petroleum products in Durban to assist PetroSA with storage capacity. The project has not progressed as expected due to delays by Transnet.

High level entity performance

The Vlakfontein Mine continues to produce at a steady pace for supply to Eskom on the back of a supply contract that concluded in March 2020, having met all its commitments. The final year of the contract produced 1 604 813 tons, a 36% decline from the previous

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financial year. This resulted in a 15.5% decrease in revenue compared to the prior year. The decline was caused by challenges relating to poor coal quality, delayed mining activities in the North Block, rainy weather, and community protest. The new contract with Eskom is scheduled to begin in April 2020 for a further four years and is expected to revive production levels from the new financial year.

iGAS has prudently managed its equity share in its primary asset, the ROMPCO Mozambique to Secunda gas pipeline. The company performed well during the financial year under review. iGAS achieved a profit in excess of R440 million, cash reserves exceed R1.3 billion and a dividend of R76.8 million was declared to the shareholder.

PetroSA continues to experience challenges, with the company reporting a loss of approximately R5.7 billion. The loss was due to PetroSA struggling to operate the plant at the optimal level. Production from the refinery was 28% below budget. The gross profit margin of -11% from the GTL refinery was below the budgeted margin of 14% by 179%. The turnaround initiatives that were planned were not implemented and those that were implemented did not yield the intended results.

The SFF also experienced operational challenges as the tank utilisation rate was 13% due to the market being in backwardation.

Looking ahead to 2020/21

In the 2020/21 financial year the Group will focus on the following initiatives that are targeted at improving the performance of the Group:

- **Stabilisation and nationalisation of PetroSA:** PetroSA needs to be restructured to reduce its overheads, and the refinery converted to either an Import terminal or a full crude oil refinery. Furthermore, PetroSA needs to change its upstream operating model from being an active participant to a passive participant that will manage the state carry.
- **Operating Cost Reduction:** Reduce Group overheads by consolidating the head offices, establishing shared services and automating business processes.
- **Raise capital:** Raise the capital to fund the turnaround of PetroSA by divesting of non-core assets.
- **Grow market share:** Grow the market share by investing in LNG, New Refinery, Klippoortjie coal mine, 100 MW Solar plant, exploration project in South Sudan and acquisition of downstream assets.
- **Strategy execution:** Improve strategy execution by establishing a project management unit that will be responsible for:
 - o The execution of key strategic initiatives;
 - o Improving project execution and operations management through capacity building and strategic recruitment;
 - o Streamlining the approval process by reducing the governance layers;
 - o Revamping the performance management process; and
 - o Pursuing strategic partnerships in order to leverage multinational capabilities.
- **Social programmes:** Improve access to modern forms of energy by installing 87 000 solar water heater systems in low income households.
- **Brand equity:** Improve brand equity through the eradication of malfeasance and the elimination of irregular, fruitless and wasteful expenditure by implementing recommendations from the forensic audit and implementing consequence management where there is gross violation of internal controls and the PFMA.

6. ACCOUNTING POLICIES

The accounting policies applied in the preparation of the Consolidated Annual Financial Statements for the year ended 31 March 2020 are in accordance with the IFRS and are consistent with those applied in the prior year. Judgments and estimates made by management in the application of the 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:

DIRECTORS REPORT continued

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- o Shareholder approval after the Board resolution for a dividend distribution;
- o The commitments as per the strategic objectives for investments and feasibility study expenditures in fulfilling the shareholder mandate; and
- o 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 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 – PROPERTY, PLANT AND EQUIPMENT

Due to the depleting gas reserves feeding the Mossel Bay GTL refinery, as well as fluctuating oil prices, an impairment assessment was conducted as required by IAS 36, resulting in an impairment (refer to note 4 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 Ltd were assessed for impairment, resulting in an impairment. The decommissioning provision (refer to note 23) increased significantly owing to the weakened rand against the USD. This resulted in a change in estimate, and had a negative impact on the performance. At Strategic Fuel Fund an impairment of R211.7 million was recognized for unpumpable crude oil.

	2020 R'million	2019 R'million
Mossel Bay GTL refinery impairment	10	572
Ghana blocks	2 607	(1 282)
Increase /(Reduction) in decommissioning provision	2 242	1401
SFF unpumpable crude oil	212	
	5 071	691

The Strategic Fuel Fund recognised an impairment of R211.7 million for unpumpable crude oil.

11. CAPITAL EXPENDITURE AND COMMITMENTS

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

Authorised capital expenditure

Already contracted for but not incurred

	2020 R'million	2019 R'million
AEMFC	72 936	39
PASA	3 994	465
SFF	777 617	-
PetroSA	200 805	297 795
	1 055 352	298 299

Not yet contracted for and authorised by director

CEF SOC	722 000	722 000
AEMFC SOC Ltd -Total authorised capital budget	499 625	383 193

Other authorised major commitments

CEF SOC - Sponsorship - Solar water heaters	188 331	200 000
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Capital expenditure in Statement of Cash Flow

	2020 R'million	2019 R'million
Purchase of property, plant and equipment	446 536	1 064 835
Purchase of other intangible assets	128 646	36 759
Investment in associates/joint ventures	-	11 711
	575 082	1 113 305

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 R10.6 billion, with debt borrowings of R2.5 billion made up of a reserved-based loan and finance lease liability.

Consolidated R'000	2020	2019
External borrowings (Existing)	2 513 861	2 057 659
Gearing ratio	71%	62%
Gearing ratio % (Interest bearing debt / Equity and Reserves) as per NT	10%	6%

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 as follows:

	2020	2019
PetroSA Group	12 913 286	10 159 770
Strategic Fuel Fund	484 048	517 126
African Exploration and Mining Finance Corporation	44 699	23 194
	13 442 033	10 700 090

The Group will fund this liability by a combination of funds set aside as well as from its accumulated profits.

PetroSA Company

At year-end the PetroSA Company (South African operations) had a R12.484 billion obligation to provide for the rehabilitation and decommissioning of its offshore and onshore facilities (this excludes the R12.3 million rehabilitation of the land at Voorbaai Terminal and Bloemfontein Depot). PetroSA has set aside R2.786 billion for this and there is currently, a shortfall of approximately R9.644 billion. In terms of the financial provision regulations which were promulgated under the National Environmental Management Act, No. 107 of 1998, PetroSA is required to review, assess and adjust its financial provision and associated plans in accordance with these regulations before 19 February 2024, by which time the financial provision funds will need to be available. The provision calculation is based on comprehensive technical work conducted by a international decommissioning contractor and thereafter reviewed by an independent specialist.

PetroSA is working with all key stakeholders to ensure compliance with the requirements of the financial provision regulations before 19 February 2024. To this extent, the holding company has committed to assist PetroSA, through various support and oversight mechanisms, to close the funding gap. 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 Mineral Resources, National Treasury, and Environmental Affairs. No funds have been set aside for the funding of international provisions valued at R470 million. In terms of the signed petroleum agreements, this will commence once 50% of the estimated reserves have been produced from the relevant fields.

DIRECTORS REPORT continued

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

	2020 R'million	2019 R'million
Cash deposits	477	477
Cash in PetroSA Rehabilitation NPC	2 129	1 951
Financial guarantee	180	180
	2 786	2 608

13. EVENTS AFTER REPORTING DATE

Merger

On 10 June 2020, Cabinet approved the planned appointment of a restructuring company to merge the Petroleum Oil and Gas Corporation of South Africa SOC Ltd (PetroSA), the Strategic Fuel Fund SFF Association NPC (SFF) and the South African Gas Development Company SOC Limited (iGAS) into one National Petroleum Company. The merger will not affect the financial statements due to the following:

- The Board of Directors has not passed a resolution to merge the entities; and
- The Section 54 approval has not yet been obtained for the merger

Tripartite Cooperation Agreement

At the behest of the holding company, CEF SOC Ltd, the SFF Association embarked on a project to supply PetroSA SOC Ltd with the condensate feedstock for the Mossel Bay Refinery. This project is being undertaken on the basis that the SFF should at a bare minimum be cost neutral at all times.

All three companies are signatories to the tripartite co-operation agreement where CEF as a company is guaranteeing SFF in an unlikely event of default, CEF will make good of SFF losses.

CEO appointments

- On 1 June 2020, Dr Ishmael Poolo was appointed as the CEF Group CEO;
- On 1 May 2020, Dr P Masangane was appointed as CEO for PASA; and
- On 6 May 2020, Mr MG Moagi was appointed as CEO of the SFF NPC.

COVID-19 impact

At the time of compiling this report, the COVID-19 pandemic was having a severe impact on the world and on businesses around the globe. The CEF is, however, in full support of the decisive action taken by the South African Government to reduce the local spread of the virus, and the initial steps taken to mitigate its impact.

CEF is monitoring the economic impact of the global COVID-19 pandemic and is negotiating with all stakeholders to mitigate the risks that have become apparent. The pandemic has resulted in a lower oil price which is one of the drivers of the impairment loss. However, still too early to quantify the full impact of COVID-19. The Group is also monitoring the possible impact on any current covenants and negotiation of waivers if necessary.

The COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections. The measures taken by various government to contain the virus have negatively affected PetroSA Ghana's results and in the first 3 months of 2020 the company has reported cumulative pre-tax losses of R84.2 million. The outbreak has resulted in a significant decline in the oil price as well as other macroeconomic indicators. A sensitivity analysis of the impairment assessment indicates that an unfavourable change in the macroeconomic indicators results in an additional impairment charge of R502.4 million.

Eskom force majeure

The impact on the AEMFC has been directly linked to its sole major client, Eskom, which had instituted a Force Majeure in April 2020 which had been subsequently lifted.

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Liquidity Funding Support for PetroSA

During October 2020 CEF issued a Liquidity funding support letter on ascertainment of interventions being observed and implemented by PetroSA. The letter states that it shall be treated as an unequivocal funding support by CEF to PetroSA, however it shall not give rise to any rights or obligations until definitive legal agreements have been signed including a shareholders compact agreement aligned with a CEF approved scorecard.

At the date of finalising of the financial statements the agreements were still under negotiation and this has been treated as a non-adjusting event as it is indicative of conditions that arose after the reporting period.

Withdrawal from ACWA Project

During September 2020, the CEF board resolved to reallocate the capital set aside for the ACWA Redstone project in order to support PetroSA's immediate funding requirements. The reallocation has resulted in CEF withdrawing its commitment relating to the ACWA Redstone project previously disclosed in note 36, this has therefore been removed from the commitments disclosure.

At the date of finalising of the financial statements the agreements were still under negotiation and this has been treated as a non-adjusting event as it is indicative of conditions that arose after the reporting period.

PetroSA

Ghana tax audit

The Ghana Revenue Authority (GRA) conducted an audit of PetroSA Ghana in respect of 2014-2018 years of assessment and on 9 May 2020, issued a draft audit assessment of R658.4 million in respect to corporate tax, withholding tax and branch profits tax. By engaging with the GRA, clarification of the tax treatment and calculation in the tax computations may lead to the withdrawal of the findings before the final audit assessment is issued. PetroSA submission of its corporate tax and withholding tax returns.

Dividends declaration

On 28 April 2020, the PetroSA Ghana Board approved an interim dividend of R186.9 million which was paid to PetroSA on 15 May 2020. The PetroSA Ghana Board approved a further final dividend of R167.3 million on 3 September 2020 which was paid to PetroSA on 4 September 2020.

Debt capital repayment

The borrowing base redetermination concluded in December 2019, resulted in an available facility of R1.2 billion effective 01 January 2020. This triggered a mandatory capital repayment of R100.6 million which was paid on 13 January 2020. Following the significant drop in the oil price, the borrowing base was reduced to R413.5 million, effective 1 July 2020, resulting in an additional mandatory capital repayment of R710 million which was made on 10 July 2020.

Land bank default

PetroSA Rehabilitation (NPC) has an investment with the Land & Agriculture Bank of SA (Land Bank). This investment will mature in September 2022. At the end of April 2020, Land Bank citing liquidity constraints, defaulted on two of its Domestic Term Note (DMTN) programmes, resulting in cross defaults across other debt obligations. PetroSA Rehabilitation (NPC) does not hold any investments in the DMTN programmes. Land Bank, default does not have an immediate impact on PetroSA Rehabilitation (NPC), but the future impact will be assessed and adjustment made, where necessary.

Strategic Stock Court Case Outcome

The Western Cape High Court delivered the judgement of the Strategic Stock Court Case on the 20 of November 2020 and at that stage even though the SFF Annual Financial Statements (AFS) were audited and signed off those AFS were yet to be published and therefore had to be updated with the Court Case Outcome.

The impact of the Judgement on the Annual Financial Statements was that SFF's Strategic Stock was re-instated and the proceeds received in respect of the Strategic Stock sale which is an amount approximately R5.662 billion was raised as a payable to the parties who had bought the Stock in December 2015 and early 2016.

The judgement had also insisted on SFF paying for Out-of-pocket expenses to the Buyers but the Boards of SFF and CEF are objecting to it hence on the 7th of December 2020 the Group had filed a notice to appeal the judgement as far as the payment of out-of-pocket expenses which could amount approximately R2.5 billion.

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report besides the matters mentioned above.

DIRECTORS REPORT continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

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 2020. 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 is facing a number of key strategic challenges. Consequently, a material uncertainty exists regarding the liquidity and solvency position of the PetroSA Group:

- The PetroSA Group reported a net loss of R5.6 billion (2019: R2 billion loss) for the year ended 31 March 2020 and the liabilities exceed assets by R4.5 billion at Group level.
- Indigenous gas reserves are close to depletion and will reach technical cut off point for supply to the GTL refinery by 31 December 2020.
- PetroSA has a credit facility of R600 million, which is backed by cash collateral of R350 million.
- The funders and suppliers are reluctant to provide the credit facility without guarantees.
- The South African Revenue Service has imposed a penalty of R1 billion relating to the duty at source.

In order to improve the financial position of PetroSA, the following will be implemented:

Short-term initiatives

- PetroSA will receive funds/proceeds from disposals of non-core assets, which include the ORCA (which ceased operation in March 2013, the disposal of the subsea equipment and materials left over from the Project Ikhwezi Drilling Campaign and the sale of the Head Office building by March 2021.
- PetroSA continues to maintain stringent cost-containment measures for the group. PetroSA engaged all service providers for requests for rate reductions of 30% for all exiting contracts.
- PetroSA's current Letter of Credit (LC) facility with Standard Bank is at R350 million, which is supported by R350 million cash collateral posted with its transactional banker available to fund any operational activities. In addition, a R806.7 million guarantee has been provided by CEF SOC Ltd to finance working capital for finished product.
- In the intervention period, PetroSA will leverage a stream of PGL dividend, aimed at supporting PetroSA operations. To date, dividends amounting to R354.2 million have been repatriated by PGL to PetroSA as stated in note 7 of the Directors Report. PetroSA has expectations for a future stream of dividends in the ensuing year based on revenues from PGL. This will continue continuously from medium to long-term initiatives.
- PetroSA Europe B.V. has R62.8 million in reserves and cash. The funds in PetroSA Europe B.V. will be repatriated to PetroSA to fund liquidity. This will continue continuously from medium to long-term initiatives.
- Upon approval of the Corporate Plan in September 2020, PetroSA will model the required staffing in line with the refinery, trading supply and logistics and support services. CEF SOC Ltd has approved and made available funding to cover severance packages.

Medium-term initiatives

- PetroSA will repay the RPL and use the PGL investment for securitisation. The finance raised will be utilised to fund capital and operational expenditures to support the corporate plan.
- PetroSA secured alternative, affordable feedstock from April 2020 with SFF procurement of condensate on behalf of PetroSA (in large parcel sizes of 1 million barrels). This intervention will continue during the intervention period to support feedstock purchasing.
- Petro has deferred spending on non-essential capex until a long-term solution (ECP/LNG) has been selected. cost reduction methods will continue to be implemented in support of stringent cash flow management.
- PetroSA will obtain and evaluate firm binding offers on LNG as a sustainable feedstock solution for the GTLR to enable a 3 x 3 operation by March 2021. Depending on the LNG affordability, ECP FEED will be finalised in 2022.

15. LITIGATION

Sale strategic stock

The Group has lodged an application in the Western Cape High Court to set aside the disposals of the strategic crude oil stock on the grounds that these disposals were unlawful, invalid and unconstitutional. Should the Court rule in favour of CEF / SFF, SFF will have to repay all proceeds from the transactions, as well as all storage income received from the buyers for storing these barrels from the date of transfer, including all interest earned and other associated costs.

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

The estimated total amount repayable as at 31 March 2020 is R5.9 billion based on the prevailing foreign exchange rate between South African Rand and US Dollar.

Should the Court rule that the transaction is valid, according to paragraph 3A(c) of the CEF Act no 38 of 1977, the proceeds from the sale of crude oil received by SFF Association, shall be payable into the Equalization Fund provided a determination by the Minister of Energy with the concurrence of the Minister of Finance has been received.

The Western Cape High Court delivered the judgement of the Strategic Stock Court Case on the 20 of November 2020 and at that stage even though the SFF Annual Financial Statements (AFS) were audited and signed off those AFS were yet to be published and therefore had to be updated with the Court Case Outcome.

The judgement had also insisted on SFF paying for Out-of-pocket expenses to the Buyers but the Boards of SFF and CEF are objecting to it hence on the 7th of December 2020 the Group had filed a notice to appeal the judgement as far as the payment of out-of-pocket expenses which could amount approximately R2.5 billion.

Other than the matter mentioned above, the Group is currently not involved in any claims or lawsuits, which individually or in aggregate, are expected to have a material adverse effect on the business or its assets. Refer to note 37 of the Consolidated Annual Financial Statements for the list of contingencies.

16. COMPLIANCE AND LEGISLATION

The Group is subject to a number of laws and regulations, from enabling legislation to legislation that affects its revenue, expenses and liabilities. This legislation 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 managed and monitored by the Group through the following:

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

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

The Board has a materiality framework, which was approved by the shareholder representative. The shareholder has approved that the materiality limit for the Group, for reporting in terms of sections 55(2)(b)(i), (ii) and (iii) of the PFMA, is R660.054 million per transaction.

APPROVAL LEVELS IN TERMS OF SECTION 54

All amounts are based on audited financial statement at 31 March 2018.

Figures R' 000	Group	PetroSA	CEF	PASA	AE	I-Gas	SFF	OPC	CCE	ETA
Public Entity's board levels	<660 054	<309 509	–	<4 965	<15 289	<71 558	<212 038	<668	<1	<9
CEF Board to approve	<660 054	>309 509	<660 054	>4 965	>15 289	>71 558	>212 038	>668	>1	>9
Obtain DoE approval and inform National Treasury via the top-most holding company	<660 054	<660 054	<660 054	<660 054	<660 054	<660 054	<660 054	<660 054	<660 054	<660 054

DIRECTORS REPORT continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

Irregular expenditure and fruitless and wasteful expenditure

For the list of transgressions and management actions, refer to notes 47 and 48 of the Consolidated Annual Financial Statements.

17. AUDITORS

The Auditor-General of South Africa continued in office as auditor for the Group and its subsidiaries for 2020. At the AGM, the shareholder will be requested to re-appoint the Auditor-General of South Africa as the independent external auditor of the Group and to confirm Mr Dumisani Cebekhulua as the designated lead Business Executive for the 2020/21 financial year.

18. ANNUAL GENERAL MEETING

The annual general meeting will be held in terms of Section 61 of the Companies Act, No. 71 of 2008.

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
2199

20. ACKNOWLEDGEMENTS

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 168 and 262, were prepared on the going concern basis; were approved by the Board on 31 March 2021; and were signed on its behalf by:

Ms A Noah
Group Chairperson

Johannesburg
31 March 2021

Dr I Poolo
Group CEO

Johannesburg
31 March 2021

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON CEF SOC LIMITED AND ITS SUBSIDIARIES

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

1. I have audited the consolidated financial statements of CEF SOC Limited and its subsidiaries (the group) set out on pages 155 to 251 which comprise the consolidated statement of financial position as at 31 March 2020, 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 the notes to the consolidated financial statements, including a summary of significant accounting policies. In my opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the group as at 31 March 2020, and their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS), and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act).
2. In my opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the group as at 31 March 2020, and their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS), and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies 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 this auditor's report.
4. I am independent of the group in accordance with sections 290 and 291 of the Code of ethics for professional accountants and parts 1 and 3 of the International Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for Accountants (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

EMPHASIS OF MATTER

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

Impairment of property, plant and equipment

7. As disclosed in note 4 to the consolidated financial statements, the group had an impairment loss of R5 071 018 000 (2019: R692 086 000) on property, plant and equipment.

Uncertainty relating to the future outcome of litigation

8. With reference to note 37 to the consolidated financial statements, the group has lodged an application to the court to oppose the repayment of out of pocket expenses to the Buyers as a result of the reversal of the illegal sale of the strategic stock. The ultimate outcome of the matter cannot be determined and no provision for any liability that may result was made in the consolidated financial statements.

Contingencies - guarantees

9. With reference to note 37 to the consolidated financial statements, the entity has provided various guarantees to the value of R685 555 000 (2019: R683 863 000) mainly for the rehabilitation of mining leases.

Restatement of corresponding figures

10. With reference to note 41 to the consolidated financial statements, the corresponding figures for 31 March 2019 were restated as a result of an error in the consolidated financial statements of the group at, and for the year ended, 31 March 2020.

Events after the reporting date

11. With reference to note 45 to the consolidated financial statements, on 10 June 2020 Cabinet approved the planned appointment of a restructuring company to merge three The Petroleum Oil and Gas Corporation of South Africa SOC Ltd (PetroSA), The Strategic Fuel Fund Association NPC (SFF) and the South African Gas Development Company SOC Ltd (iGas) into one National Petroleum Company. The merger will not affect the financial statements due to the following: the board of directors has not passed a resolution to merge the entities and the section 54 approval has not yet been obtained for the merger.

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON CEF SOC LIMITED AND ITS SUBSIDIARIES continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

12. With reference to note 45 to the consolidated financial statements, during October 2020, CEF SOC Limited issued a liquidity funding support letter to PetroSA. The letter states that it shall be treated as an unequivocal funding support by CEF SOC Limited to PetroSA but that it shall not give rise to any rights and obligations until definitive legal requirements have been signed including a shareholders compact agreement aligned with a CEF SOC Limited approved scorecard.
13. With reference to note 45 to the consolidated financial statements, the Western Cape High Court delivered a judgement on the strategic stock litigation on 20 November 2020. The impact of the judgement in the financial statements was a reinstatement of strategic stock and the proceeds received in respect of the sale of the strategic stock were raised as a payable.
14. I draw attention to note 45 to the consolidated financial statements, which deals with subsequent events and specifically the possible effects of the future implications of Covid-19 on group's future prospects, performance and cash flows. Management have also described how they plan to deal with these events and circumstances.

OTHER MATTERS

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

Funding of decommissioning provision

16. With reference to paragraph 12 of the directors' report, PetroSA has an obligation to an amount of R12.430 billion to rehabilitate and abandon its offshore and onshore facilities, with cash set aside of R2.786 billion and therefore the provision is currently underfunded by approximately R9.644 billion. In terms of the financial provision regulations which were promulgated under the National Environmental Management Act, 1998 (Act No. 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 which time the financial provision funds will need to be available.

Unaudited supplementary information

17. The supplementary information set out on pages 263 to 271 does not form part of the consolidated financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion on it.

RESPONSIBILITIES OF THE ACCOUNTING AUTHORITY FOR THE FINANCIAL STATEMENTS

18. 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 IFRS and the requirements of the PFMA and 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.
19. 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

20. 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.
21. A further description of my responsibilities for the audit of the consolidated financial statements is included in the annexure to this auditor's report.

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

Introduction and scope

22. In accordance with the Public Audit Act of South Africa 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for the selected Key Performance Area (KPA) presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
23. My procedures address the usefulness and reliability of the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the public entity enabled service delivery. My procedures also do not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
24. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected KPA presented in the annual performance report of the public entity for the year ended 31 March 2020:

KPA	Pages in the annual performance report
Oversight and Monitoring of the PetroSA Emergency Plan	161

25. 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.
26. I did not identify any material findings on the usefulness and reliability of the reported performance information for this KPA:
- Oversight and Monitoring of the PetroSA Emergency Plan

OTHER MATTER

27. I draw attention to the matters below.

Adjustment of material misstatements

28. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of Oversight and Monitoring of the PetroSA Emergency Plan. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

Introduction and scope

29. 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.
30. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

31. 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 of commitments relating to the group were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON CEF SOC LIMITED AND ITS SUBSIDIARIES continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

Strategic planning and performance management

32. An annual shareholder's compact was not concluded in consultation with the executive authority as required by treasury regulation 29.2.1.

Consequence management

33. I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular as well as fruitless and wasteful expenditure, as required by section 51(1)(e)(iii) of the PFMA.

Expenditure management

34. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R16 648 000 as disclosed in note 38 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 the supply chain management policy and regulations.

OTHER INFORMATION

35. 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, report of the board audit and risk committee and the company secretary's certificate as required by the Companies Act of South Africa 2008 (Act No. 71 of 2008) (Companies Act). The other information does not include the consolidated financial statements, the auditor's report and those selected KPA presented in the annual performance report that have been specifically reported in this auditor's report.
36. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
37. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements the selected KPA presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
38. If based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact.
39. I have nothing to report in this regard.

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 in the findings on compliance with legislation included in this report.
41. The accounting authority did not exercise adequate oversight responsibility regarding compliance with laws and regulations and related internal controls which resulted in instances of non-compliance with the PFMA and treasury regulations. Further, the accounting authority did not ensure that the action plans to address audit findings were effectively implemented as repeat audit findings were reported for compliance with laws and regulations.
42. Senior management did not implement adequate review controls to ensure that the financial statements are free from material misstatements and comply with the requirements of the PFMA as the submitted annual financial statements were subject to material amendments resulting from the audit.

Auditor - General

Johannesburg
15 March 2021



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives 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 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 public entity'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 board of directors, which constitutes the accounting authority's use of the going concern basis of accounting in the preparation of the consolidated financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability 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 consolidated financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the consolidated 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 public entity to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

REPORT OF THE BOARD AUDIT AND RISK COMMITTEE

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

This report is provided by the Board Audit and Risk Committee appointed in respect of the 2019/20 financial year for the CEF Group.

1. Charter

The roles and responsibilities of 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 and the committee meetings take place on the same dates.

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

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; the Public Finance Management Act of 1999, Section 76 (4)(d); and Treasury Regulations 27.1. In performing its responsibilities, the committee has reviewed the following:

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

3. Membership

The committee members were appointed by the Board and comprise of at least three non-executive members. The committee consists of the members listed hereunder and should meet on a minimum of two occasions per annum as per the approved charter. During the financial year, three meetings were held.

Name of Director	30 Jul 2019	28 Aug 2019	29 Jan 2020
Mr M Besnaar (Chairperson) Y	Y	Y	Y
Mr N Mompoti [^]	N/A	N/A	Y
Mr N Poya*	N/A	N/A	Y
Ms N Sondlo*	N/A	N/A	Y
Ms G Leketi – resigned [#]	Y	Y	N/A

[^] Mr N Mompoti was not a committee member from April 2019 to October 2019 as he was the interim chairperson of the CEF Group Board.

* Mr N Poya and Ms N Sondlo were appointed as members during the current financial year.

[#] Ms G Leketi was an interim member until the reconstitution of the Board.

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 2019/20 financial year and has approved the fees. The audit committee has satisfied itself that the Auditor-General of South Africa exercised its duties in an independent and objective manner.

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

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 believes 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 Auditor-General'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.

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 (BARC). The Group implemented a risk management strategy that includes the fraud prevention plan and combined assurance plan. The BARC monitored the significant risks faced by the Group by reviewing risk reporting and participation in a risk assessment workshop. We are satisfied that significant risks were managed to an acceptable level.

REPORT OF THE BOARD AUDIT AND RISK COMMITTEE continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

10. Significant matters considered by the committee

The following is a description of the key matters considered by the committee.

Key issues	Judgements in financial reporting	Audit Committee review	Conclusions
Fair, balanced and understandable reporting	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.	- 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 the CEF's financial statements were fair, balanced and understandable. - Established via reports from management and external audit that there were no indications of material fraud relating to financial reporting matters. - Assessed disclosure controls and procedures. - Considered matters of accounting, tax and disclosure issues raised by the external auditors. - Requested that management report on and evidence the basis on which representations to the external auditors were made.	Having assessed all of the available information and the assurances provided by management, the committee concluded that the processes underlying the preparation of the CEF's financial statements were appropriate.
Impairment and recoverability of assets' carrying values	- 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. - These include assumptions such as discount rates. - Judgements are also required in assessing the recoverability of loans and overdue receivables and in deciding whether a provision is required.	- The committee reviewed the discount rates for impairment testing as part of its annual process and examined the assumptions. - Key impairment assessments reviewed by the committee include: - Mossel Bay GTL refinery impairment (R10 million) - Ghana blocks impairment reversal (R2.61billion) - Increase in decommission provision (R2.24 billion) - SFF unpumpable crude oil (R211.7 million)	The committee is satisfied with the judgements and assumptions used in the calculation of impairments.

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

Key issues	Judgements in financial reporting	Audit Committee review	Conclusions
Accounting for provisions	• Post-retirement benefit obligations Valuation of the post-retirement benefit obligation provision requires the use of assumptions in relation to uncertain future factors, e.g. inflation rates, discount rates, salary increases and mortality rates. Judgement is also required in the measurement of the fair value of certain pension assets. • Rehabilitation provisions Provisions are recognised for the full future restoration and rehabilitation of production facilities to the end of their 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.	• 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 the CEF. In addition, the committee examined the assumptions used by management as part of its annual reporting process. • 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.	• The committee reviewed the net post retirement benefit assets. The valuations are performed by independent third parties. • The committee reviewed the rehabilitation provisions for compliance with legislation and consistent application of the accounting policy. • The committee requested that an external review be performed every two years to confirm the completeness of the rehabilitation provision. • The committee took into account the reviews and recomputations undertaken by the external auditors which supported the accounting for all significant provisions.

REPORT OF THE BOARD AUDIT AND RISK COMMITTEE continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

Key issues	Judgements in financial reporting	Audit Committee review	Conclusions
Accounting for income taxes	• 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 Group's taxation policy. • Recognition of deferred tax assets in respect of accumulated tax losses are underpinned by management judgement.	• The committee reviewed the judgements exercised on tax provisions as part of its annual review of key provisions. • 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. • 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. • The committee considered management's assessment of the Group's tax exposures and the appropriateness.	• The committee reviewed the tax numbers and disclosures in the financial statements, the tax policy, approach to tax management and status of compliance.
Going concern assessment	• The conclusion by the Board to prepare the annual financial statements on a going concern basis requires management judgement on issues which include uncertain future forecasts of net cash inflows, net debt and financing facilities available to the Group. • The assessment was done for a period of 12 months.	• The committee critically assessed the liquidity of the CEF using the latest forecast projection of future cash flows.	• After examining the forecast along with the CEF's ability to generate capital and raise funding in current market conditions, the committee concluded that the CEF's liquidity and capital position remained appropriate, and that the going concern basis of accounting was agreed. • Accordingly, the committee recommended to the Board the adoption by the Company of the going concern basis of preparation.

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

11. Conclusion

We therefore recommend that the Board approve the Consolidated Annual Financial Statements for 2019/20.

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 MJ Besnaar CA(SA)

Chairperson of the Board Audit and Risk Committee

31 March 2021

STATEMENT FROM COMPANY SECRETARY

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

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 2020, 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

3 March 2021

GROUP REPORT ON PERFORMANCE AGAINST OBJECTIVES

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

Detailed performance scores, including comments regarding variances for each activity for the Group are included in individual quarterly reports.

KPA	KPI	Measure	Initiatives	Weight	Target (FY19/20)	Score	Comments
Commercial viability and business growth (17%)	Commercial viability	Business growth	Current business: Return on assets	11%	R500 million operating profit excluding CSI and R&D costs	3.3	Operating Loss excluding CSI and R&D costs : R6.2 billion (includes impairment and foreign exchange gains).
			Associates and joint ventures: Return on assets		28% return on associates		Return on associates: 36%
			Money market: NACM rate		R1 billion interest income		Interest: R1.1 billion
		Liquidity: Cash conversion cycle	Working capital management conversion cycle	3.0%	65 days	5	9 days
		Financial leverage: Solvency (Debt to equity ratio)	Management of debt to optimise growth and minimise risk: Debt to equity ratio (total debt/total equity and total debt)	3.0%	54% debt: 46% Equity	1	Interest Bearing Debt to Equity and Reserves (Gearing) 75% debt: 25% equity,
Oversight and monitoring of the PetroSA Emergency Plan (40%)	Financial sustainability	Corporate management of PetroSA turnaround	Develop and participate in the governance structures for the PetroSA Emergency Plan	10%	Support the governance and internal structures to expedite and archive the emergency turnaround	3	An emergency plan has been developed, however a cooperation agreement was signed by CEF, PetroSA and SFF after year end.
		Profitability	Efficient processing of PetroSA Emergency Plan submissions to the CEF Board and Minister	10%	Credible plan submitted	3	A credible plan was submitted to the board and presented to the Minister of the DRME.
			Monitor and evaluate the implementation of the PetroSA Emergency Plan	10%	Monitor, evaluate and implement consequence management for the PetroSA Plan	2	Only the preliminary report was discussed at CEF Board and it did not include any recommendations in terms of the scoring measure/matrix
			Efficient processing of PetroSA Emergency Plan submissions to the CEF Board and Minister	10%	Efficiencies achieved through internal leverage and mobilisation of related resources	2	9 initiatives crafted in Project Pheonix and the involvement of CEF management on Richards Bay refinery, the involvement of CEF Board on the forensic investigations, the discussion of the turnaround strategy by CEF EXCO can be confirmed

GROUP REPORT ON PERFORMANCE AGAINST OBJECTIVES continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

KPA	KPI	Measure	Initiatives	Weight	Target (FY19/20)	Score	Comments
Implementing the developmental mandate (10%)	Strategic projects	Developmental & social impact	Implement the SWH Programme	3.5%	Mobilise the programme, enlist DMRE support. Obtain approval. 10% of construction	2	Procurement activities were concluded including technical feasibility assessment.
	Transformation		Youth employment and entrepreneurship	3.5%	Put together a 5-year programme with tangible benefits and milestones and resource requirements. Implement 5%	3	Investment in other youth development programmes including Group training spend, with 46% of the costs allocated to the talent pipeline programmes (bursaries, internships, artisans, etc.).
		Supplier development	Economic transformation and entrepreneurial programmes	3.0%	Put in place process that is adequate for BBBEEE	3	The improvement plan developed and implemented – the CEF achieved a Level 4 rating from being non-compliant in the prior year.
Governance and business processes (13%)	Efficient and effective decision-making	Improved oversight	Establish a common Group IT platform, modernisation and automation Develop the Group performance management system Develop and roll out the Group Project Execution Mode Develop a Group portfolio optimisation model including an integrated CEF Group funding and investment model	6%	Support the governance and internal structures to expedite and archive the emergency turn around	1.25	The tender process has been cancelled on advice from National Treasury. The scope of work is currently being reviewed and a new procurement process will commence during Q1 of 2020/21. The Procurement Strategy and Business Case are still pending approval. The Business Case is back with EXCO for consideration. Delivery continued. The work will continue into the new financial year. As a result of leadership changes the project experienced a shift in emphasis and a delay. However, a panel of strategic service providers was finalised and approved in Q4. This initiative will now be executed in the new financial year.

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

KPA	KPI	Measure	Initiatives	Weight	Target (FY19/20)	Score	Comments
Governance and business processes (13%) (continued)	Combined assurance	Audit opinion	Combined assurance and ERM / Reduction of fruitless and wasteful expenditure	2%	Unqualified as a result of implementation of integrated internal audit plan. Decrease fruitless and wasteful expenditure. Curb irregular spend	3	An unqualified audit opinion. The Group incurred fruitless and wasteful expenditure of R55 million and irregular expenditure of R114 million.
		Governance maturity	Review the CEF Group governance structure to make decision-making more efficient and operationalise the MOI	2%	30% Implementation of the Revised Governance Framework as per approved Roadmap (MOIs and TOR)	1.6	No MOIs were revised. Changes at the Board level have resulted in the strengthening of a number of key Board subcommittees. These are geared to achieve optimal performance of the organisation and key objectives.
	ERM	Combined assurance report	GCA maturity assessment	2%	Efficiencies achieved through internal leverage and mobilisation of related resources	2	The project was delayed due to changes in leadership. The ethics project is almost finalised, completed framework, training manual and ethics survey. The Risk Register for CEF SOC Ltd completed. A COVID-19 Task Team was appointed and this team activated the response plan (BCM).
Group Strategy, oversight, monitoring and evaluation (10%)	Oversight	Strategies for internal leverage	Finalise Vision 2040+ including the new Business and Operating Models, Corporate Structure as well as Group Governance structures to support the implementation of Vision 2040+	3.5%	Finalise Vision 2040+ in broad picture with a clear role for each existing entity and progressive rollout	1.2	The Phase 1 deliverables of Mandate and Strategy were fully drafted and informed the decision to start Phase 2. As a result of leadership changes, the start of Phase 2 was delayed. However, a panel of strategic service providers was finalised and approved in Q4. This initiative will now be executed in the new financial year.

GROUP REPORT ON PERFORMANCE AGAINST OBJECTIVES continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

KPA	KPI	Measure	Initiatives	Weight	Target (FY19/20)	Score	Comments
Group Strategy, oversight, monitoring and evaluation (10%) (continued)	Oversight	Strategies for internal leverage	Develop and implement the Change Management Strategy for Vision 2040+ Develop a trading unit for coal, gas and oil Lead the acquisition of downstream assets and brownfield refinery Develop the CEF Group acquisition and growth strategy	3.5%	Develop change management strategy with input and role clarity of subsidiaries Develop a CEF Group trading strategy and recommended operating model Target is to complete due diligence and recommend acquisition GO or NO-GO transaction, a) exploratory assessment b) NDA & EOI c) proof of funding d) DD scope of work procurement process to award Develop a CEF Group acquisition and growth strategy and recommended operating model Develop a Digital transformation and Energy 4.0 strategy through a strategic partnership	2	High level Change Management Framework has been developed to support a number of organisational transition initiatives. The Change Management Framework has been included in the new organisational structure implementation plan. Further refinement and customisation will depend on project type and delivery. A contract resource was appointed to support development of the SOW. Between the 22nd and 23rd January during Group Strategy session this proposal was advanced. It remains work in progress in light of a number of operational challenges with some of the subsidiaries but will continue to be driven at the CEF SOC level, in the new financial year. Progress achieved is beyond DD. The CEF continues to support PetroSA with the potential acquisition of downstream assets to support product placement (this investment is likely to be done by the SFF). Progress made on both the technical and market studies for the new refinery built in line with project milestones. High-level conceptual framework done, but this will be re-evaluated in line with current economic realities as part of the new Group strategic theme for long-term growth. There were delays in commencing with a procurement process to appoint a partner for the development of the Energy 4.0 and digital transformation strategy: however, initiatives have taken place and these will be placed under the strategic theme of Innovations and Operational Excellence.

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

KPA	KPI	Measure	Initiatives	Weight	Target (FY19/20)	Score	Comments
Group Strategy, oversight, monitoring and evaluation (10%) (continued)	Strategies and measurement	Strategies for external leverage	Define and secure CEF role as state carrier entity in the exploration and production of petroleum products, viz. MPRDA or Exploration and Production Bill Define and secure CEF role in energy policies like the IRP, Gas Master Plan, Liquid Fuels Master Plan and Gas Act or Bill Define the role of CEF in the transition to clean transportation (Clean Fuels II, electric vehicles, CNG, biofuels) Develop the Southern Africa Business Strategy including the country strategies for Mozambique, South Sudan	3.5%	Consolidate the CEF Group's contribution to the exploration and production bills or MPRDA Map out the key benefit from policy development in line with Vision 2040+ Define the role of the CEF in the transition to clean transportation (Clean Fuels II, electric vehicles, CNG, biofuels) Develop a CEF Group Southern Africa Strategy and recommended operating model	2	In the draft promulgated by the MPRDA, the CEF through PetroSA, has been designated as the state carrier entity. The draft was compiled with extensive CEF input. Contributions were made to Biofuels Regulatory Framework, follow-up legislation to MPRDA, Gas Masterplan, power generation using tailgas, modelling scenarios of state participation, demand-side management using LPG, shale gas & new refinery. Those that are finalised are the Biofuels, MPRDA and LPG strategies. All of these roles are drafted, and agreed to with subsidiaries, but not finalised because approval of Vision 2040+ is pending. The CEF has already engaged on clean energy with such stakeholders as the DMRE, Eskom and the CSIR. The CEF SOC supports the emerging role. In line with the new Group strategic direction this continues to be work in progress. The Mozambique country strategy is complete.

GROUP REPORT ON PERFORMANCE AGAINST OBJECTIVES continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

KPA	KPI	Measure	Initiatives	Weight	Target (FY19/20)	Score	Comments
Becoming an exponential organisation (6%)	High performance culture enterprise risk management	High-Performance Organisation index	Finalise the Group HR Strategic Framework including EVP, policy review and harmonisation, sourcing strategy and human capital development	2%	SFF, AEMFC, and PASA continued the policy harmonisation programme and the customised various Group policy framework to suite their respective environments	2	A Group approach in developing and approving a Remuneration Philosophy was achieved. Work will continue in new financial year.
			Leadership capacitation and culture	2%	Capacitate key leadership portfolios. Map out the desired culture of CEF and the transition path	2	The appointment of the Boards in Q3 drove the leadership stabilisation through prioritisation of filling the vacant CEO positions and reducing the number of acting incumbents at that level.
			Finalise the business case and implement the shared services business model.	2%	Shared services rollout in PetroSA	1	A Talent Sharing project was rolled out widely across the various entities to capitalise on existing talent instead of recruiting external resources.

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

KPA	KPI	Measure	Initiatives	Weight	Target (FY19/20)	Score	Comments
Stakeholder and brand management (4%)	Stakeholder and Communications index	Brand Equity index	Stakeholder communications plan of all projects and initiatives	1%	Compile plan for communicating relevant information on projects and initiatives to stakeholders	3	Most progress is expected in 2020/21 after appointment of the permanent CEO. A number of ministerial/departmental engagements were covered.
			Reputation baseline survey	1%	Establish the survey as an instrument for identifying emerging issues on the stakeholder front	1	The reputation baseline is completed. The Brand Management Framework is approved by the CEO. This enables the team to commence with the sourcing of a service provider.
		Reputation	Implement Group investor engagement plan	1%	Prepare plan for engaging various categories of investors based on emerging business development plan	3	Framework for the Media Management Strategy approved as part of the Master Brand Strategy.
			Establish baseline for satisfaction index, reputational survey	1%	Closing 50% of stakeholder expectation gaps	1	Most progress is expected during the 2020/21 financial year.

Weighted Total	2.37
Total % Achievement	79%
Score	Description
0	= not measured
1	= not achieved
2	= partially achieved
3	= achieved
4	= above target (if the objective warrants a 1–5 scoring)
5	= exceptional performance (if the objective warrants a 1–5 scoring)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2020

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

Figures in rand thousand	Note(s)	2020	2019
			Restated *
Assets			
Non-Current Assets			
Property, plant and equipment	4	6 655 435	9 325 334
Intangible assets	5	1 624 166	1 439 303
Investments in subsidiaries	6	-	-
Investments in joint ventures	7	-	-
Investments in associates	8	1 148 277	961 138
Loans to group companies	9	44 263	40 111
Trade and other receivables	15	252 800	200 601
Other financial assets	10	184 955	168 997
Deferred tax	11	777 220	614 115
Pre-payments	12	518	622
Strategic stock	13	2 504 122	2 862 997
		13 192 431	15 613 218
Current Assets			
Inventories	14	849 151	2 180 690
Loans to group companies	9	35 720	32 682
Trade and other receivables	15	2 229 014	2 902 455
Pre-payments	12	147 282	98 113
Current tax receivable		20 224	5 647
Cash and equivalents	16	20 822 759	18 924 575
		24 104 170	24 144 162
Non-current assets held for sale and assets of disposal groups	17	-	14 758
Total Assets		37 296 601	39 772 138
Equity and Liabilities			
Equity			
Equity Attributable to Equity Holders of Parent			
Reserves	19	1 466 588	863 216
Retained income		9 174 744	14 418 026
		10 641 332	15 281 242
Non-controlling interest		(6 859)	(6 716)
		10 634 473	15 274 526

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

Figures in rand thousand	Note(s)	2020	2019
			Restated *
Liabilities			
Non-Current Liabilities			
Other financial liabilities	21	930 765	968 271
Lease liabilities	22	1 314 806	999 771
Retirement benefit obligation	23	139 716	160 056
Deferred tax	11	1 597 148	2 137 137
Provisions	24	13 429 719	10 687 772
Other non-current financial liabilities	25	52 745	68 128
		17 464 899	15 017 741
Current Liabilities			
Trade and other payables	26	8 610 873	9 177 570
Other financial liabilities	21	262 017	88 210
Lease liabilities	22	106 477	89 617
Retirement benefit obligation	23	3 544	3 394
Current tax payable		15 970	3 564
Provisions	24	198 348	117 516
		9 197 229	9 479 871
Total Liabilities		26 662 128	24 497 612
Total Equity and Liabilities		37 296 601	39 772 138

STATEMENT OF COMPREHENSIVE INCOME AS AT 31 MARCH 2020

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

Figures in rand thousand	Note(s)	2020	2019
			Restated *
Revenue	27	14 555 764	13 150 205
Cost of sales	28	(14 177 637)	(12 285 693)
Gross profit		378 127	864 512
Other income	29	392 248	673 778
Other operating expenses		(7 701 798)	(2 988 168)
Operating loss	30	(6 931 423)	(1 449 878)
Investment income	31	1 192 725	1 156 643
Finance costs	32	(615 015)	(535 004)
Income from equity accounted investments		500 469	415 612
(Loss)/profit before taxation		(5 853 244)	(412 627)
Taxation	33	589 370	(780 018)
Loss for the year		(5 263 874)	(1 192 645)
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurements on net defined benefit liability/asset		19 649	23 979
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		603 372	495 072
Other comprehensive income for the year net of taxation	34	623 021	519 051
Total comprehensive (loss)/income for the year		(4 640 853)	(673 594)
Loss attributable to:			
Owners of the parent			
Non-controlling interest		(5 263 731)	(1 192 507)
		(143)	(138)
		(5 263 874)	(1 192 645)
Total comprehensive (loss)/income attributable to:			
Owners of the parent		(4 640 710)	(673 456)
Non-controlling interest		(143)	(138)
		(4 640 853)	(673 594)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

Figures in rand thousand	Foreign currency translation reserve	Transfer to Equalisation Fund	Retained income	Total attributable to equity holders of the group/ company	Non-controlling interest	Total equity
Opening balance as previously reported	368 144	(3 317 490)	16 539 969	13 590 623	(1 180)	13 589 443
Adjustments						
Prior period error	-	3 317 490	(1 176 154)	2 141 336	-	2 141 336
Restated* Balance at 01 April 2018	368 144	-	15 363 815	15 731 959	(1 180)	15 730 779
Loss for the year	-	-	(1 192 507)	(1 192 507)	(138)	(1 192 645)
Other comprehensive income	495 072	-	23 979	519 051	-	519 051
Total comprehensive loss for the year	495 072	-	(1 168 528)	(673 456)	(138)	(673 594)
Change in accounting policy – new IFRS adoption	-	-	(14 240)	(14 240)	-	(14 240)
Remeasurements	-	-	5 398	5 398	(5 398)	-
Adjustments on retained earnings due to equity accounting of an associate (different reporting date)	-	-	16 038	16 038	-	16 038
Other adjustments on retained earnings	-	-	(13 917)	(13 917)	-	(13 917)
Dividends	-	-	229 460	229 460	-	229 460
Total contributions by and distributions to owners of company recognised directly in equity	-	-	222 739	222 739	(5 398)	217 341

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

Figures in rand thousand	Share capital	Foreign currency translation reserve	Transfer to Equalisation Fund	Retained income	Total attributable to equity holders of the group/ company	Non-controlling interest	Total equity
Opening balance as previously reported		863 216	-	12 261 076	13 124 292	(6 716)	13 117 576
Adjustments							
Prior period errors		-	-	2 159 821	2 159 821	-	2 159 821
Prior year adjustments		-	-	(2 872)	(2 872)	-	(2 872)
Balance at 01 April 2019 as restated		863 216	-	14 418 025	15 281 241	(6 716)	15 274 525
Loss of the year		-	-	(5 263 731)	(5 263 731)	(143)	(5 263 874)
Other comprehensive income		603 372	-	19 649	623 021	-	623 021
Total comprehensive Loss for the year		603 372	-	(5 244 082)	(4 640 710)	(143)	(4 640 853)
Other adjustments		-	-	801	801	-	801
Total contributions by and distributions to owners of company recognised directly in equity		-	-	801	801	-	801
Balance at 31 March 2020		1 466 588	-	9 174 744	10 641 332	(6 859)	10 634 473
Note(s)		19&34	34	34			

The accounting policies on pages 174 to 198 and the notes on pages 199 to 261 form an integral part of the consolidated annual consolidated annual financial statements.

* The translation reserves comprises exchange differences on consolidation of foreign subsidiary companies to reporting currency.

CONSOLIDATED STATEMENT OF CASH FLOWS

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

Figures in rand thousand	Note(s)	2020	2019
			Restated *
Cash flows from operating activities			
Cash generated from operations	35	114 233	276 360
Interest income		1 185 652	1 156 638
Dividends received (trading)		317 505	495 505
Finance costs		(167 797)	(156 890)
Tax paid	36	(116 352)	(128 806)
Net cash from operating activities		1 333 241	1 642 807
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(446 536)	(1 064 835)
Sale of property, plant and equipment	4	62	128
Purchase of other intangible assets		(128 546)	(36 759)
Sale of other intangible assets	5	-	151
Investment in associates/joint ventures		-	(11 711)
Sale of financial assets		44 869	(25 924)
Proceeds from the sale of an associate		21 082	-
Net cash from investing activities		(509 069)	(1 138 950)
Cash flows from financing activities			
Re-payment of loans from group companies		-	(5 051)
Net movement in other financial liabilities		(88 600)	209 450
Movement in other non-current financial liabilities		23 922	1 800
Net movement in lease liabilities		(87 087)	129 490
Net cash from financing activities		(151 756)	335 689
Total cash movement for the year		672 407	839 546
Cash at the beginning of the year		18 924 575	17 186 008
Effect of exchange rate movement on cash balances		1 225 777	899 021
Total cash at end of the year	16	20 822 759	18 924 575

ACCOUNTING POLICIES

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

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 No. 71 of 2008 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 rand, which is the Group's functional currency.

These accounting policies are consistent with the previous period.

1.2 Consolidation

Basis of consolidation

The Consolidated Annual Financial Statements incorporate the Consolidated Annual Financial Statements of the Company and all subsidiaries. Subsidiaries are entities (including structured entities) that 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, liabilities 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 or in other comprehensive income, in accordance with the relevant IFRSs. 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.

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.

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 in other comprehensive income and accumulated in equity are recognised in profit or loss as a reclassification adjustment.

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Goodwill is determined as the consideration paid, plus the fair value of any shareholding held prior to obtaining control, plus non-controlling interest 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 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 Company 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 Investments in associates

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 using their most recent management reports at 31 March. Adjustments are made to the associates' and JVs' financial results for material transactions and events in the intervening period.

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).

ACCOUNTING POLICIES continued

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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.

Useful lives of property, plant and equipment

Management assesses the appropriateness of the useful lives of property, plant and equipment at the end of each reporting period. The useful lives of motor vehicles, furniture and computer equipment are determined based on Group replacement policies for the various assets. Individual assets within these classes, which have a significant carrying amount are assessed separately to consider whether replacement will be necessary outside of normal replacement parameters. The useful life of manufacturing equipment is assessed annually based on factors including wear and tear, technological obsolescence and usage requirements.

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 24.

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 and value in use.

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

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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.

Depreciation of mineral assets

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

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

Defined benefit plans (pension 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 noncompliance with the 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.

ACCOUNTING POLICIES continued

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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 method. At the 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.

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; and
- The terms of the contractual arrangement.

Key management personnel

The CEO's/equivalent for operating subsidiaries and the holding company are the Group's key management personnel.

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.

1.6 Irregular, fruitless and wasteful expenditure

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 receivables are measured at the amount that is expected to be recovered and are derecognised when settled or written off as irrecoverable.

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Irregular expenditure must be removed from the balance of the irregular expenditure notes when it is either:

- (a) Condoned by the relevant authority if no official was found to be liable in law;
- (b) Recovered from an official liable in law;
- (c) Written off if it is irrecoverable from an official liable in law and a debtor was recorded for the recovery of such a debt; or
- (d) Written off if it is not condoned and not recoverable but de-recognised from the balance of the irregular expenditure in the notes to the financial statements if an official of the institution was not found liable in law for the transgression.

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

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of profit or loss in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense and, where recovered, is subsequently accounted for as income in the statement of profit or loss.

All irregular and fruitless and wasteful expenditure is charged against profit or loss in the period in which it is incurred and disclosed as a note to the Consolidated Annual Financial Statements of the Group.

1.7 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 and machinery, production assets, furniture and fixtures, motor vehicles, office equipment, IT equipment and mine infrastructure;
- Assets under development;
- Restoration costs; and
- 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 Company, and the cost of the item can be measured reliably.

Initial measurement

Property, plant and equipment is initially measured at cost. Costs include 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 Company 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

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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 assets	Straight-line	Lease term

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting period. 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 an item of property, plant and equipment. These items are initially measured at historical cost 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 storage tanks.

Shutdown costs

Shutdown costs relate 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 that 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.

Production assets are depreciated from the date production commences, on a UoP 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 UoP calculation comprise the carrying value of capitalised costs plus the estimated future field development costs required to recover the commercial reserves remaining. UoP 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.

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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 an asset under construction, and is disclosed as a component of property, plant and equipment. All subsequent development expenditure is capitalised and classified as an asset 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 capitalised 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.

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.

ACCOUNTING POLICIES *continued*

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Where production stripping costs are incurred and where the benefit is the creation of access to ore to be mined in the future, the costs are recognised as a non-current asset, referred to as a 'production stripping asset', if the following criteria are met:

- It is probable that the future economic benefit (improved access to ore) will flow to the entity;
- The component of the ore body for which access has been improved can be identified; and
- The costs relating to the stripping activity can be measured reliably.

If all the criteria are not met, the production stripping costs are charged to the statement of profit or loss. Production stripping assets are accounted for as additions or enhancements 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.

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 loss arising from the derecognition of an item of property, plant and equipment is included in operating profit or loss.

1.8 Intangible assets

The Group's intangible assets comprise of the following:

- Exploration and evaluation assets;
- Project development costs;
- Software;
- Patents and licences; and
- 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; and
- The ability to measure reliably the expenditure during development.

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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.

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 company 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 the 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; and
- 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 company considers it probable that economic benefits will be realised, the Company 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 is 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 the 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 licences, 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.

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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.

Assets pending determination

Exploratory wells that discover potential 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% statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable reserves and a 50% 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 UoP method calculated using the estimated proved and probable.

Dry wells

Geological and geophysical costs, as well as all other costs relating to dry exploratory well costs are recognised in 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.

A summary of the policies applied to 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	Straight-line	N/A

1.9 Financial instruments

Financial instruments held by the Company are classified in accordance with the provisions of IFRS 9 Financial Instruments.

Broadly, the classification possibilities, which are adopted by the Company, as applicable, are as follows:

- Financial assets which are equity instruments:
 - o Mandatorily at fair value through profit or; or
 - o Designated as at fair value through other comprehensive income. (This designation is not available to equity instruments that are held for trading or that are contingent considerations in a business combination).
- Financial assets which are debt instruments:
 - o 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
 - o 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

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- o Mandatorily at fair value through profit or loss. (This classification automatically applies to all debt instruments that do not qualify as at amortised cost or at fair value through other comprehensive income); or
- o 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:
 - o Mandatorily at fair value through profit or loss.
- Financial liabilities:
 - o Amortised cost; or
 - o Mandatorily at fair value through profit or loss (This applies to contingent considerations in a business combination or to liabilities which are held for trading); or
 - o 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 43, financial instruments and risk management, presents the financial instruments held by the Company 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 Company are presented below:

Loans receivable at amortised cost

Classification

Loans to Group companies (note 9), loans to shareholders (note X), loans to directors, managers and employees (note X), and loans receivable (note X) 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.

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 31).

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.

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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 expert economic 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 it as appropriate to ensure that the criteria is capable of identifying significant increases in credit risk before the amount becomes past due.

Write-off policy

The Company 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 Company 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 forwardlooking 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 vice versa.

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An impairment gain or loss is recognised for all loans in profit or loss with a corresponding adjustment to its 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 30).

Credit risk

Details of credit risk related to loan receivables are included in the specific notes and financial instruments and risk management (note 43).

Trade and other receivables

Classification

Trade and other receivables, excluding, when applicable, VAT and pre-payments, are classified as financial assets subsequently measured at amortised cost (note 15).

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.

Impairment

The Group recognises a loss allowance for expected credit losses on trade and other receivables, excluding VAT and pre-payments. 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 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. Details of the provision matrix is presented in note 15.

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 30).

Trade and other payables

Classification

Trade and other payables (note 26) 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.

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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 32).

Trade and other payables expose the Company to liquidity risk and possibly to interest rate risk. Refer to note 43 for details of risk exposure and the 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 X). Details of foreign currency risk exposure and the management thereof are provided in the financial instruments and risk management note (note 43).

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.

1.10 Pre-payments

Pre-payments 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.

1.11 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).

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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 carrying 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.

1.12 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 determines 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.

Company 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 30) on a straightline 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).

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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 X 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 X).

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 32).

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; and
- 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.

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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 unless it is included in the carrying amount of another asset.

Company 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 sub-lease as two separate contracts. The sub-lease 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.

1.13 Leases (Comparatives under IAS 17)

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

Finance leases – lessor

The Group recognises finance lease receivables in the consolidated statement of financial position.

Finance income is recognised based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

Finance leases – lessee

Finance leases are recognised as assets and liabilities in the consolidated statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the Group's incremental borrowing rate. The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Operating leases – lessor

Operating lease income is recognised as an income on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Income for leases is disclosed under revenue in profit or loss.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

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

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1.14 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's right to recover products from customers where customers exercise their right of return under the Group's return 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.

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 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.

1.15 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.

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

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

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss and other comprehensive income.

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

1.16 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's 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 its 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.

ACCOUNTING POLICIES continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

1.17 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 company in which they are declared.

1.18 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.

1.19 Employee benefits

Short-term employee benefits

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

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

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

Defined contribution plans

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

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

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

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

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

Defined benefit plans

Actuarial valuations are conducted annually by independent actuaries separately for each plan. The Group provides defined benefit plans for pension and post-retirement healthcare to certain retirees. The entitlement to pension and post-retirement healthcare benefits is based on the eligible employees remaining in service up to retirement age. These benefits are funded by the Group. The cost of providing retirement benefits under a defined benefit plan is determined using a projected unit credit valuation method. The liability recognised in the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets.

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; and
- Net interest expense or income.

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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.

1.20 Provisions and contingencies

The Group's provisions mainly relate to the following:

- Environmental rehabilitation costs (dismantling and restoration);
- Bonus provision; and
- 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.

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.

ACCOUNTING POLICIES continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

1.21 Government grants

Government grants are recognised when there is reasonable assurance that:

- The Company 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.

1.22 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 transfers 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 has been accepted by the buyer to meet the required specifications.

3. Rendering of services – Management fees

Revenue from management services is recognised over time as the customer simultaneously receives and consumes 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.

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 company'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 the term of granting the right and permit. A receivable is recognised by the Company 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 Company 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.

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

1.23 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.

1.24 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 to recover products from customers where customers exercise their right of return under the Group's return policy.

1.25 Translation of foreign currencies

Foreign currency transactions

The Group's Consolidated Annual Financial Statements are presented in South African rand, which is also the parent company's functional currency. The Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into South African rand 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 rand, 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.

ACCOUNTING POLICIES continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

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 rand by applying to the foreign currency amount the exchange rate between the rand and the foreign currency at the date of the cash flow.

1.26 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 inter-company 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.

1.27 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 disclosure note.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

2. Changes in accounting policy

The Consolidated Annual Financial Statements have been prepared in accordance with the IFRS on a basis consistent with the prior year except for the adoption of the following new or revised standards.

Application of IFRS 16 Leases

In the current year, the Group has adopted IFRS 16 Leases (as issued by the IASB in January 2016) with the date of initial application being 01 April 2019. IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in the accounting policy for leases. The impact of the adoption of IFRS 16 on the Group's Consolidated Annual Financial Statements is described below.

The Group has applied the practical expedient available in IFRS 16 which provides that for contracts which exist at the initial application date, an entity is not required to reassess whether they contain a lease. This means that the practical expedient allows an entity to apply IFRS 16 to contracts identified by IAS 17 and IFRIC 4 as containing leases; and to not apply IFRS 16 to contracts that were not previously identified by IAS 17 and IFRIC 4 as containing leases.

IFRS 16 has been adopted by applying the modified retrospective approach, whereby the comparative figures are not restated. Instead, cumulative adjustments to retained earnings have been recognised in retained earnings as at 01 April 2019.

Leases where company is lessee

Leases previously classified as operating leases

The Group undertook the following at the date of initial application for leases which were previously recognised as operating leases:

- Recognised a lease liability, measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate at the date of initial application; and
- Recognised right-of-use assets measured on a lease by lease basis, at either the carrying amount (as if IFRS 16 applied from commencement date but discounted at the incremental borrowing rate at the date of initial application) or at an amount equal to the lease liability adjusted for accruals or pre-payments relating to that lease prior to the date of initial application.

The Group applied IAS 36 to consider if these right-of-use assets are impaired as at the date of initial application.

The Group applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases in terms of IAS 17. Where necessary, they have been applied on a lease by lease basis:

- When a portfolio of leases contained reasonably similar characteristics, the Group applied a single discount rate to that portfolio;
- Leases which were expiring within 12 months of 01 April 2019 were treated as short-term leases, with remaining lease payments recognised as an expense on a straight-line basis or another systematic basis which is more representative of the pattern of benefits consumed;
- Initial direct costs were excluded from the measurement of right-of-use assets at the date of initial application; and
- Hindsight was applied where appropriate. This was specifically the case for determining the lease term for leases that contained extension or termination options.

Leases where company is lessor

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in the leased assets. These additional disclosures have been made by the Group.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sub-lease as two separate contracts. The intermediate lessor is required to classify the sub-lease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17). Because of this change, the Group has reclassified certain of its sub-lease agreements as finance leases. As required by IFRS 9, an allowance for expected credit loss has been recognised on the finance lease receivables.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

2. Changes in accounting policy continued

Impact on financial statements

On transition to IFRS 16, the Group recognised an additional R253.5 million of right-of-use assets and R253.5 million of lease liabilities, recognising the difference in retained earnings.

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 01 April 2019. The weighted average rate applied is 10%.

3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

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

Plan amendment, curtailment or settlement – Amendments to IAS 19

The amendment deals with the determination of past service cost and gains or losses on settlement, when a plan is amended, curtailed or settled (the event). Specifically, when determining the past service cost or gain or loss on settlement, the net defined benefit liability/(asset) shall be remeasured using the current fair value of plan assets and current actuarial assumptions reflecting the benefits offered under the plan and plan assets both before and after the event. The effect of the asset ceiling shall not be considered in this exercise. The effect of the asset ceiling shall be determined after the event.

The amendment also specifies that when determining current service costs and net interest on the defined benefit liability/(asset) in a period in which an amendment, curtailment or settlement occurs, to apply inputs at the beginning of the reporting period for the current service cost and interest up to the date of the event, and to apply inputs as at the date of the event to determine current service costs and interest for the remainder of the period.

The effective date of the amendment is for years beginning on or after 01 January 2019.

The Company has adopted the amendment for the first time in the 2020 consolidated annual financial statements.

Long-term interests in joint ventures and associates – Amendments to IAS 28

The amendment now requires that an entity also applies IFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture.

The effective date of the amendment is for years beginning on or after 01 January 2019.

The Company has adopted the amendment for the first time in the 2020 Consolidated Annual Financial Statements.

Pre-payment features with negative compensation – Amendment to IFRS 9

The amendment to Appendix B of IFRS 9 specifies that for the purpose of applying paragraphs B4.1.11(b) and B4.1.12(b), irrespective of the event or circumstance that causes the early termination of the contract, a party may pay or receive reasonable compensation for that early termination.

The effective date of the amendment is for years beginning on or after 01 January 2019.

The Company has adopted the amendment for the first time in the 2020 Consolidated Annual Financial Statements.

Amendments to IFRS 3 Business Combinations: Annual improvements to IFRS 2015–2017 cycle

The amendment clarifies that when a party to a joint arrangement obtains control of a business that is a joint operation, and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages. The acquirer shall therefore apply the requirements for a business combination achieved in stages.

The effective date of the amendment is for years beginning on or after 01 January 2019.

The Company has adopted the amendment for the first time in the 2020 Consolidated Annual Financial Statements.

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

3. New standards and interpretations *continued*

Amendments to IFRS 11 Joint Arrangements: Annual improvements to IFRS 2015–2017 cycle

The amendment clarifies that if a party participates in, but does not have joint control of, a joint operation and subsequently obtains joint control of the joint operation (which constitutes a business as defined in IFRS 3) that, in such cases, previously held interests in the joint operation are not remeasured.

The effective date of the amendment is for years beginning on or after 01 January 2019.

The Company has adopted the amendment for the first time in the 2020 Consolidated Annual Financial Statements.

Amendments to IAS 12 Income Taxes: Annual improvements to IFRS 2015–2017 cycle

The amendment specifies that the income tax consequences on dividends are recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised the events or transactions which generated the distributable reserves.

The effective date of the amendment is for years beginning on or after 01 January 2019.

The Company has adopted the amendment for the first time in the 2020 Consolidated Annual Financial Statements.

Amendments to IAS 23 Borrowing Costs: Annual improvements to IFRS 2015–2017 cycle

The amendment specifies that when determining the weighted average borrowing rate for purposes of capitalising borrowing costs, the calculation excludes borrowings which have been made specifically for the purposes of obtaining a qualifying asset, but only until substantially all the activities necessary to prepare the asset for its intended use or sale are complete.

The effective date of the amendment is for years beginning on or after 01 January 2019.

The Company has adopted the amendment for the first time in the 2020 Consolidated Annual Financial Statements.

Uncertainty over income tax treatments

The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. Specifically, if it is probable that the tax authorities will accept the uncertain tax treatment, then all tax related items are measured according to the planned tax treatment. If it is not probable that the tax authorities will accept the uncertain tax treatment, then the tax related items are measured on the basis of probabilities to reflect the uncertainty. Changes in facts and circumstances are required to be treated as changes in estimates and applied prospectively.

The effective date of the interpretation is for years beginning on or after 01 January 2019.

The Company expects to adopt the interpretation for the first time in the 2020 Consolidated Annual Financial Statements.

The impact of the interpretation is set out in note 2 Changes in Accounting Policy.

IFRS 16 Leases

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

Company as lessee:

- Lessees are required to recognise a right-of-use asset and a lease liability for all leases, except short-term leases or leases where the underlying asset has a low value, which are expensed on a straight-line or other systematic basis.
- The cost of the right-of-use asset includes, where appropriate, the initial amount of the lease liability; lease payments made prior to commencement of the lease less incentives received; initial direct costs of the lessee; and an estimate for any provision for dismantling, restoration and removal related to the underlying asset.
- The lease liability takes into consideration, where appropriate, fixed and variable lease payments; residual value guarantees to be made by the lessee; exercise price of purchase options; and payments of penalties for terminating the lease.
- The right-of-use asset is subsequently measured on the cost model at cost less accumulated depreciation and impairment and adjusted for any remeasurement of the lease liability. However, right-of-use assets are measured at fair value when they meet the definition of investment property and all other investment property is accounted for on the fair value model. If a right-of-use asset relates to a class of property, plant and equipment which is measured on the revaluation model, then that right-of-use asset may be measured on the revaluation model.
- The lease liability is subsequently increased by interest, reduced by lease payments and re-measured for reassessments or modifications.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

3. New standards and interpretations continued

- Remeasurements of lease liabilities are affected against right-of-use assets, unless the assets have been reduced to nil, in which case further adjustments are recognised in profit or loss.
- The lease liability is remeasured by discounting revised payments at a revised rate when there is a change in the lease term or a change in the assessment of an option to purchase the underlying asset.
- The lease liability is remeasured by discounting revised lease payments at the original discount rate when there is a change in the amounts expected to be paid in a residual value guarantee or when there is a change in future payments because of a change in index or rate used to determine those payments.
- Certain lease modifications are accounted for as separate leases. When lease modifications which decrease the scope of the lease are not required to be accounted for as separate leases, then the lessee remeasures the lease liability by decreasing the carrying amount of the right of lease asset to reflect the full or partial termination of the lease. Any gain or loss relating to the full or partial termination of the lease is recognised in profit or loss. For all other lease modifications which are not required to be accounted for as separate leases, the lessee remeasures the lease liability by making a corresponding adjustment to the right-of-use asset.
- Right-of-use assets and lease liabilities should be presented separately from other assets and liabilities. If not, then the line item in which they are included must be disclosed. This does not apply to right-of-use assets meeting the definition of investment property which must be presented within investment property. IFRS 16 contains different disclosure requirements compared to IAS 17 Leases.

Company as lessor:

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

Sale and leaseback transactions:

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

The effective date of the standard is for years beginning on or after 01 January 2019.

The Company has adopted the standard for the first time in the 2020 Consolidated Annual Financial Statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

Application of IFRS 16 Leases

In the current year, the Group has adopted IFRS 16 Leases (as issued by the IASB in January 2016) with the date of initial application being 01 April 2019. IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

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3. New standards and interpretations *continued*

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in the accounting policy for leases. The impact of the adoption of IFRS 16 on the Company's annual financial statements is described below.

The Group has applied the practical expedient available in IFRS 16 which provides that for contracts which exist at the initial application date, an entity is not required to reassess whether they contain a lease. This means that the practical expedient allows an entity to apply IFRS 16 to contracts identified by IAS 17 and IFRIC 4 as containing leases, and to not apply IFRS 16 to contracts that were not previously identified by IAS 17 and IFRIC 4 as containing leases. IFRS 16 has been adopted by applying the modified retrospective approach, whereby the comparative figures have not been adjusted.

Short-term leases and lease of low value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3.2 Standards and interpretations not yet effective

The Company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the Company's accounting periods beginning on or after 01 April 2020 or later periods:

Standard/Interpretation:	Effective date: Years beginning on or after	Expected impact:
• Definition of a business – Amendments to IFRS	01 January 2020	Unlikely there will be a material impact
• Presentation of Financial Statements: Disclosure initiative	01 January 2020	Unlikely there will be a material impact
• Accounting Policies, Changes in Accounting Estimates and Errors: Disclosure initiative	01 January 2020	Unlikely there will be a material impact
• IFRS 17 Insurance Contracts	01 January 2021	Unlikely there will be a material impact

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

4. Property, plant and equipment

Figures in rand thousand	2020			2019		
	Cost or revaluation	Accumulated depreciation	Carrying value	Cost or revaluation	Accumulated depreciation	Carrying value
Land	76 453	-	76 453	76 453	-	76 453
Buildings	393 058	(110 399)	282 659	391 356	(101 492)	289 864
Assets under development	269 339	-	269 339	229 411	(65 532)	163 879
Plant and machinery	2 589 401	(489 374)	2 100 027	2 619 760	(426 233)	2 193 527
Furniture and fixtures	771 235	(656 986)	114 249	743 475	(636 134)	107 341
Motor vehicles	118 574	(76 580)	41 994	115 125	(69 736)	45 389
Office equipment	4 574	(3 393)	1 181	4 930	(3 610)	1 320
IT equipment	54 113	(28 707)	25 406	41 793	(21 611)	20 182
Production assets	41 146 985	(37 662 968)	3 484 017	39 854 688	(33 684 174)	6 170 514
Shutdown costs capitalised	71 190	(71 190)	-	565 063	(565 063)	-
Restoration cost	3 943 130	(3 794 363)	148 767	3 024 865	(2 900 004)	124 861
Mine infrastructure	113 222	(52 731)	60 491	82 094	(43 143)	38 951
Right-of-use - Buildings	174 753	(11 819)	162 934	-	-	-
Right-of-use - IT equipment	1 832	(676)	1 156	-	-	-
Total	49 727 859	(42 959 186)	6 768 673	47 749 013	(38 516 732)	9 232 281

4. Property, plant and equipment continued

Reconciliation of property, plant and equipment – 2020

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

Figures in rand thousand	Opening balance	Additions	Disposals	Transfers in	Transfers out	Foreign exchange movements	Change in estimates	Write-offs	Depreciation	Impairment loss	Total
Land	76 453	-	-	-	-	-	-	-	-	-	76 453
Buildings	289 864	1 701	-	-	-	-	-	-	(8 436)	(470)	282 659
Assets under development	163 879	84 477	-	20 983	-	-	-	-	-	-	269 339
Plant and machinery	2 193 527	227	-	-	-	-	(30 585)	-	(63 142)	(211 738)	2 100 027
Furniture and fixtures	107 341	28 307	-	-	-	-	-	(43)	(21 356)	-	114 249
Motor vehicles	45 389	4 027	(1)	-	-	-	-	-	(7 421)	-	41 994
Office equipment	1 320	284	-	-	-	-	-	-	(423)	-	1 181
IT equipment	20 182	12 881	(18)	-	-	-	-	(37)	(7 579)	(23)	25 406
Production assets	6 170 514	244 874	-	97 251	(951)	786 554	645	(41)	(1 109 200)	(2 706 583)	3 484 016
Restoration cost	124 861	49 551	-	-	-	24 313	2 216 581	-	(24 400)	(2 242 139)	148 767
Mine infrastructure	38 951	20 206	-	-	-	-	19 593	(46)	(9 647)	-	60 058
Right-of-use - Buildings	-	171 608	-	-	-	-	-	-	(8 674)	-	162 934
Right-of-use - IT equipment	-	1 832	-	-	-	-	-	-	(676)	-	1 156
	9 232 281	619 977	(19)	118 234	(951)	810 867	2 206 234	(167)	(1 260 954)	(5 160 953)	6 565 500

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

4. Property, plant and equipment continued

Reconciliation of property, plant and equipment – 2019

Figures in rand thousand	Opening balance	Additions	Disposals	Transfers in	Transfers out	Foreign exchange movements	Change in estimates	Write-offs	Depreciation	Impairment loss	Total
Land	76 453	-	-	-	-	-	-	-	-	-	76 453
Buildings	294 247	2 450	-	16 425	-	-	-	(15 099)	(8 617)	458	289 864
Assets under development	138 250	625 774	-	-	(534 613)	-	-	-	-	(65 532)	163 879
Plant and machinery	2 106 980	125 464	-	-	-	-	5 945	-	(43 556)	(1 306)	2 193 527
Furniture and fixtures	115 707	14 565	-	507	-	-	-	(3)	(23 435)	-	107 341
Motor vehicles	50 015	3 390	(128)	22	-	-	-	-	(7 910)	-	45 389
Office equipment	819	620	-	281	-	-	-	-	(400)	-	1 320
IT equipment	7 067	11 918	-	6 099	-	-	-	(7)	(4 895)	-	20 182
Production assets	4 451 803	271 294	-	10 083	-	879 443	-	(1 410)	(710 317)	1 269 618	6 170 514
Shutdown costs capitalised	-	48 463	-	509 341	-	-	-	-	(63 931)	(493 873)	-
Restoration cost	75 471	78 664	-	-	-	16 695	1 371 313	-	(15 831)	(1 401 451)	124 861
Mine infrastructure	37 730	9 114	-	-	-	-	-	-	(7 893)	-	38 951
	7 354 542	1 191 716	(128)	542 758	(534 613)	896 138	1 377 258	(16 519)	(886 785)	(692 086)	9 232 281

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

4. Property, plant and equipment *continued*

Changes in estimates

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

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 R1.230 million (2019: R195 953).

2020

Transfers in

Assets under development

Transfers into assets under development R20.983 million for the Vlakfontein Mine Extension from exploration and evaluation assets.

Transfers out

Production assets

Transfers in of Production assets of R4.2 million for the Exploration and evaluation assets relates to PetroSA.

Once the construction of assets under development is completed, these assets are transferred to the relevant asset categories and put into use.

Other information

1 275 663 barrels of crude oil at the Saldanha terminal are defined as unpumpable crude oil and have been classified as property, plant and equipment (classified as plant and 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 storage tanks.

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 R44.7 million (2019: R23.1 million).

Compensation received from the insurer for damaged and stolen assets is included in other operating income and amounts to R795 230 (2019: R312 510).

Additions to production assets include the finance lease (note 21) entered into by PetroSA Ghana Ltd, which was initially recognised at R850.3 million. The acquisition was treated as a non-cash addition to property, plant and equipment.

Material projects included in assets under development

Included in assets under development are T-Project and Vlakfontein Extension North blocks which are in the development phase and stand at a cumulative cost of R109 million and R97 million (2019: R109 million and R17 million), respectively.

Restoration expenditure

Restoration expenditure relates to the decommissioning provision (note 24) and is amortised on a units of production basis. The units of production method is also used in calculating depreciation on producing assets. Due to the nature of the business, the gas and oil reserves at the end of each financial year differ from the previous year. This necessitates a change in the estimated remaining useful lives of these assets at the end of each financial year. The effect on the current year is zero.

The Group's impairment for the year was R5.071 billion (2019: R692 million).

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 R10.1 million (2019: R613 million). The decommissioning provision (refer to note 24) increased significantly owing to the weakened rand against the US dollar. This resulted in a change in estimate, and had a negative impact, increasing the impairment charge by R2.2 billion (2019: R1.401 billion).

This was determined by comparing the CGU's carrying value at year-end against the expected present value of the free cash flows (net present value) for the CGU, based on a fixed life of field approved by the Board of Directors. These cash flows are management's best

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

4. Property, plant and equipment continued

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% (2019: 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 and Deepwater Tano blocks held by PetroSA Ghana Ltd were assessed for impairment. This assessment resulted in an impairment of R2.6 billion based on a recoverable amount of R3.3 billion (2019: R1.282 billion impairment reversal).

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 Ltd and AEMFC.

In the current year the Group recognised additions to right-of-use assets which have been treated as non-cash additions to property, plant and equipment.

Refer to note 22 for lease liabilities on leased assets and right-of-use assets.

Prior period restatement

An adjustment of R1.4 million was made in the prior year for mine infrastructure as the rehabilitation provision was recognised as an expense instead of being capitalised to assets as required by IAS 16.

2019

Transfers in

Transfers into buildings of R16.4 million relate to the following:

- R15.89 million from assets under development for the Vlaktefontein Mine Extension; and
- R513 000 for PASA buildings which are no longer held for sale.

The following transfers in relate to PASA's assets which are no longer held for sale (Refer to note 16 for more details):

- Furniture and fixtures R507 000;
- Motor vehicles R22 000;
- Office equipment R281 000; and
- IT equipment R6.09 million

Transfers into production assets of R10 million relate to:

- R9.28 million from assets under development relating to PetroSA; and
- R0.7 million from exploration and evaluation assets (intangible assets) at PetroSA.

Transfers of R509.3 million into shut-down costs capitalised from assets under development for major maintenance and servicing of the GTL refinery.

Transfers out

Transfers out of assets under development of R534.6 million relate to the following:

- R509.3 million to shut down costs capitalised for major maintenance and servicing of the GTL plant;
- R15.89 million to buildings for the Vlaktefontein Mine Extension; and
- R9.28 million to production assets.

Other information

1 275 663 barrels of crude oil at the Saldanha terminal are defined as unpumpable crude oil and have been classified as property, plant and equipment (classified as plant and 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 storage tanks.

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

4. Property, plant and equipment *continued*

Additions to plant and machinery include the finance lease (note 21) entered into by AEMFC SOC Limited which was initially recognised at R125 million. The acquisition was treated as non-cash addition to property, plant and equipment.

Restoration expenditure

Restoration expenditure relates to the decommissioning provision (note 24) and is amortised on a units of production basis. The units of production method is also used in calculating depreciation on producing assets. Due to the nature of the business, the gas and oil reserves at the end of each financial year differ from the previous year. This necessitates a change in the estimated remaining useful lives of these assets at the end of each financial year. The effect on the current year is an increase of R0.3 million in profit. Due to the number of variables involved in the depreciation calculation it is not practicable to estimate the effect in future years.

The Group's impairment for the year was R692 million (2018: R240 million).

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 R613 million (2018: R399 million). The decommissioning provision (refer to note 23) increased significantly owing to the weakened rand against the US dollar. This resulted in a change in estimate, and had a negative impact, increasing the impairment charge by R1 401 million (2018: R1 680 million).

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) for the 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% (2018: 14%). The impairment loss was recorded as part of operating expenses.

In light of the current commodity prices, the West Cape Three Points and Deepwater Tano blocks held by PetroSA Ghana Ltd were assessed for impairment. This assessment resulted in an impairment reversal of R1 282 million based on a recoverable amount of R5 034 million (2018: R1 521 million impairment).

The valuation assumptions are listed under key assumptions made by management in the accounting policies.

Leased assets

Finance lease assets are included in plant and machinery, refer to finance lease note 22 for assets under finance lease.

5. Intangible assets

Figures in rand thousand	2020			2019		
	Cost/Valuation	Accumulated amortisation	Carrying value	Cost/Valuation	Accumulated amortisation	Carrying value
Patents, trademarks and other rights	57 424	(54 074)	3 350	57 424	(53 797)	3 627
Computer software	99 209	(79 516)	19 693	87 192	(75 801)	11 391
Exploration and evaluation assets	1 542 056	39 153	1 581 209	1 408 607	(745)	1 407 962
Restoration costs	19 914	-	19 914	16 423	-	16 423
Total	1 718 603	(94 437)	1 624 166	1 569 646	(130 343)	1 439 303

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

5. Intangible assets continued

Reconciliation of intangible assets – 2020

Figures in rand thousand	Opening balance	Additions	Disposals	Transfers in	Transfers out	Foreign exchange movements	Other changes, movements	Amortisation	Impairment loss	Total
Patents, trademarks and other rights	3 627	-	-	-	-	-	-	(277)	-	3 350
Computer software	11 391	1 3 636	-	-	-	-	-	(5 333)	-	19 694
Exploration and evaluation assets	1 407 862	114 040	204	951	(20 983)	39 982	-	-	39 153	1 581 209
Restoration costs	16 423	872	-	-	-	3 849	(1 230)	-	-	19 914
	1 439 303	128 548	204	951	(20 983)	43 831	(1 230)	(5 610)	39 153	1 624 166

Reconciliation of intangible assets – 2019

Figures in rand thousand	Opening balance	Additions	Transfer from held for sale	Transfers	Foreign exchange movements	Other changes, movements	Amortisation	Impairment loss	Total
Patents, trademarks and other rights	3 905	-	-	-	-	-	(278)	-	3 627
Computer software	3 586	4 664	6 674	-	-	-	(3 533)	-	11 391
Exploration and evaluation assets	1 601 518	31 165	-	(705)	35 593	-	-	(259 709)	1 407 862
Restoration costs	14 761	930	-	-	3 417	(2 685)	-	-	16 423
	1 623 770	36 759	6 674	(705)	39 010	(2 685)	(3 811)	(259 709)	1 439 303

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

5. Intangible assets *continued*

Other information

Transfers in/(out) are as follows:

2020

Transfers in

Exploration and evaluation

Transfers into assets under development of R20.983 million for the Vlakfontein Mine Extension from exploration and evaluation assets (intangible assets).

Transfers out

Exploration and evaluation

Transfers out of production assets of R951 000 for the exploration and evaluation assets relates to PetroSA (intangible assets).

2019

Transfers of R0.705 million from exploration and evaluation assets (intangible assets) to production assets relates to PetroSA.

The transfers from held for sale assets relate to PASA which are no longer held for sale (Refer to note 16 for more details).

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

6. 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 the British Virgin Islands.

Name of company	Held by	% holding 2020	% holding 2019
AEMFC SOC Ltd	CEF SOC Ltd	100.00 %	100.00 %
CCE Solutions SOC Ltd	CEF SOC Ltd	89.20 %	89.20 %
CEF Carbon SOC Ltd	CEF SOC Ltd	100.00 %	100.00 %
Cotec Development SOC Ltd	CEF SOC Ltd	100.00 %	100.00 %
Cotec Patrade SOC Ltd	CEF SOC Ltd	100.00 %	100.00 %
ETA Energy SOC Ltd	CEF SOC Ltd	100.00 %	100.00 %
SASDA NPC	CEF SOC Ltd	100.00 %	100.00 %
Klippoortjie Koolmyne SOC Ltd	SFF NPC	100.00 %	100.00 %
Mahne's Areas SOC Ltd	SFF NPC	100.00 %	100.00 %
Oil Pollution Control SA (OPCSA) SOC Ltd	NPC CEF	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 %
South African Agency for Promotion of Petroleum Exploration and Exploitation (PASA) SOC Ltd	CEF SOC Ltd	100.00 %	100.00 %
South African Gas Development Company (iGAS) SOC Ltd	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.

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

7. 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	Partners	% Ownership interest	
		2020	2019
Block 2A	Sunbird	24 %	24 %
Block 2C	None	100 %	100 %
Block 3A/4A	None	100 %	100 %
Block 5/6/7	Anadarko	20 %	20 %
Block 1	None	100 %	100 %

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

In the current year, there were no partners for the 100% ownership of Block 2C, 3A/4A and 1.

Joint ventures

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

Name of company	Held by	% ownership interest	% ownership interest
		2020	2019
GTL.F1 AG	PetroSA SOC Ltd	50.00 %	50.00 %
PAMDC (Pty) Ltd	AEMFC SOC Ltd	33.00 %	33.00 %
Impairment of investment in joint ventures		- %	- %

Pan African Mineral Development Company (PAMDC) (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 technology and its principal place of business is Germany. 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 R nil (2019: R nil) and the Group has no obligation for any losses of the JV. The total unrecognised losses for the current period amount to R797 000 (2019: R1.457 million). The accumulated unrecognised losses amounted to R10.46 million (2019: R8.145 million).

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

7. 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 R nil and the Group has no obligation for any losses of the JV. The total unrecognised losses for the current period amount to R3.5 million (2019: R3.3 million). The accumulated unrecognised losses to date amounted to R179.5 million (2019: R173.5 million).

8. Investments in associates

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

Name of company	Held by	% ownership interest 2020	% ownership interest 2019	Carrying amount 2020	Carrying amount 2019
African Royalty Minerals (Pty) Ltd	AEMFC SOC Ltd	40.00 %	40.00 %	185 984	140 000
Republic of Mozambique Pipeline Company (Pty) Ltd	iGAS SOC Ltd	25.00 %	25.00 %	825 742	734 283
Mzimkhulu Mining (Pty) Ltd	AEMFC SOC Ltd	26.00 %	26.00 %	130 980	80 932
Energy Joburg (Pty) Ltd	CEF SOC Ltd	29.00 %	29.00 %	5 571	5 923
				1 142 706	955 215
				1 148 277	961 138

African Royalty Minerals (Pty) Ltd

AEMFC SOC Ltd has a 40% shareholding in African Royalty Minerals (Pty) Ltd, which operates Chilwavirusiku Colliery, a coal mine 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.

Baniettor Mining (Pty) Ltd

CEF SOC Ltd has a 49% shareholding in Baniettor Mining, which is a company that acts as an intermediate financing company for the South32 SA Group. In the prior year the Baniettor's deregistration was finalised and therefore Baniettor has been derecognised.

Mzimkhulu Mining (Pty) Ltd

AEMFC SOC Ltd has 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 the Republic of South Africa.

The external loan in the associate restricts Mzimkhulu Mining (Pty) Ltd from paying dividends to shareholders during the term of the loan. The financial year end of the entity is 28 February.

Energy Joburg (Pty) Ltd

CEF SOC Ltd has 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 the Republic of South Africa. The financial year end of the entity is 31 March.

Material associates

The following associates are material to the Group:

	Country of incorporation	Method	% Ownership interest	
			2020	2019
Republic of Mozambique Pipeline Company (Pty) Ltd	South Africa	Equity	25%	25%

Republic of Mozambique Pipeline Company (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 right is equal to the percentage ownership.

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

8. Investments in associates continued

Summarised financial information of material associates

Figures in rand thousand	Republic of Mozambique Pipeline Company (Pty) Ltd	
Summarised Statement of Profit or Loss and Other Comprehensive Income	2020	2019
Revenue	2 696 999	2 213 134
Other income and expenses	(670 671)	(635 080)
Profit before tax	2 026 328	1 578 054
Tax expense	(633 604)	(541 446)
Profit/(loss) from continuing operations	1 392 724	1 036 608
Total comprehensive income	1 392 724	1 036 608
Dividends received from associate	317 500	495 500

Figures in rand thousand	Republic of Mozambique Pipeline Company (Pty) Ltd	
Summarised Consolidated Statement of Financial Position	2020	2019
Assets		
Non-current	4 664 504	5 098 470
Current	1 575 484	1 759 141
Total assets	6 239 988	6 857 611
Liabilities		
Non-current	1 748 937	2 864 787
Current	1 188 083	1 055 693
Total liabilities	2 937 020	3 920 480
Total net assets	3 302 968	2 937 131

Figures in rand thousand	Republic of Mozambique Pipeline Company (Pty) Ltd	
Reconciliation of net assets to equity accounted investments in associates	2020	2019
Interest in associates at percentage ownership	825 742	734 283
Carrying value of investment in associate	825 742	734 283
Investment at beginning of period	734 283	870 038
Adjustment on opening balance	-	17 500
Share of profit	408 959	342 245
Dividends received from associate	(317 500)	(495 500)
Investment at end of period	825 742	734 283

Adjustments to the opening balance of retained earnings are due to a different reporting period which is 30 June.

Share of profit from associate after accounting for inter-company transactions at year end was R409 million (2019: R342.3 million). The total inter-company transaction relating to rental and recovery of expenses eliminated was R nil (2019: R7 000).

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

The summarised information presented previously reflects the financial statements of the associates after adjusting for differences in accounting policies between the Company and the associate.

Aggregated individually immaterial associates accounted for using the equity method

Figures in rand thousand	2020	2019
Carrying value of investments	331 635	248 022
Share of profit/(loss) from continuing operations	90 529	73 367
Share of total comprehensive income	90 529	73 367

Associates with different reporting dates

The following associates, included in the consolidated financial statements, have different reporting dates to those of the CEF Group companies:

- African Royalty Minerals (Pty) Ltd: 28 February;
- Baniettor Mining (Pty) Ltd: 30 June;
- Mzimkhulu Mining (Pty) Ltd: 28 February; and
- ROMPCO (Pty) Ltd: 30 June.

The reporting period differs from the Group reporting period as the investment is not controlled by the Group.

Unrecognised share of losses of associates

Baniettor (Pty) Ltd

The accumulated unrecognised losses to date amount to R nil as the company was derecognised during the year. The prior year carrying value R16.7 million.

Associates pledged as security

The investment in ROMPCO (Pty) Limited, with a carrying value of R825.7 million (2019: R734.2 million), has been used to secure banking facilities granted to the Company of R5.8 billion (2019: R5.8 billion) for the construction of Loopline 2 from Mozambique to South Africa.

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

9. Loans to group companies

Joint ventures

Figures in rand thousand	Basis of accounting	2020	2019
GTL.F1 AG	Amortised cost	-	-

The loan of R278.1 million (2019: R226.4 million) has been fully impaired.

The subordinated loan accrues interest at EURIBOR plus 0.75%. This loan is not repayable within the next 12 months. Should settlement not be possible at this date, a new instalment plan may be agreed upon on the same day.

Figures in rand thousand	Basis of accounting	2020	2019
Associates			
African Royalty Minerals (Pty) Ltd	Amortised cost	21 167	21 167
Mzimkhulu Mining (Pty) Ltd	Amortised cost	14 553	11 515
Energy Joburg (Pty) Ltd	Amortised cost	44 263	40 111
		79 983	72 793

African Royalty Minerals (Pty) Ltd

The loan is an advance towards capital expenditure of the company. The loan is unsecured, interest free and there are no fixed repayment terms. The loan to African Royalty Minerals (Pty) Ltd will be repaid out of the profits of the company.

In the prior year, the loan was incorrectly classified as an investment in associates, and has been restated and reclassified to loans to Group companies (associates).

Bannietor (Pty) Ltd

In the prior year Bannietor's deregistration was finalised and therefore Bannietor has been derecognised.

Energy Joburg (RF) (Pty) Ltd

The Energy Joburg (RF) (Pty) Ltd loan attracts an annual interest rate at prime. The loan is receivable in full on the maturity date of 30 September 2026.

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 plus 3% and has no fixed repayment terms.

Split between non-current and current portions

Non-current assets	44 263	40 111
Current assets	35 720	32 682
	79 983	72 793

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 continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

9. 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:

2020

Instrument	Basis of loss allowance	Gross carrying amount	Loss allowance	Amortised cost
Loans to joint ventures				
GTL.F1 AG	Lifetime ECL (credit impaired)	278 132	(278 132)	-

Instrument	Basis of loss allowance	Gross carrying amount	Loss allowance	Amortised cost
Loans to associates				
African Royalty Minerals (Pty) Ltd	12m ECL	21 167	-	21 167
Mzimkhulu Mining (Pty) Ltd	12m ECL	14 553	-	14 553
Energy Joburg (RF) (Pty) Ltd	12m ECL	44 263	-	44 263
		79 983	-	79 983

2019

Instrument	Basis of loss allowance	Gross carrying amount	Loss allowance	Amortised cost
Loans to joint ventures				
GTL.F1 AG	Lifetime ECL (credit impaired)	226 424	(226 424)	-

Instrument	Basis of loss allowance	Gross carrying amount	Loss allowance	Amortised cost
Loans to associates				
African Royalty Minerals (Pty) Ltd	12m ECL	21 167	-	21 167
Mzimkhulu Mining (Pty) Ltd	12m ECL	11 515	-	11 515
Energy Joburg (Pty) Ltd	12m ECL	40 111	-	40 111
		72 793	-	72 793

Fair value of group loans receivable

The fair value of Group loans receivable approximates their carrying amounts.

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

10. Other financial assets

Figures in rand thousand	2020	2019
		Restated *
Equity investments at fair value through profit or loss		
Listed shares	111	160
2 164 Sanlam Limited shares held by SFF NPC valued at R51.09 (2019: R73.76)		
Unlisted shares 19% shareholding in Methcap	1 475	1 475
	1 586	1 635
Loans and receivables		
Ghana National Petroleum Corporation (GNPC)	114 620	114 454
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.		
Lurgi	237 256	195 858
The amount owing by Lurgi is in respect of a purchase of a 12.5% share in the GTL.F1 AG JV. The loan accrues interest at EURIBOR + 0.75%. The loan is repayable based on dividends receivable by Lurgi from the GTL.F1 AG technology company.		
Darling Wind Power (Pty) Ltd	502	502
The loan is due, but the liquidators have not repaid it. The loan is interest free.		
AEMFC SOC Ltd Insurance Guarantee	68 749	52 908
An insurance rehabilitation guarantee is in place whereby the insurer guarantees to pay the Department of Mineral Resources and Energy R61.5 million and R42.9 million for environmental rehabilitation of Vlaktefontein Mine and T-Project respectively. A portion of the premium is invested and earns interest to meet environmental obligations at the end of life of mine. The cash is restricted for use.		
Loans and receivables (impairments)	421 127 (237 758)	363 722 (196 360)
	183 369	167 362
Total other financial assets	184 955	168 997
Non-current assets		
Designated as at FV through profit/(loss) (FV through income)	1 586	1 635
Loans and receivables	183 369	167 362
	184 955	168 997

Loans and receivables impaired

As of 31 March 2020, loans and receivables of R237.7 million (2019: R196.4 million) were impaired and provided for.

The ageing of these loans is as follows.

Over 6 months	237 758	196 360
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Credit quality of other financial assets

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

The GTL.F1 AG and Lurgi loans have been assessed for credit impairment based on an independent valuation. The free cash flow model indicates that repayment of the loans will only take place subsequent to its due dates. The loans continue to be fully impaired based on the prospect of no revenue being generated in the foreseeable future.

The Darling Wind Power (Pty) Ltd loan has been fully impaired as the company ceased to be an associate of the Group.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

11. Deferred tax

Figures in rand thousand	2020	2019
		Restated *
Deferred tax liability		
Property, plant and equipment	(1 604 894)	(2 137 019)
Pre-payments	(131)	(118)
Right-of-use of asset	9 392	-
Underlift	(1 516)	-
Total deferred tax liability	(1 597 149)	(2 137 137)
Deferred tax asset		
Provisions	112 577	97 294
Finance lease	389 555	371 467
Other	(31 601)	-
Deferred tax balance from temporary differences other than unused tax losses	533 733	468 761
Tax losses available for set-off against future taxable income	244 162	145 354
	796 220	614 115
	796 220	614 115
Total deferred tax asset		
Deferred tax liability	(1 597 149)	(2 137 137)
Deferred tax asset	777 895	614 115
Total net deferred tax liability	(819 254)	(1 523 022)
Reconciliation of deferred tax asset/(liability)		
At beginning of year	(1 523 022)	(854 649)
Increases (decrease) in tax loss available for set off against future taxable income – gross of valuation allowance	98 808	(79 483)
Increase/(decrease) in valuation allowance of provisions and accruals	(16 362)	33 159
Taxable/(deductible) temporary difference movement on tangible fixed assets	487 568	(745 806)
Taxable/(deductible) temporary difference right-of-use liability	9 392	-
Taxable/(deductible) temporary difference movement in fair value on acquisition of subsidiary	78 162	30 512
Taxable/(deductible) temporary difference on Prepayments	(13)	101
Taxable/(deductible) temporary difference on Finance lease	47 730	87 107
Taxable/(deductible) temporary difference on Underlift	(1 516)	6 037
	(819 253)	(1 523 022)

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 will be utilised in the foreseeable future, no deferred tax has been recognised. The current unrecognised deferred tax asset is R10.3 billion (2019: R8.9 billion). The unused estimated/assessed tax loss at year-end R23.2 billion (2019: R21.8 billion).

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

11. Deferred tax continued

Figures in rand thousand	2020	2019
		Restated *
Unrecognised deferred tax asset		
Deductible temporary differences not recognised as deferred tax assets	10 200 000	8 900 000

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% (2019: 22%) is used. If the expected manner of recovery is through indefinite use, the normal tax rate of 28% (2019: 28%) is applied.

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

12. Pre-payments

Pre-payments relate mainly to the insurance of the Groups's onshore and offshore assets. The premium is paid in advance for the following 12 months.

Figures in rand thousand	2020	2019
		Restated *
Insurance	147 282	98 113
Other	518	622
	147 800	98 735
Non-current assets	518	662
Current assets	147 282	98 113
	147 800	98 735

13. Strategic stock

Desiel

These inventories are being held in accordance with Ministerial Directives as prescribed by the Minister of Energy. The carrying amount of these inventories is expected to be realised past 12 months after the reporting date, thus it is included in non-current assets.

A total of 1 275 663 barrels of crude oil at the Saldanha terminal is defined as unpumpable crude oil and has been classified as property, plant and equipment (refer to note 4). These volumes are required to be maintained for the operation of the oil storage facilities.

An amount of R1.074 billion was spent to purchase the 155 million litres of diesel white product (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 D500 product that was in the Transnet Pipelines system, was changed to D50, as at 31 March 2019.

The resultant effect of this conversion is a change in volume (volume held as at 31 March 2020 is 153 410 000 litres). The product's net realisable value is R714 million as at 31 March 2020 (31 March 2019: R1,89 million, and is thus being carried at the lower of cost price of R1.074 billion and net realisable value of R714 million as at 31 March 2020).

Crude Oil

The judgement of the Western Cape High Court that was delivered on the 20th of November 2020 declared the sale of Strategic Stock in 2015 and 2016 to be invalid and thus the Strategic Stock is being re-instated into the Statement of Financial Position for the first time since the invalidated sale.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

13. Strategic stock continued

Whilst there are 10 million barrels of crude oil Saldanha only 8,724, 337 are accounted for as inventory in the context of International Accounting Standards 2 (IAS 2) and the balance 1, 275, 663 barrels is accounted for under IAS 16 as Property, Plant and Equipment (refer to Note 4). Cost is determined on a weighted average basis which is R201,34 against a Net Realisable value of R368,75 by the 31 March 2020, R876,67 in the previous reporting period of 31 March 2019 and R768,92 by the 31 March 2018.

55 111 barrels of crude oil at the Milnerton terminal are carried at its average cost price of R11 096 049 (2019: R11 096 049).

Inventory loan

300 000 barrels of crude oil (Basrah) was advanced to Enviroshore in the prior financial years at a cost of R60.4 million. The settlement is expected to be in the same number of barrels of crude oil (Bonny Light). It came to management's attention that the counterparty will not be able to fulfil the obligation and, therefore, the stock was written down to R nil.

Figures in rand thousand	2020	2019 Restated *
Values of products held:		
Crude oil	1 789 192	1 789 192
Diesel	714 930	1 073 804
	2 504 122	2 862 996
Volumes of products held:		
Barrels held at year end	100 433	100 433
Consignment stock	(45 322)	(45 322)
	55 111	55 111
Diesel (litres)	153 410	153 535

14. Inventories

Figures in rand thousand	2020	2019 Restated *
Petroleum fuels	722 353	1 852 300
Crude oil	45 403	52 669
Consumable stores, spares and catalysts	232 467	371 568
Run of mine stock (ROM)	2 247	1 335
Crushed coal	5 883	3 285
	1 008 353	2 188 104
Inventories (write-downs)	(159 202)	(7 414)
	849 151	2 180 690

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15. Trade and other receivables

Figures in rand thousand	2020	2019
		Restated *
Financial instruments:		
Trade receivables	2 337 402	3 121 479
Loss allowance	(334 795)	(441 978)
Trade receivables at amortised cost	2 002 607	2 679 501
Deposits	14 062	12 390
Underlift	4 332	2 348
Payroll receivable	8 261	4 577
Interest receivable	73 138	120 267
Sundry debtors	201 739	136 158
Non-financial instruments:		
VAT	37 793	42 040
Statutory receivables (tax and levies)	139 882	105 775
Total trade and other receivables	2 481 814	3 103 056
Split between non-current and current portions		
Non-current assets	252 800	200 601
Current assets	2 229 014	2 902 455
	2 481 814	3 103 056
Financial instrument and non-financial instrument components of trade and other receivables		
At amortised cost	2 301 139	2 955 241
Non-financial instruments	177 675	147 815
	2 481 814	3 103 056

Trade and other receivables pledged as security

The Group does not hold any collateral for 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

15. Trade and other receivables continued

The credit exposure in respect of trade and sundry receivables is as follows:

	2020	2020	2019	2019
Expected credit loss rate:	Estimated gross carrying amount at default	Loss allowance (Lifetime expected credit loss)	Estimated gross carrying amount at default	Loss allowance (Lifetime expected credit loss)
Not past due	2 191 069	(281 999)	2 932 321	(391 040)
Less than 30 days past due	61 509	(225)	4 429	(136)
31–60 days past due	5 610	(11)	83 063	(836)
61–90 days past due	1 061	(1)	309	(10)
91–120 days past due	33 979	(6 259)	76 981	(6 144)
More than 120 days past due	44 176	(46 300)	46 142	(45 661)
Other receivables	-	-	129 096	(73)
Total	2 337 404	(334 795)	3 272 341	(443 900)

Exposure to currency risk

Refer to note 43 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 its carrying amount.

16. Cash and cash equivalents

Figures in rand thousand	2020	2019
		Restated *
Cash and cash equivalents consist of:		
Cash on hand	87	80
Bank balances	324 573	1 236 844
Short-term deposits	20 498 099	17 687 651
	20 822 759	18 924 575
Restricted cash not available for use by the Group		
SFF cash relating to the sale of strategic stock	5 422 654	4 261 248
PetroSA cash held by CEF for guarantees	486 585	486 585
PetroSA rehabilitation ring-fenced funds	1 769 997	1 751 042
PASA deposit held in a trust	2 545	519

Included in the short-term deposits are US\$ investments to the value of R5.422 billion (2019: R4.261 billion), 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 (2019: R486 585 million) for PetroSA for guarantees issued on behalf of PetroSA. Refer to contingencies in note 38.

PetroSA is holding cash of R1 769 billion (2019: R1 751 billion) to fund the rehabilitation provision, refer to note 24.

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16. Cash and cash equivalents continued

PASA has deposits held in a trust of R2.545 million (2019: R519 000) which relate 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.

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.

Other restricted cash and cash equivalents

Figures in rand thousand	2020	2019
		Restated *
Demand site management levy	31 436	29 445
Cash held on behalf (Upstream Training Trust and DWP – Refer to note 24 for cash on call and Vaal Dam Projects – refer to note 25)	68 768	59 703
PetroSA's restricted cash that earns interest (credit facilities)	350 000	350 000
	450 204	439 148

Exposure to currency risk

Refer to note 43 financial instruments and financial risk management for details of currency risk management for cash and cash equivalents.

17. Discontinued operations or disposal groups or non-current assets held for sale

Thin Solar Film Technology (Pty) Ltd (TSFT)

CEF SOC Ltd held a 45% share in Thin Solar Film Technology (Pty) Ltd, which is a company that was intended to build a 30 MW solar plant. TSFT is incorporated in the Republic of South Africa. In the current year the disposal of the investment in TSFT was finalised and therefore the investment has been derecognised.

2019:

The sale of TSFT was not concluded in the expected 12 months after the 2017/18 financial year, due to delays from external parties; however, during the 2018/19 financial year, both parties were still committed to completing the sale. In the current financial year, total proceeds of R21 million were received resulting in a profit of R5 million from the sale of the investment and thus the investment was removed from non-current assets held for sale.

Assets and liabilities

Figures in rand thousand	2020	2019
		Restated *
Non-current assets held for sale		
Other assets	-	14 758

18. Share capital

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

19. Foreign currency translation reserve

Translation reserve comprises exchange differences on consolidation of foreign subsidiaries.

Figures in rand thousand	2020	2019
		Restated *
Foreign currency translation reserve arising from consolidation of PetroSA's foreign subsidiaries	1 466 588	863 216

20. Loans from group companies

AEMFC purchased a 26% share in Mzimkhulu Mining (Pty) Ltd. The total cost of shares is R3.9 million.

Fair value of group loans payable

The fair value of Group loans payable approximate their carrying amounts.

21. Other financial liabilities

Figures in rand thousand	2020	2019
		Restated *
Held at amortised cost		
Reserve-based lending facility	1 092 578	968 271
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 day-to-day at the relevant rate of interest, and is calculated on the basis of the actual number of days elapsed and a 360 day year.		
The facility is a revolving credit facility secured against the producing asset of PetroSA Ghana Ltd. The security package comprises a share pledge and subordination of future loans to PetroSA Ghana Ltd. Additional security includes an offshore debenture comprising security over contemplated hedging agreement, inter-company loans granted by PetroSA Ghana Ltd to its subsidiaries and certain project accounts into which transaction funds are deposited.		
The available facility amount/borrowing base is redetermined six monthly at the end of June and December and is a function of the present value of future cash flows generated by a producing/developing asset. The available facility amount is 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 R76.071 million were incurred (2019: R80.409 million).		
Cash on call (Darling Wind Power)	574	534
These are funds held and invested in call accounts on behalf of Darling Wind Power (Pty) Ltd.		
Cash on call (Upstream Training Trust)	68 194	58 231
These are funds held and invested in call accounts on behalf of the Upstream Training Trust that is managed by PASA.		
Demand site management levy	31 436	29 445
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.		
	1 192 782	1 056 481
Split between non-current and current portions		
Non-current liabilities	930 765	968 271
Current liabilities	262 017	88 210
	1 192 782	1 056 481

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

21. Other financial liabilities *continued***Exposure to liquidity risk**

Refer to note 43 financial instruments and financial risk management for details of liquidity risk exposure and management.

Exposure to currency risk

Refer to note 43 financial instruments and financial risk management for details of currency risk management for borrowings.

Exposure to interest rate risk

Refer to note 43 for details of interest rate risk management for investments in borrowings.

22. Lease liabilities

Figures in rand thousand	2020	2019
		Restated *
Minimum lease payments due		
- within one year	212 302	168 355
- in second to fifth year inclusive	819 739	661 145
- later than five years	1 955 817	941 856
	2 987 858	1 771 356
less: future finance charges	(1 566 575)	(681 968)
Present value of minimum lease payments	1 421 283	1 089 388
Present value of minimum lease payments due		
- within one year	106 477	89 615
- in second to fifth year inclusive	472 370	367 129
- later than five years	842 436	632 644
	1 421 283	1 089 388
Non-current liabilities	1 314 806	999 771
Current liabilities	106 477	89 617
	1 421 283	1 089 388

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 finance costs as finance leases. The initial lease period is five years and the imputed 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 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 in 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. Refer note 4.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

22. Lease liabilities continued

IFRS 16 right-of-use liabilities

Details pertaining to leasing arrangements, where the Group is a 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 an 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 years and one month that commenced on 01 March 2018. The lease agreement makes provision for an option for renewal of five years which the company does not expect to exercise. There are no restrictions on covenants imposed by leases. The lease agreement constitutes 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 adoption 01 April 2019 is 10.60%. 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 three years and ends on 30 November 2021.

SFF:

The company is leasing properties that are located in the Saldanha Port 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.

23. 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 current benefit policy.

PetroSA

The obligation is partially funded and was valued using the projected unit credit method. A discount rate of 12.81% (2019: 9.81%) and a healthcare cost inflation of 8.45 % (2019: 7.4%) were assumed. Mortality assumptions were in line with standard table SA56/62 ultimate (pre-retirement) and PA (90) rated down by two years (post-retirement).

SFF

The obligation is not funded and was valued using the projected unit credit method. A discount rate of 12.36% (2019: 9.81%) and a healthcare cost inflation of 8.55% (2019: 7.48%) were assumed. Mortality assumptions were in line with standard table PA (90) ultimate (pre-retirement) rated down by two years (post-retirement).

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

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

23. Retirement benefits continued

Figures in rand thousand	2020	2019
		Restated *
Carrying value		
Present value of the defined benefit obligation – wholly unfunded	(57 159)	(62 263)
Present value of the defined benefit obligation – partially or wholly funded	(164 885)	(190 953)
Fair value of plan assets	78 784	93 160
	(143 260)	(160 056)
Split for non-current liabilities for retirement		
Non-current liabilities	(139 716)	(156 662)
Current Liabilities	(3 544)	(3 394)
	(143 260)	(160 056)
The fair value of plan assets includes:		
Movements for the year		
Opening balance	160 056	177 033
Current year service costs	1 599	2 207
Past year service costs	701	740
Net interest return (costs)	15 375	15 657
Net benefits payments	(9 884)	(5 028)
Net actuarial (gains)/losses	(24 587)	(30 553)
	143 260	160 056

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.

24. Provisions

Reconciliation of provisions – 2020

	Opening balance	Additions	Utilised during the year	Reversed during the year	Change in discount factor	Unwinding of discount	Total
Environmental rehabilitation	10 700 090	73 430	219 128	-	2 273 264	432 203	13 442 033
Bonus	98 682	174 364	(90 685)	(5 174)	-	-	177 087
Social investment	6 516	-	(1 910)	-	-	-	4 606
Damages provision	-	4 341	-	-	-	-	4 341
	10 805 288	252 035	126 533	(5 174)	2 273 264	432 203	13 628 067

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

24. Provisions continued

Reconciliation of provisions – 2019

	Opening balance	Additions	Utilised during the year	Reversed during the year	Change in discount factor	Unwinding of discount	Total
Environmental rehabilitation	8 811 748	84 550 53	53 358	353 009	1 371 160	379 274	10 700 090
Bonus	68 835	115 001	(84 889)	(265)	-	-	98 682
Social investment	16 551	-	(10 035)	-	-	-	6 516
	8 897 134	199 551	(41 566)	352 744	1 371 160	379 274	10 805 288
Non-current liabilities						13 429 719	10 687 772
Current liabilities						198 348	117 516
						13 628 067	10 805 288

Environmental rehabilitation

PetroSA

The decommissioning provision of R13 billion (2019: R10.2 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. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed annually to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required, which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This, in turn, will depend upon future oil and gas prices, which are inherently uncertain.

PetroSA has commissioned an external expert to assess the quantum and scope of the abandonment provision. The current year assessment includes additional research into the requirements to fully close or decommission all PetroSA wells. No provision has been made for the plugged and abandoned wells.

Major assumptions included in the calculation of local provisions is a discount rate of 3.94% (2019: 4.2%). A sensitivity analysis indicates that a R1 weakening of the rand against the US dollar translates into a R568 million (2019: R515 million) increase in the provision. The programme also assumes the decommissioning will be executed in one campaign in aid of managing logistical costs. It is assumed that each well will take an average of 15 days to abandon.

For international provisions, the discount rate used is 4.02% (2019: 4.02%) with an expected realisation date of 2036. Changes in cost estimates are driven by revisions to the operator's cost assumptions and estimates. Included in the environmental rehabilitation provision is an amount of R12.3 million (2019: R12.3 million) for the rehabilitation of the land at the Voorbaai terminal and Bloemfontein depot.

SFF NPC

The provision amount of R687 million (2019: R517 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 4.19% (2019: 4.5%).

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 R368 million and R189.3 million (2018: R197.3 million and R190.2 million) respectively.

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

24. 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 R129.1 million (2019: R129.6 million).

AEMFC

As at 31 March 2020 the environmental rehabilitation balance of R44.7 million (2019: R23.2 million) was recognised for Vlaktefontein 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 4.76% for 2020, 10.95% for 2030, 11.95% for 2031, 11.62% for 2035 cashflows (2019: 8.075%, 6.93% for 2021, 8.595% for 2026 and 9.705% for 2048 cashflows) and inflation rate of 4.1% (2019: 5.36%) 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 a change in estimate of R19.5 million (2019: R nil) recognised in property, plant and equipment in the mine infrastructure asset class.

Damages provisions

This relates to the Transnet fuel pipeline damage and diesel spillage. On 27 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 mines regular pipe theft incidents. The damaged fuel pipe line led to the spillage of diesel into the environment.

Funding of rehabilitation provision

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 Mineral Resources and Energy, National Treasury and Environmental Affairs. No funds have been set aside for the funding of international provisions valued at R347 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:

<i>Figures in rand thousand</i>	<i>2020</i>	<i>2019</i>
		<i>Restated *</i>
Cash deposits	477	477
Cash in escrow account	2 129	1 951
Financial guarantee	180	180
	2 786	2 608

Social investment

This provision amount of R4.6 million (2019: R6.5 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 R177 million (2018: R99.5 million) represents incentives for employees who qualify in terms of their performance during the current year. The estimate is based on the expected average performance of the Group and employees using the variables as determined in the CEF incentive bonus policy. The bonus liability is anticipated to be paid within the next 12 months.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

25. Other non-current financial liabilities

Operating lease liability

The Group has made the transition to IFRS 16, during the current year.

In the prior year, contracts relating to rental payables were smoothed over the contract period. Refer to note 36 for disclosure of commitments. The current portion of the operating lease liability is included in trade and other payable.

Deferred income

CEF SOC Ltd

The deferred grant was received by CEF SOC Ltd from the DMRE. This grant was used to fund feasibility studies for the Vaal Dam projects. The balance of this grant is R1 million (2019: R937 000).

SFF NPC

An upfront reservation fee of R74.6 million (USD5.95 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 2020, there were 47 months left on the contract. The remaining portion of the income received in advance was translated at the spot exchange rate on the reporting date (R17.866/USD as at 31 March 2020; R14.565/USD as at 31 March 2019). The balance as at year end is R49.19 million (2019: R50.21 million).

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 ringfenced funds under note 16. The balance as at year end is R2.5 million (2019: R519 000).

Figures in rand thousand	2020	2019
		Restated *
Operating lease liability	-	16 465
Deferred income	52 745	51 663
	52 745	68 128

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

26. Trade and other payables

Figures in rand thousand	2020	2019
		Restated *
Financial instruments:		
Trade payables	6 970 243	7 604 960
Sundry creditors	305 338	231 209
Accrued leave pay	88 670	80 350
Cash calls in advance	284 463	177 615
Payroll related liabilities	11 051	11 675
Non-financial instruments:		
Amounts received in advance	57 318	21 113
Statutory payables	893 675	1 049 041
VAT	369	636
Operating lease payables (if immaterial)	(254)	971
	8 610 873	9 177 570

Fair value of trade and other payables

The fair value of trade and other payables approximates their carrying amounts.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

27. Revenue

Figures in rand thousand	2020	2019
		Restated *
Revenue from contracts with customers		
Fuel production sales	12 178 490	10 531 477
Data sales	8 050	26 288
Crude oil sales	1 512 169	1 607 476
Oil pollution control	19 256	14 034
Application fees	26	75
Coal sales	536 818	634 950
Administration and management fees	3 142	4 090
	14 257 951	12 818 390
Revenue other than from contracts with customers		
Rental income	205 259	243 804
Interest received (trading)	24	23
Government grants	92 530	87 988
	297 813	331 815
	14 555 764	13 150 205
Disaggregation of revenue from contracts with customers		
The Group disaggregates revenue from customers as follows:		
Total revenue from contracts with customers	14 257 984	12 818 390
Timing of revenue recognition		
At a point in time		
Fuel production sales	12 178 490	10 531 477
Coal sales	536 818	634 950
Application fees	26	75
Data sales	8 050	26 288
Oil pollution control	19 256	14 034
	12 742 640	11 206 824
Over time		
Crude oil sales	1 512 169	1 607 476
Administration and management fees	3 142	4 090
	1 515 311	1 611 566
	14 257 951	12 818 390

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28. Cost of sales

Figures in rand thousand	2020	2019
		Restated *
Sale of goods	14 177 637	12 285 693

29. Other income

Figures in rand thousand	2020	2019
		Restated *
Withholding tax	-	4 089
Commissions received	20	19
Royalties received	50	71
Other rental income	13 174	(3 016)
Other recoveries	2 421	1 061
Revaluation and impairment	41 289	174 237
Recovery of coal transport costs	122 661	149 709
Other income	3 021	9 711
Income from landfill	36 507	18 032
Diesel rebate	14 621	10 872
Nitrogen sales	7 295	5 956
Management fees	(52)	93
Insurance claims	99 405	240 908
Profit/(loss) on sale of assets and liabilities	7 255	2 037
Gantry fee	44 581	59 999
	392 248	673 778

30. Operating profit/(loss)

Operating loss for the year is stated after charging (crediting) the following, amongst others:

Leases

Figures in rand thousand	2020	2019
		Restated *
Short-term and low value leases		
Premises	10 677	17 293
Equipment	1 440	2 152
	12 117	19 445
Short-term and low value leases	12 117	19 445
Less: Operating lease charges included in cost of merchandise sold and inventories	(221)	(262)
Total operating lease charges expensed	11 896	19 183

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

30. Operating profit/(loss) continued

Figures in rand thousand	2020	2019
		Restated *
Other operating expenses		
Research and development costs	96 797	2 981
Impairment on property, plant and equipment	5 071 018	1 974 551
Depreciation on property, plant and equipment	1 251 604	875 586
Depreciation on right-of-use asset	9 350	-
Reversal of impairment on property, plant and equipment	-	(1 281 898)
Tax related expenses	1 843	10 689
Profit (loss) on exchange differences	90 673	167 834
Impairment on intangible assets	-	754
Write-off of intangible assets	-	258 813
Reversal of impairment on intangible assets	(39 153)	-
Impairment on other financial assets	31 075	837
Impairment of trade and other receivables	9 610	151 114
Restatement of financial assets and financial liabilities	9 558	12 701
Other administration expenses PetroSA	245 006	109 873
Participating fees	6 456	7 350
Impairment reversal inventories	358 874	(88 418)
Amortisation on intangible assets	5 611	3 809
Training	5 548	7 499
Travel – local	16 752	11 706
Travel – overseas	22 627	7 886
Municipal expenses	12 468	8 181
Hedge premium	13 248	(2 329)
Employee costs	934 221	871 375
Staff welfare	7 378	4 987
Security	3 904	4 704
Corporate social responsibility	27 361	3 384
Consulting and professional fees – accounting	1 667	1 620
Repairs and maintenance	20 376	18 952
Motor vehicle maintenance expenses and other related expenses	5 096	5 198
Insurance	76 121	45 129
Consulting and professional fees	67 315	64 482
Financial services fees	9 197	13 286
Computer expenses	9 039	7 914
Auditors' remuneration – external auditors	25 126	18 286
Administration and management fees	3 137	5 163
Transport and freight	314 592	300 692
Directors remuneration	20 348	17 501
IT facilities and software	82 792	86 901

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31. Investment income

Figures in rand thousand	2020	2019
		Restated *
Dividend income		
Equity instruments at fair value through profit or loss:		
Listed investments – local	5	5
Interest income		
Investments in financial assets:		
Bank and other cash	1 181 538	1 149 203
Trade and other receivables	2 534	-
Other financial assets	4 031	4 747
Loans to group companies:		
Associates	4 617	2 688
Total interest income	1 192 720	1 156 638
Total investment income	1 192 725	1 156 643

Interest is charged at the South African prime rate plus 3% on the loan to an associate.

32. Finance costs

Figures in rand thousand	2020	2019
		Restated *
Non-current borrowings	-	4 234
Trade and other payables	18 040	6 590
Lease liabilities	97 809	79 449
Bank overdraft	2 615	564
Current borrowings	64 065	61 761
Tax authorities	(18)	349
Unwinding of discount on provisions and other liabilities	427 762	378 114
Other interest paid	4 742	3 943
Total finance costs	615 015	535 004

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

33. Taxation

Figures in rand thousand	2020	2019
		Restated *
Major components of the tax income		
Current	255 327	249 733
Local income tax – current period	(99)	(2 479)
Local income tax – recognised in current tax for prior periods	3 152	1 026
Foreign income tax or withholding tax – current period	14	-
Foreign income tax or withholding tax – recognised in current tax for prior periods	258 394	248 280
Deferred		
Originating and reversing temporary differences	(794 561)	144 697
Benefit of unrecognised tax loss/tax credit/temporary difference used to reduce deferred tax expense	(53 203)	387 041
	(846 764)	531 738
	(589 370)	780 018
Reconciliation of the tax expense		
Reconciliation between accounting profit and tax expense		
Accounting loss	(5 853 244)	(412 627)
Tax at the applicable tax rate of 28% (2019: 28%)	(1 638 908)	86 639
Tax effect of adjustments on taxable income		
Income not subject to tax	(222 596)	(446 187)
Expenses not deductible for tax purposes	294 456	169 104
Associates' results reported net of tax	(140 131)	(116 371)
Unrecognised deferred tax asset	1 486	9 867
Effects of tax rates in different jurisdictions	143 970	(137 530)
Tax losses carried forward	970 205	1 216 975
Tax expense in respect of prior years	2 148	(2 479)
	(589 370)	780 019

The average effective tax rate is -10% (2019: -189%). 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, OPCS) that are not subject to income tax and income from equity accounting of associates.

Tax losses carried forward originate from PetroSA Ghana Ltd and ETA Energy.

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34. Other comprehensive income

Figures in rand thousand			
	Gross	Tax	Net
Components of other comprehensive income – 2020			
Items that will not be reclassified to profit/(loss)			
Remeasurements on net defined benefit liability/asset			
Remeasurements on net defined benefit liability/asset	19 649	-	19 649
Items that may be reclassified to profit/(loss)			
Exchange differences on translating foreign operations			
Exchange differences arising during the year	603 372	-	603 372
Total	623 021	-	623 021
Components of other comprehensive income – 2019			
Items that will not be reclassified to profit/(loss)			
Remeasurements on net defined benefit liability/asset			
Remeasurements on net defined benefit liability/asset	23 979	-	23 979
Items that may be reclassified to profit/(loss)			
Exchange differences on translating foreign operations			
Exchange differences arising during the year	495 072	-	495 072
Total	519 051	-	519 051

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

35. Cash generated from operations

Figures in rand thousand	2020	2019
Major components of the tax income		
Loss before taxation	(5 853 244)	(412 627)
Adjustments for:		
Depreciation and amortisation	1 266 564	879 395
Gains on disposals, scrapings and settlements of assets and liabilities	(6 366)	(2 037)
(Gains) losses on foreign exchange	(31 406)	503 386
Income from equity accounted investments	(500 469)	(415 612)
Investment income	(1 192 725)	(1 156 643)
Finance costs	615 015	535 004
Fair value (gains)/losses	(516 012)	206 233
Net impairments and movements in credit loss allowances	5 036 570	694 235
Movements in retirement benefit assets and liabilities	(4 139)	13 576
Movements in provisions	195 319	151 106
Other non-cash items	(2 107)	(3 574)
Changes in working capital:		
Inventories	1 326 390	(510 312)
Trade and other receivables	614 953	(1 037 318)
Prepayments	(49 065)	134 084
(Increase)/Decrease in strategic stock	358 874	(88 418)
Trade and other payables	(1 673 843)	1 852 312
	114 233	276 362

36. Tax paid

Figures in rand thousand	2020	2019
		Restated *
Balance at beginning of the year	2 083	(16 513)
Current tax for the year recognised in profit or loss	(256 147)	(248 280)
Non-cash adjustment	(2 247)	5 546
Exchange differences arising on the translation of foreign operations (OCI)	144 233	136 810
Prior year adjustment	-	(4 286)
Balance at end of the year	(4 274)	(2 083)
	(116 352)	(128 806)

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37. Commitments

Figures in rand thousand	2020	2019
		Restated *
Authorised capital expenditure		
Already contracted for but not provided for		
• AEMFC SOC Ltd – Vlakfontein extensions	72 936	39
• PASA SOC Ltd – Server storage	3 994	465
• PetroSA SOC Ltd – Jubile and TEN development	200 805	297 795
• SFF NPC – South Sudan investment	777 617	-
Not yet contracted for and authorised by directors		
CEF SOC Ltd - Authorised by Director's resolution	722 000	722 000
AEMFC SOC Ltd - Total authorised capital budget	499 625	383 193

This committed expenditure to the above and that will be financed by available bank facilities, retained profits, existing cash resources, funds internally generated and debts.

Other authorised major commitments

CEF SOC Ltd – Sponsorship – Solar Water Heaters	188 331	200 000
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The committed expenditure relates to the Solar Water Heaters Programme that CEF is currently implementing in partnership with the Departments of Mineral Resources and Energy, and Labour (DoL).

Operating leases – as lessee (expense) (IAS 17)

Minimum lease payments due		
- within one year	-	25 703
- in second to fifth year inclusive	-	97 647
- later than five years	-	23 560
	-	146 910

A new accounting standard for leases, IFRS 16, came into effect for reporting periods on or after 01 January 2019 and replaced IAS 17. The Group has elected not to restate its comparative annual financial statements, consequently, comparability will not to be achieved as the comparative annual financial information has been prepared on the IAS 17 basis. **Refer to note 2 for more details IFRS 16 adoption.**

No contingent rent is payable.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

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38. Contingencies

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 loaned by SFF to a service provider who later 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 operates 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 01 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 estimates the total value of the claim to be R12 million.

During the reporting period the expert ruled against the SFF and as the SFF was raising disputes on the evaluation by the 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 USD1.3 million, translated to R23.4 million as at year end) paid to Transnet National Port Authority from the SFF. The SFF is disputing this claim on the basis of force majeure. The 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.

There is a chance that the Supreme Court of Appeal may confirm the judgement of the Western Cape High Court and therefore SFF would be expected to further incur an amount of about R2,6 billion which is the amount of the Out-of-pocket expenses which are claimed by the Buyers of Strategic Stock.

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.

Incentive bonus

PetroSA had a Short-Term Incentive Policy (STIP), which has an expiry date of 31 March 2017. No replacement scheme was approved by the PetroSA Board and labour representatives. For the financial year ending 31 March 2018, PetroSA's corporate performance score was 2.98, which was a score high enough to trigger an incentive bonus in terms of the expired STIP scheme. On 10 August 2018 the PetroSA Board resolved not to pay an incentive bonus which led to a dispute with labour representatives. The dispute was referred to arbitration at the National Bargaining Council for Chemicals Industry (NBCCI). On 25 June 2019, the NBCCI issued an award in

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

38. Contingencies *continued*

terms of which PetroSA was ordered to pay qualifying employees an incentive bonus of R123 million. The PetroSA Board has resolved, based on senior council opinion, to take the arbitration award on review to the Labour Court in terms of Section 145 of the Labour Relations Act (LRA).

Third-party claim

In September 2005, a vessel owned by a shipping company (the defendant) snagged and damaged a carrier and product pipeline owned by PetroSA. The matter is currently before the Western Cape High Court exercising its admiralty jurisdiction. Based on the feedback from external legal counsel, PetroSA is likely to succeed in its claim against the defendant. The expected amount cannot be determined at this time.

Duty-at-source audit assessment

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 a suspension of the payment amount but the application for suspension was denied and as a result the final demand is still pending. 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. 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 to submit a replying affidavit and then PetroSA will do the same. The court will then decide when the matter will be argued. It is likely that, due to the COVID-19 pandemic, the matter will be heard early next year.

CEF SOC Ltd

A current employee has referred a matter to the Labour Court. The claim is not yet quantifiable. The legal costs incurred to date are R480 000.

Figures in rand thousand	2020	2019
		Restated *
Guarantees		
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)	9 870	8 178
DMRE 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 OPCS's deed of suretyship	2 000	2 000
Absa Bank for iGAS deed of suretyship	2 100	2 100
	685 555	683 863

39. Related parties

Relationships	Department of Mineral Resources and Energy
Ultimate holding company	Refer to note 6
Subsidiaries	Refer to note 7
Joint ventures	Refer to note 8
Associates	Gannet Trust
Unconsolidated structure	PetroSA Development Trust
	Upstream Training Trust
	Equalisation Fund
	South African National Energy Development
	Institute (SANEDI)
Under common control	

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

39. Related parties continued

Figures in rand thousand	2020	2019
		Restated *
Related party balances		
Loan accounts – Owing (to) by related parties	13 665	11 515
Mzimkhulu Mining (Pty) Ltd	44 263	40 111
Energy-G Systems (Pty) Ltd	186	211
Extended Continental Shelf Claim Project		
GTL.F1 AG 278 132 226 424		
Amounts included in Trade receivable (Trade Payable) regarding related parties		
PAMDC (Pty) Ltd	6 252	4 790
DMRE	694	694
SANEDI	1 591	814
Equalisation Fund	598	461
Cash on call held on behalf of others		
Upstream Training Trust	(68 194)	(58 231)
Related party transactions		
Interest paid to/(received from) related parties		
Energy-G Systems (Pty) Ltd	(4 151)	(3 785)
Upstream Training Trust	4 629	3 836
Rent paid to/(received from) related parties		
ROMPCO (Pty) Ltd	(14)	(28)
SANEDI	(999)	(930)
PAMDC (Pty) Ltd	(90)	(91)
Administration fees paid to/(received from) related parties		
DMRE	(1)	(1)
Upstream Training Trust	(93)	(76)
Equalisation Fund	(2 070)	(2 661)
SANEDI	(982)	(368)
PAMDC (Pty) Ltd	(1 070)	(982)
Recoveries paid to/(received from) related parties		
SANEDI	(1 122)	(713)
PAMDC (Pty) Ltd	(23)	(62)
Equalisation Fund	(1 351)	(117)
Provisions balances relating to related parties		
GTL.F1 AG	(278 132)	(226 424)
PAMDC (Pty) Ltd *	(4 892)	(4 790)

*The balance for PAMDC relating to revenue has not be recognised as the recognition criteria as per IFRS 15 have not been met.

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

40. 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 (UTT)

The UTT was established to receive irrevocable and unconditional contributions and grants from any persons or entities for the purpose of applying these funds for education and educational development, research, the provision of funding, assets, services and other resources to public benefit organisations. PASA nominates and serves as a trustee on the board of trustees of UTT.

PASA is responsible for the administration of UTT, but is not able to control it as all decisions have to be made by majority vote of the trustees, which may be a minimum of three and a maximum of seven (PASA has only one vote). PASA receives no administration fees from UTT and makes no contribution to UTT.

At 31 March PASA had an inter-company receivable from UTT of R1 (2019: R3). Terms and conditions of the receivable are that it is due and receivable 30 days from date of invoice receipt by UTT.

PASA's maximum exposure to loss from UTT is R nil (2019: R3)

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

41. Key management personnel and directors' emoluments

Executive

Figures in rand thousand	Emoluments	Bonuses and performance payments	Pension/ Retirement	Other Allowances	Total
2020					
Mr S Makhanya (CEF Group)*	2 918	1 134	159	418	4 629
Mr K Zono (CEF Group)**	3 801	-	646	559	5 006
Mr L Makhuba (CEF Group)***	2 795	1 166	279	236	4 476
Mr S Madondo (AEMFC SOC Ltd)	3 495	-	194	28	3 717
Mr B Sayidini (PetroSA Group)	2 574	-	350	372	3 296
Mr P Naidoo (PetroSA Group)#	2 863	750	56	-	3 669
Mr M Seedat (iGas SOC Ltd)	3 526	937	137	-	4 600
Ms L Mekwe (PASA SOC Ltd)	1 873	320	374	309	2 876
Mr M Moagi (SFF)##	4 244	1 021	404	-	5 669
	28 089	5 328	2 599	1 922	37 938
2019					
Mr G Moagi (CEF Group)*	4 649	1 644	-	1 110	7 403
Mr S Makhanya (CEF Group)**	2 538	828	157	570	4 093
Mr S Madondo (AEMFC SOC Ltd)	3 233	1 793	456	40	5 522
Mr B Sayidini (PetroSA Group)****	2 465	-	51	93	2 609
Mr M Seedat (iGas SOC Ltd)	2 078	1 013	136	576	3 803
Ms L Mekwe (PASA SOC Ltd)	1 842	358	418	525	3 143
	16 805	5 636	1 218	2 914	26 573

The CEOs/Equivalent of the holding company and operating subsidiaries are key management personnel for the Group.

2020

* Mr S Makhanya was the Interim CEF Group CEO from December 2018 to 31 July 2019, however, the executive's remuneration disclosed above is for the full year.

** Mr K Zono was Interim CEF Group CEO from August 2019 to December 2019. The total remuneration disclosed above is for the full year.

*** Mr L Makhuba was the acting CEF Group CEO from January 2020 to 31 May 2020, however, the executive's remuneration disclosed above is for the full year.

Mr P Naidoo was appointed as fulltime PetroSA CEO from January 2020.

Mr M Moagi was appointed as the SFF acting CEO for the period and subsequently appointed as full time CEO, see events after the reporting date note 45.

2019

* Mr G Moagi contract term ended on 9 December 2018 as the CEF Group CEO.

** Mr S Makhanya was appointed as the CEF Group Interim CEO on 9 December 2018.

**** Mr B Sayidini was appointed as the PetroSA Group Interim CEO during the year.

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

41. Key management personnel and directors' emoluments *continued*

Non-executive

Figures in rand thousand	Directors' fees	Committees fees	Directors' fees for services as directors' of subsidiaries	Total
2020				
Dr M Mnyande – Chairperson*	848	159	-	1 007
Mr M Besnaar – \$	770	68	675	1 513
Ms G Leketi#	-	3	-	3
Ms P Hassen*	364	110	-	474
Mr T Maqubela#	-	23	-	23
Mr N Mompoti – Interim Chairperson**	785	257	-	1 042
Mr N Poya*	569	113	-	682
Ms N Sondlo CA(SA)*	320	-	-	320
	3 656	733	675	5 064
2019				
Mr L Makasi (Former Chairperson)#	1 190	673	-	1 863
Mr M Besnaar- \$	604	129	285	1 018
Adv. L Mtunzi##	493	204	77	774
Mr N Mompoti (Interim Chairperson)**	650	421	358	1 429
Mr T Maqubela *#	-	45	-	45
Ms M Molope***	178	26	-	204
Ms G Leketi*#	-	57	-	57
	3 115	1 555	720	5 390

Changes in directorship

2020

** Mr Mompoti was the Interim Chairperson from March 2019 until the appointment of a new Chairperson in October 2019.

* These Board members were appointed on 16 October 2019.

Department of Mineral Resources and Energy representative.

\$ Mr M Besnaar acted as chair of AEMFC, a director of the SFF and the SFF audit committee member.

2019

Mr L Makasi's services were terminated on 15 March 2019.

*** Mr M Molope's term ended on 9 December 2018.

Adv. L Mtunzi's term ended 9 December 2018.

*** Mr N Mompoti is the Interim Group Chairperson from 15 March 2019.

*# Department of Mineral Resources and Energy representative.

\$ Mr M Besnaar acted as chair of AEMFC, a director of the SFF and SFF audit committee member.

42. Restatements

AEMFC

The company has restated its previously reported financial statements for the year ended 31 March 2019, the details of the restatement are set out below:

Property, plant and equipment and retained earnings

An adjustment of R1.4 million for mine infrastructure as the rehabilitation provision was recognised as an expense instead of being capitalised to assets as required by IAS 16, and this resulted in an increase in retained earnings.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

42. Restatements continued

Investment in associates and loans to group companies

African Royalty Minerals (Pty) Ltd

The loan to the associate of R21.1 million was incorrectly recognised as part of the cost on investment in the associate. This adjustment resulted in a decrease in investment in associate and an increase in loans to Group companies of R21.2 million.

Current tax receivable and retained earnings

The tax effect of an audit adjustment was incorrectly calculated resulting in the understatement of the tax liability by R4.3 million, which also decreased retained earnings.

Reclassification of mining royalty payment

The Mining Royalty payment was incorrectly classified as a liability resulting in the understatement of both Trade and other receivables; and Trade and other payables by R4.9 million.

PetroSA

An amount of R93 million relating to catalysts has been reclassified from inventory to production assets in the prior period to correctly reflect the substance of the underlying assets.

SFF

Outcome of the Western Cape High Court on Sale of Strategic Stock

The Group has restated its previously reported financial statements for the year ended 31 March 2019 and 2018 to reflect the impact of the 20 November 2020 Western Cape High Court judgment on the Sale of Strategic Stock, the details of the restatement are set out below:

Strategic stock and retained earnings

An increase in strategic stock of R1.778 billion (2018: R1.778 billion) and a decrease in retained earnings of the same amount to re-instate the strategic stock.

Trade and other payables and EQF reserve

Reversal of EQF payable and the reserve of R4.058 billion (2018: R3.317 billion) as the provisions of CEF ACT no 38 of 1988, section 3A(c) are not longer applicable since the sale has been set aside.

Trade payables and retained earnings

Recognition of the payable to the traders of R4.579 billion (2018: R3.744 billion) as the court ruled that the proceeds must be paid back to the Traders. A reversal of oversold stock liability of R903 million (2019: R790 million). A reclassification to sundry creditors of R2.4 million (2019: R54.2 million) due to strategic stock transaction.

Reconciliation of equity at 01 April 2018

Figures in rand thousand	Note(s)	Previously Reported	Adjustment	Restated
Strategic inventory		996 482	1 778 097	2 774 579
Trade and other payables		6 841 296	(363 239)	6 478 057
Total assets less total liabilities		(5 844 814)	2 141 336	(3 703 478)
Revaluation reserve		(3 317 490)	3 317 490	-
Retained earnings		16 539 969	(1 176 154)	15 363 815
Total		13 222 479	2 141 336	15 363 815

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

42. Restatements continued

Reconciliation of equity at 31 March 2019

Figures in rand thousand	Note(s)	Previously Reported	Adjustment	Restated
Property, plant and equipment	4	9 230 865	94 469	9 325 334
Investment in associates	8	982 305	(21 167)	961 138
Strategic inventory	9	1 084 900	1 778 097	2 862 997
Total non-current assets		11 298 070	1 851 399	13 149 469
Loans to group companies	9	11 515	21 167	32 682
Current tax receivable		9 933	(4 286)	5 647
Total current assets		21 448	16 881	38 329
Trade and other payables		9 559 294	(381 724)	9 177 570
Total assets less total liabilities		1 760 224	2 250 004	4 010 228
Retained earnings		12 261 076	2 156 949	14 418 025

Reconciliation of profit (loss) for 2019

Figures in rand thousand	Note(s)	Adjustment
Other operating income		835 710
Other operating expense		(113 655)
Net profit adjustment		722 055

43. Financial instruments and risk management

Categories of financial instruments

Categories of financial assets

2020

Figures in rand thousand	Note(s)	Amortised cost	Total
Loans to group companies	9	79 983	79 983
Trade and other receivables	15	2 299 508	2 299 508
Cash and cash equivalents	16	21 004 637	21 004 637
		23 384 427	23 384 427

2019

	Note(s)	Amortised cost	Total
Loans to group companies	9	72 793	72 793
Trade and other receivables	15	2 952 893	2 952 893
Cash and cash equivalents	16	18 924 575	18 924 575
		21 950 261	21 950 261

Categories of financial liabilities

2020

Figures in rand thousand	Note(s)	Amortised cost	Leases	Total
Trade and other payables	26	7 659 765	(254)	7 659 511
Borrowings	21	-	1 192 782	1 192 782
Finance lease obligations	22	-	1 416 280	1 416 280
		7 659 765	2 608 808	10 273 576

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

43. Financial instruments and risk management continued

2019

Figures in rand thousand	Note(s)	Amortised cost	Leases	Total
Trade and other payables	26	8 105 812	971	8 106 783
Borrowings	21	-	1 056 481	1 056 481
Finance lease obligations	22	-	1 089 388	1 089 388
		8 105 812	2 146 840	10 252 652

Pre-tax gains and losses on financial instruments

Gains and losses on financial assets

2020

Figures in rand thousand	Note(s)	Fair value through profit or loss - Mandatory	Amortised cost	Total
Recognised in profit or loss:				
Interest income	31	-	1 192 720	1 192 720
Dividend income	31	5	-	5
Gains/(losses) on foreign exchange		-	(131 791)	(131 791)
Movement in credit loss allowances	30	-	(9 610)	(9 610)
Net gains/(losses)		5	1 051 319	1 051 324

2019

Figures in rand thousand	Note(s)	Fair value through profit or loss - Mandatory	Amortised cost	Total
Recognised in profit or loss:				
Interest income	31	-	1 156 638	1 156 638
Dividend income	31	5	-	5
Gains/(losses) on foreign exchange		-	(167 702)	(167 702)
Movement in credit loss allowances	30	-	(149 003)	(149 003)
Net gains/(losses)		5	839 933	839 938

Gains and losses on financial liabilities

2020

Figures in rand thousand	Note(s)	Amortised cost	Leases	Total
Recognised in profit or loss:				
Finance costs	32	(89 462)	(97 809)	(187 271)
Gains/(losses) on foreign exchange		(56)	-	(56)
		(89 518)	(97 809)	(184 758)

2019

Figures in rand thousand	Note(s)	Amortised cost	Leases	Total
Recognised in profit or loss:				
Finance costs	32	(77 092)	(79 449)	(156 541)
Gains/(losses) on foreign exchange		(33)	-	(33)
		(77 125)	(79 449)	(156 574)

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

43. Financial instruments and risk management *continued*

Capital risk management

The Group is exposed to capital risk which is the risk that 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 maximising the returns to stakeholders through optimisation 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 monitors the credit and sovereign risk of its counterparties.

Consistent with other state-owned companies, the Group monitors capital on the basis of the gearing ratio as per the National Treasury guidelines. 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.

	Note(s)	2020	2019
			Restated *
Financial liabilities	21	1 192 782	986 271
Equity		9 339 958	13 114 704
Gearing ratio		13 %	8 %

Financial risk management

Overview

The Group 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 Audit and Risk 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 and Risk 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 and 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 continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

43. 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 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 guarantees.

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 ratings agencies.

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 determines 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:

		2020			2019		
		Gross carrying amount	Credit loss allowance	Amortised cost/fair value	Gross carrying amount	Credit loss allowance	Amortised cost/fair value
Loans to group companies	9	358 115	(278 132)	79 983	299 217	(226 424)	72 793
Trade and other receivables	15	2 634 602	(334 795)	2 299 807	3 394 871	(441 978)	2 952 893
Cash and cash equivalents	16	21 004 637	-	21 004 637	18 924 575	-	18 924 575
		23 997 354	(612 927)	23 384 427	22 618 663	(668 402)	21 950 261

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 matches 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.

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

43. Financial instruments and risk management *continued*

2020

	Note(s)	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Non-current liabilities						
Borrowings	21	-	930 765	-	930 765	930 765
Lease liabilities	22	-	442 026	700 597	1 142 623	1 314 806
Current liabilities						
Trade and other payables	22	7 659 765	-	-	7 659 765	7 659 765
Borrowings	21	262 017	-	-	262 017	262 017
Lease liabilities	22	106 477	-	-	106 477	106 477
		(7 765 251)	(1 372 791)	(700 597)	(9 838 639)	(10 273 830)

2019

Non-current liabilities

Borrowings	21	-	968 271	968 271	968 271
Lease liabilities	22	367 127	632 644	999 771	999 771

Current liabilities

Trade and other payables	26	8 105 812	-	-	8 105 812	8 105 812
Borrowings	21	88 210	-	-	88 210	88 210
Lease liabilities	22	119 262	-	-	89 617	89 617
		(8 665 363)	(1 422 853)	(842 436)	(10 633 405)	(10 251 681)

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 that are denominated in foreign currencies. The Group takes cover on foreign exchange transactions where there is future currency exposure. The Group also makes 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.

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 TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

43. Financial instruments and risk management continued

US dollar exposure:

Figures in rand thousand	Note(s)	2020	2019 Restated *
Non-current assets:			
Other financial assets	10	161 813	114 454
Current assets:	15	215 459	354 639
Trade and other receivables	16	7 307 786	4 996 589
Cash and cash equivalents			
Non-current liabilities:			
Other financial liabilities	21	(930 764)	(968 271)
Current liabilities:			
Trade and other payables	26	(5 787 554)	5 484 813
Net US dollar exposure		966 257	9 982 224
Euro exposure:			
Current assets:			
Trade and other receivables	15	6 594	1 030
Cash and cash equivalents	16	100 678	96 633
Non-current liabilities:			
Trade and other payables	26	(5 408)	(43 961)
Net Euro exposure		101 864	53 702
Net exposure to foreign currency in rand		1 173 373	(1 432 700)

*The RBL is a USD denominated loan with an interest rate based on the LIBOR plus a premium.

The Group is therefore not exposed to the currency risk arising from this loan as the loan and the revenue generated by PetroSA Ghana are based on the same currency.

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

43. Financial instruments and risk management *continued*

Exchange rates

The following closing exchange rates were applied at reporting date:

Figures in rand thousand	2020	2019
		Restated *
Rand per unit of foreign currency:		
US Dollar	17.980	14.570
Euro	19.740	16.360

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 forward exchange contracts as at 31 March 2020

2019

	Contract rate	Market rate	Contract foreign currency amount	Contract rand amount	Fair value of contract
Imports – goods					
Forward exchange contracts	14.438	14.587	68 670	991 457	1 001 689
Other liabilities					
Buy Euro – expiry 12 April 2019	16.414	16.298	144 906	2 378 487	2 361 632
Buy Euro – expiry 26 September 2019	18.226	16.861	36 226	660 255	610 807
Buy Euro – expiry 16 April 2019	17.844	16.311	108 679	1 939 268	1 772 663
				5 969 467	5 746 791

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 USD61.10 in the current year and USD70.8 in the prior year.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

43. Financial instruments and risk management continued

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.

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	
		2020	2019	2020	2019
Variable rate instruments:					
Assets					
Loans to group companies	9	6.98 %	7.85 %	184 955	168 997
Cash and cash equivalents	16	6.02 %	7.42 %	20 822 984	18 924 575
				21 007 939	19 093 572
Liabilities					
Other financial liabilities		6.05 %	6.05 %	1 192 782	1 027 036
Net variable rate financial instruments				21 007 939	19 093 572
Fixed rate instruments:					
Assets					
Finance lease receivables		9.87 %	8.95 %	1 421 283	1 089 388
Variable rate financial assets as a percentage of total interest bearing financial assets				93.66 %	94.60 %
Fixed rate financial assets as a percentage of total interest bearing financial assets				6.34 %	5.40 %
Variable rate financial liabilities as a percentage of total interest bearing financial liabilities				100.00 %	100,00%

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

44. Fair value information**Fair value hierarchy**

The table below analyses assets and liabilities carried at fair value. The different levels are defined as follows:

Level 1: Quoted unadjusted prices in active markets for identical assets or liabilities that the Group can access at measurement date.

Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

Levels of fair value measurements**Level 1****Recurring fair value measurements**

Figures in rand thousand	Note(s)	2020	2019
			Restated *
Assets			
Financial assets at fair value through profit/(loss)			
Listed shares		111	160
Total		111	160

Level 2**Recurring fair value measurements**

Figures in rand thousand	Note(s)	2020	2019
			Restated *
Assets			
Financial assets at fair value through profit/(loss)			
Foreign exchange contracts		-	10 579
Liabilities			
Financial liabilities at fair value through profit/(loss)			
Foreign exchange contracts		-	(138)
Total		-	10 717

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Foreign exchange forward contracts are valued using valuation techniques, which employ the use of market observable inputs. The most frequently applied valuation technique uses a forward pricing model. The model incorporates various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves and currency basis spreads between the respective currencies.

No changes have been made to the valuation technique. The carrying value of loans approximates their fair value.

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

45. 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 2020. 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 is facing a number of key strategic challenges. Consequently, a material uncertainty exists regarding the liquidity and solvency position of the PetroSA Group:

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

45. Going concern continued

- The PetroSA Group reported a net loss of R5.6 billion (2019: R2 billion loss) for the year ended 31 March 2020 and the liabilities exceed assets by R4.5 billion at Group level.
- Indigenous gas reserves are close to depletion and will reach technical cut-off point for supply to the GTL refinery by 31 December 2020.
- PetroSA has a credit facility of R600 million, which is backed by cash collateral of R350 million.
- The funders and suppliers are reluctant to provide the credit facility without guarantees.
- The South African Revenue Service has imposed a penalty of R1 billion relating to the duty at source.

In order to improve the financial position of PetroSA, the following will be implemented:

- The GTL refinery will be placed under care and maintenance by 30 September 2020 as the plant is no longer commercial viable because it is operating at 18.6% of its design capacity.
- The FA platform, gas loop and gas wells will be disposed of or decommissioned.
- PetroSA will divest from upstream blocks and its participation will be limited to the strategic role of being the custodian of the upstream oil and gas resources.
- The Trading and Supply division will continue operating and it will be strengthened by acquiring assets.
- Disposal of non-core assets, such as PetroSA Ghana Ltd, GTL F1 AG and Euro BV.
- The shareholder, CEF, will provide equity to fund the conversion of the refinery.
- PetroSA will reduce its staff complement by embarking on a Section 189 process as prescribed in the Labour Relations Act;
- The rehabilitation responsibility will be transferred to the national government; and
- PetroSA will be merged with the National Petroleum Company.

46. Events after the reporting period

Merger

On 20 June 2020, Cabinet approved the planned appointment of a restructuring company to merge the Petroleum Oil and Gas Corporation of South Africa SOC Ltd (PetroSA), the Strategic Fuel Fund Association NPC (SFF) and the South African Gas Development Company SOC Limited (iGAS) into one National Petroleum Company. The merger does not affect the financial statements due to the following:

- The service provider has not been appointed;
- The Board of Directors has not passed the resolution to merge the entities; and
- The Section 54 approval has not yet been obtained for the merger.

Tripartite cooperation agreement

At the behest of the holding company, CEF SOC Ltd, the SFF Association embarked on a project to supply PetroSA with the condensate feedstock for the Mossel Bay GTL refinery. This project is being undertaken on the basis that the SFF should at a bare minimum be cost neutral at all times.

CEO appointments

On 1 June 2020, Dr Ishmael Poolo was appointed as CEF Group CEO;
On 1 May 2020, Dr P Masangane was appointed as CEO for PASA; and
On 6 May 2020 Mr MG Moagi was appointed as CEO of SFF NPC.

COVID-19 impact

At the time of compiling this report, the COVID-19 pandemic was having a severe impact on the world and on businesses around the globe. The CEF is, however, in full support of the decisive action taken by the South African Government to reduce the local spread of the virus, and the initial steps taken to mitigate its impact.

The CEF is monitoring the economic impact of the global COVID-19 pandemic and is negotiating with all stakeholders to mitigate the risks that have become apparent. The pandemic has resulted in a lower oil price, which is one of the drivers of the impairment loss. However, it is still too early to quantify the full impact of COVID-19. The Group is also monitoring the possible impact on any current covenants and negotiation of waivers if necessary.

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

46. Events after the reporting period *continued*

The COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections. The measures taken by various government to contain the virus have negatively affected PetroSA Ghana's results and in the first 3 months of 2020 the company has reported cumulative pre-tax losses of R84.2 million. The outbreak has resulted in a significant decline in the oil price as well as other macroeconomic indicators. A sensitivity analysis of the impairment assessment indicates that an unfavourable change in the macroeconomic indicators results in an additional impairment charge of R502.4 million.

Eskom force majeure

The impact on the AEMFC has been directly linked to its sole major client, Eskom, which has instituted a Force Majeure in April 2020, which has subsequently been lifted.

PetroSA

Ghana tax audit

The Ghana Revenue Authority (GRA) conducted an audit of PetroSA Ghana in respect of 2014-2018 years of assessment and on 9 May 2020, issued a draft audit assessment of R658.4 million in respect to corporate tax, withholding tax and branch profits tax. By engaging with the GRA, clarification of the tax treatment and calculation in the tax computations may lead to the withdrawal of the findings before the final audit assessment is issued. PetroSA submission of its corporate tax and withholding tax returns.

Dividends declaration

On 28 April 2020, the PetroSA Ghana Board approved an interim dividend of R186.9 million which was paid to PetroSA on 15 May 2020. The PetroSA Ghana Board approved a further final dividend of R167.3 million on 3 September 2020 which was paid to PetroSA on 4 September 2020.

Debt capital repayment

The borrowing base redetermination concluded in December 2019, resulted in a available facility of R1.2 billion effective 01 January 2020. This triggered a mandatory capital repayment of R100.6 million which was paid on 13 January 2020. Following the significant drop in the oil price, the borrowing base was reduced to R413.5 million, effective 1 July 2020, resulting in an additional mandatory capital repayment of R710 million which was made on 10 July 2020.

Land bank default

PetroSA Rehabilitation (NPC) has an investment with the Land & Agriculture Bank of SA (Land Bank). This investment will mature in September 2022. At the end of April 2020, Land Bank citing liquidity constraints, defaulted on two of its Domestic Term Note (DMTN) programmes, resulting in cross defaults across other debt obligations. PetroSA Rehabilitation (NPC) does not hold any investments in the DMTN programmes. Land Bank, default does not have an immediate impact on PetroSA Rehabilitation (NPC), but the future impact will be assessed and adjustment made, where necessary.

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report besides the matters mentioned above.

Strategic Stock Court Case Outcome

The Western Cape High Court delivered the judgement of the Strategic Stock Court Case on the 20 of November 2020 and at that stage even though the SFF Annual Financial Statements (AFS) were audited and signed off those AFS were yet to be published and therefore had to be updated with the Court Case Outcome.

The impact of the Judgement on the Annual Financial Statements was that SFF's Strategic Stock was re-instated and the proceeds received in respect of the Strategic Stock sale which is an amount approximately R5,662 billion was raised as a payable to the parties who had bought the Stock in December 2015 and early 2016.

The judgement had also insisted on SFF paying for Out-of-pocket expenses to the Buyers but the Boards of SFF and CEF are objecting to it hence on the 7th of December 2020 the Group had filed a notice to appeal the judgement as far as the payment of out-of-pocket expenses which could amount approximately R2,5 billion.

Tripartite Co-operation Agreement

With Instruction from CEF, SFF Association has embarked on a project to supply PetroSA SOC Ltd with condensate feedstock for the Mossel Bay Refinery. This project is being undertaken on a basis that SFF should at a bear minimum be cost neutral all the time.

All three companies are signatories to the tripartite co-operation agreement where CEF as a company is guaranteeing SFF in an unlikely event of default, CEF will make good of SFF losses.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

46. Events after the reporting period continued

Liquidity Funding Support for PetroSA

During October 2020 CEF issued a Liquidity funding support letter on ascertainment of interventions being observed and implemented by PetroSA. The letter states that it shall be treated as an unequivocal funding support by CEF to PetroSA, however it shall not give rise to any rights or obligations until definitive legal agreements have been signed including a shareholders compact agreement aligned with a CEF approved scorecard.

At the date of finalising of the financial statements the agreements were still under negotiation and this has been treated as a non-adjusting event as it is indicative of conditions that arose after the reporting period.

Withdrawal from ACWA Projec

During September 2020, the CEF board resolved to reallocate the capital set aside for the ACWA Redstone project in order to support PetroSA's immediate funding requirements. The reallocation has resulted in CEF withdrawing its commitment relating to the ACWA Redstone project previously disclosed in note 30, this has therefore been removed from the commitments disclosure.

At the date of finalising of the financial statements the agreements were still under negotiation and this has been treated as a non-adjusting event as it is indicative of conditions that arose after the reporting period.

47. Fruitless and wasteful expenditure

Figures in rand thousand	2020	2019
		Restated *
Fruitless and wasteful expenditure		
Opening balance	19 046	15 884
Expenditure relating to the current year	55 236	4 149
Discovered during the current year but relating to the prior year	49	26
Less: Amounts recovered	(70)	(365)
Less: Amounts condoned	(52 424)	(642)
Less: Investigation concluded that expenditure is not fruitless expenditure	-	(6)
	21 837	19 046
Details of fruitless and wasteful expenditure relating to the current year		
Fraudulent international payments	2 696	-
Penalties and late cancellation fees for travel and accommodation	108	81
Consulting fees incurred in vain	-	2 518
Interest on late payment of suppliers	1	1
Items individually <R50 000	11	48
Payment to provider for not meeting target and work not yet completed	-	386
Penalties and interest to SARS	52 268	1 141
Payroll fraud	145	-
Traffic violations/penalties on renewal of vehicles	1	-
Expenditure not allowed (purchase of alcohol)	1	-
	55 231	4 175

2020

Penalties and interest to SARS

R52 million for overland exports for customers' penalties and interest due to SARS at PetroSA.

Fraudulent transaction

R2.7 million for fraudulent request to change banking details resulted in an invoice for USD153 000 being paid into the incorrect bank account at **PASA**.

R145 000 for fraudulent request to change banking details of an existing employee, with the unknown individual purporting to be a PetroSA employee (**PetroSA**).

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

47. Fruitless and wasteful expenditure *continued*

Penalties and late fees for travel and accommodation

R61 000 penalties and late cancellation fees for travel and accommodation (CEF, iGAS and SFF).

Interest on late payment of suppliers

R48 000 interest on late payment of suppliers (SFF, CEF, AEMFC and CCE).

2019

Consulting fees incurred in vain

Transaction costs incurred for the revolving credit facility which was never consummated (AEMFC).

Penalties and interest to SARS

Interest and penalties on late payment of payroll related taxes (PetroSA, SFF, CEF and iGAS).

Interest on late payment to suppliers

Interest paid on late payment of accounts (CCE).

Penalties and late fees for travel and accommodation (CEF and SFF)

Penalties related to travel and accommodation.

Figures in rand thousand	2020	2019
		Restated *
Irregular expenditure		
Opening balance	456 488	2 626 424
Expenditure relating to current year	114 307	20 325
Discovered during the current year but relating to the prior year	3 075	-
Less: Amounts condoned	-	(2 190 261)
Investigation concluded that expenditure is not irregular expenditure	(2)	-
	573 868	456 488
Details of irregular expenditure relating to the current year		
Contravention of company policy	-	2
Contravention of procurement regulations	114 307	20 323
	114 3007	20 325

Contravention of company policy and contravention of procurement regulations

2020

AEMFC

Contravention is as a result of non-compliance with applicable laws and regulations in the appointment of suppliers, an amount of R59.13 million was incurred.

CEF

Expenditure incurred in the current year of R16 million relates to services of accounting and law firms for forensic investigation at PetroSA, services were either procured without obtaining three quotes or following tender process.

iGAS

The overcharged amount incurred in the prior year was recovered in the current year.

SFF

Expenditure incurred in the current year of R16 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

47. Fruitless and wasteful expenditure continued

2019

AEMFC

Contravention is as a result of non-compliance with applicable laws and regulations in the appointment of suppliers, an amount of R11.8 million was incurred.

CEF

The following expenditure was incurred in contravention of company policy and procurement regulations:

- R8.4 million for the appointment of various law firms relating to the contract review, employee related disputes and other operation related legal opinions.

iGAS

The supplier charged the entity R2 000 more than the quotation amount due to double charging VAT. Subsequent to year-end the funds were recovered from the supplier.

SFF

A vendor used a different company to quote, but submitted a similar company name for payment for an amount of R20 000.

Fields in production and under development

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

1. Movement in net remaining proved and probable reserves

	Crude oil/ condensate MMbbl 2020	Gas Bscf 2020	Crude oil/ condensate MMbbl 2019	Gas Bscf 2019
At the beginning of year	17	64	19	77
Revisions of previous estimates	(4)	(5)	-	9
Production	(2)	(27)	(2)	(22)
Additions	2	1	-	1
	13	33	17	65

2. Proved and probable by type of field

Fields in production	13	34	17	65
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3. Reserves by category

Proved	7	15	10	40
Proved and probable	13	34	17	65
	20	49	27	105

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 earlier have been determined by independent reservoir engineers.

* See Note 2

The supplementary information presented does not form part of the Consolidated Annual Financial Statements and is unaudited.

Definition of Financial terms

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

Below is a list of definitions of financial terms used in the Annual Report of the 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. A present economic resource controlled by the entity as a result of past events.

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.

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.

The supplementary information presented does not form part of the Consolidated Annual Financial Statements and is unaudited.

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

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.

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 IFRS.

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.

The supplementary information presented does not form part of the Consolidated Annual Financial Statements and is unaudited.

Definition of Financial terms continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

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.

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 from operations before depreciation, amortisation, impairment of assets, investment revenue, fair value adjustment, income/(loss) from associates and net financed costs.

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

The supplementary information presented does not form part of the Consolidated Annual Financial Statements and is unaudited.

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

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.

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 nonderivative 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
- (b) 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.

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 contract.

Floating production storage and off loading 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.

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Definition of Financial terms continued

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

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 (e.g. 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 result in increases in equity, other than those relating to contributions from equity participants.

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.

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CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

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, i.e. 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.

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

Operating lease

A lease where the lessor retains substantially all the risks and rewards incidental to ownership of an asset.

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Definition of Financial terms *continued*

CEF Group Consolidated Annual Financial Statements for the year ended 31 March 2020

Other comprehensive income

Comprises items of income and expense (including reclassification adjustments) that are not recognised 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.

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, 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.

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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.

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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