PetroSA

# 2015 Integrated Annual Report

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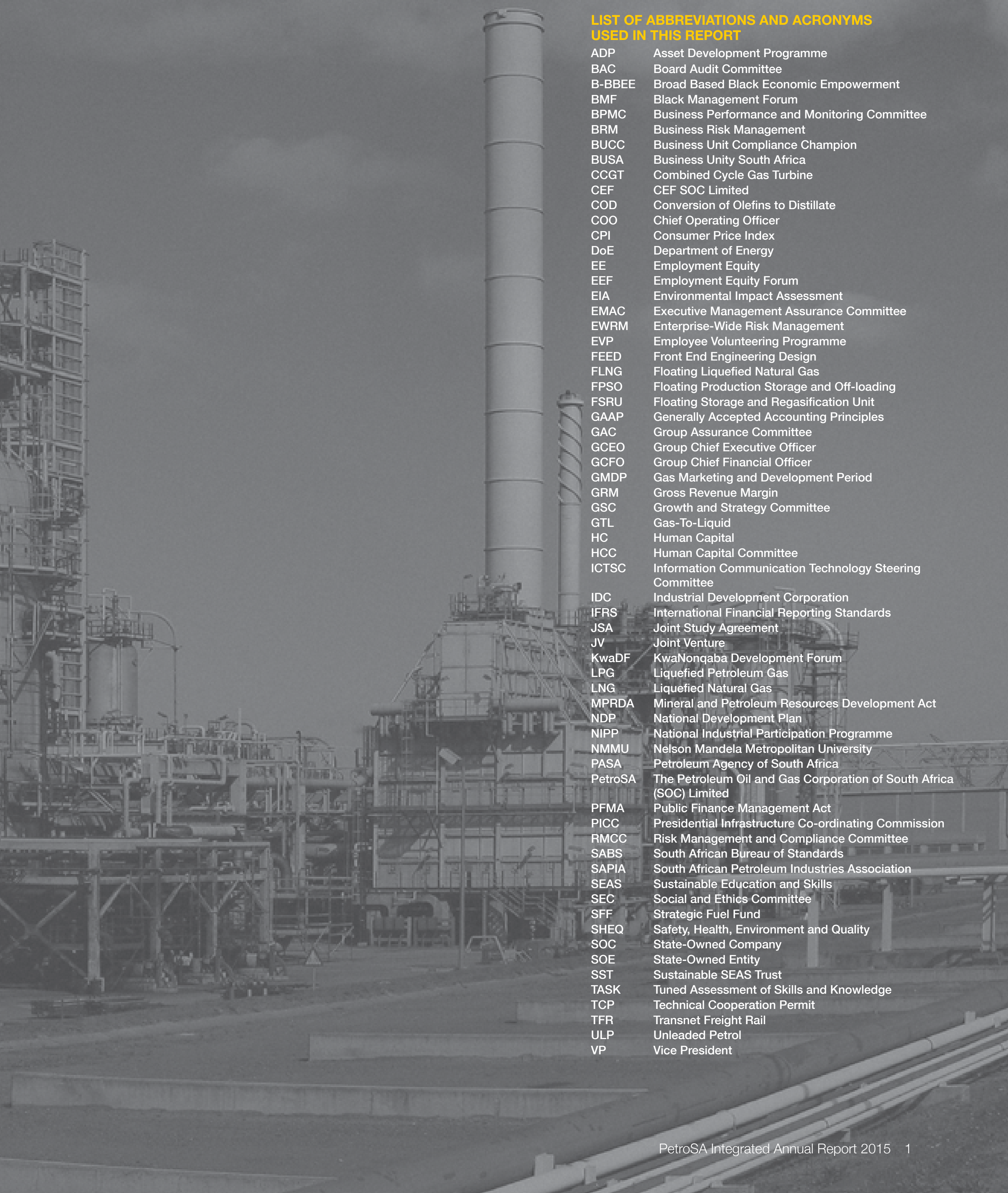
## Review of the 2014/15 Financial Year


## Financial performance


The following supplementary information does not form part of the audited annual financial statements and is unaudited:



## LIST OF ABBREVIATIONS AND ACRONYMS USED IN THIS REPORT

| | |
|---|---|
| ADP | Asset Development Programme |
| BAC | Board Audit Committee |
| B-BBEE | Broad Based Black Economic Empowerment |
| BMF | Black Management Forum |
| BPMC | Business Performance and Monitoring Committee |
| BRM | Business Risk Management |
| BUCC | Business Unit Compliance Champion |
| BUSA | Business Unity South Africa |
| CCGT | Combined Cycle Gas Turbine |
| CEF | CEF SOC Limited |
| COD | Conversion of Olefins to Distillate |
| COO | Chief Operating Officer |
| CPI | Consumer Price Index |
| DoE | Department of Energy |
| EE | Employment Equity |
| EEF | Employment Equity Forum |
| EIA | Environmental Impact Assessment |
| EMAC | Executive Management Assurance Committee |
| EWRM | Enterprise-Wide Risk Management |
| EVP | Employee Volunteering Programme |
| FEED | Front End Engineering Design |
| FLNG | Floating Liquefied Natural Gas |
| FPSO | Floating Production Storage and Off-loading |
| FSRU | Floating Storage and Regasification Unit |
| GAAP | Generally Accepted Accounting Principles |
| GAC | Group Assurance Committee |
| GCEO | Group Chief Executive Officer |
| GCFO | Group Chief Financial Officer |
| GMDP | Gas Marketing and Development Period |
| GRM | Gross Revenue Margin |
| GSC | Growth and Strategy Committee |
| GTL | Gas-To-Liquid |
| HC | Human Capital |
| HCC | Human Capital Committee |
| ICTSC | Information Communication Technology Steering Committee |
| IDC | Industrial Development Corporation |
| IFRS | International Financial Reporting Standards |
| JSA | Joint Study Agreement |
| JV | Joint Venture |
| KwaDF | KwaNonqaba Development Forum |
| LPG | Liquefied Petroleum Gas |
| LNG | Liquefied Natural Gas |
| MPRDA | Mineral and Petroleum Resources Development Act |
| NDP | National Development Plan |
| NIPP | National Industrial Participation Programme |
| NMMU | Nelson Mandela Metropolitan University |
| PASA | Petroleum Agency of South Africa |
| PetroSA | The Petroleum Oil and Gas Corporation of South Africa (SOC) Limited |
| PFMA | Public Finance Management Act |
| PICC | Presidential Infrastructure Co-ordinating Commission |
| RMCC | Risk Management and Compliance Committee |
| SABS | South African Bureau of Standards |
| SAPIA | South African Petroleum Industries Association |
| SEAS | Sustainable Education and Skills |
| SEC | Social and Ethics Committee |
| SFF | Strategic Fuel Fund |
| SHEQ | Safety, Health, Environment and Quality |
| SOC | State-Owned Company |
| SOE | State-Owned Entity |
| SST | Sustainable SEAS Trust |
| TASK | Tuned Assessment of Skills and Knowledge |
| TCP | Technical Cooperation Permit |
| TFR | Transnet Freight Rail |
| ULP | Unleaded Petrol |
| VP | Vice President |

# ABOUT THIS REPORT

The 2015 PetroSA Integrated Annual Report (or "integrated report") offers a comprehensive review of our company's performance, challenges and opportunities during the 2014/15 financial year.

This report provides our stakeholders with an insight into our recent financial, operational, social and environmental performance as well as ongoing efforts to create sustainable value going forward.

## SCOPE AND BOUNDARY

The integrated report provides information on PetroSA's main business operations, functions, projects, investments and joint ventures. The report narrative (pages 6 to 85) combined with the consolidated annual financial statement's (pages 90 to 158) provide all information relevant to our stakeholders and required to comply with the reporting standards we subscribe to.

## MATERIALITY

To ensure that this report is accurate, relevant and consistent, the reporting process is informed by the key material issues impacting on, or impacted by the business. The responsibility for determining such materiality is ultimately held by the PetroSA Board.
The process is informed by:

- comprehensive collaboration and input involving relevant PetroSA internal and external stakeholders;
- business and operational priorities;
- key strategic focus areas; and
- detailed and ongoing assessment of risks and opportunities.

## ASSURANCE

Assurance regarding the contents of this report is achieved through an internal assurance process.

At an internal level, the Group Chief Executive Officer (GCEO) takes ultimate responsibility for the correctness and relevance of the contents of the report, however, the Executive Management provides assurance that it has implemented, monitored and managed all relevant controls, compliance, governance and reporting requirements. This ensures the reliability and integrity of the information presented in this report.

External assurance of our financials is provided by the Group's external auditors, and their audit opinion can be found on page 90 of this report.

## REPORTING STRUCTURE AND FRAMEWORKS

Every effort has been made to align with the integrated reporting requirements of the King III Code of Good Practice. The report also conforms to the standards and requirements of the South African Companies Act No 71 of 2008.

The Orca off the coast of Mossel Bay

# OUR BUSINESS



# ABOUT US

The Petroleum Oil and Gas Corporation of South Africa SOC Limited (PetroSA) was formed in 2002 through the merger of Soekor E and P (Pty) Limited, Mossgas (Pty) Limited and parts of the Strategic Fuel Fund (SFF), a subsidiary of CEF SOC Limited.

PetroSA is registered as a commercial entity under South African law. CEF SOC Limited (PetroSA's shareholder), is wholly owned by the Government of South Africa and reports to the Department of Energy (DoE).

We own the **world's first** GTL refinery. The Mossel Bay GTL refinery is now the **world's third largest**

Our business spans the **entire petroleum value chain**

We produce **ultra-clean, low-sulphur, low-aromatic** synthetic fuels and high-value products

We are **industry leaders in transformation**, championing national objectives in the petroleum industry

Our strategy is consistent with the National Development Plan (NDP)

Our talent for innovation is **recognised globally**, as we continue to develop and own **award-winning** GTL technology

# OUR MANDATE

PetroSA is mandated to operate as an integrated commercial entity and create value for its shareholder and all its stakeholders. Delivering on the mandate goes beyond contributing to the national economy through tax and dividend payments. Our mandate includes making a significant contribution towards advancing the broader national objectives of the South African Government such as economic growth, job creation and industry transformation for the ultimate benefit of all the country's citizens.

## HIGHLIGHTS FOR THE 2014/15 FINANCIAL YEAR

The USD150 million bridge loan facility raised for the acquisition of PetroSA Ghana was fully repaid in February 2015.

The Group's total discretionary procurement for the period under review, in terms of the B-BBEE codes (i.e. level 1 – 8), was R8.7 billion equating to 103.1% of discretionary spend.

The Company achieved a level 2 B-BBEE status.

Cost optimisation efforts yielded a saving of R1.2 billion in the year under review.

# OUR VISION

To be the leading African energy company

# OUR MISSION

To be the leading provider of hydrocarbons and related quality products by leveraging our proven technologies and harnessing our human capital for the benefit of all our stakeholders

# OUR VALUES

Stewardship

Honesty

Integrity

Respect

Transparency

# ORGANISATIONAL STRUCTURE

**OFFICE OF THE CEO**
Group Chief Executive Officer

**FINANCE**
Group Chief Financial Officer

**OFFICE OF THE COO**
Chief Operating Officer

**CORPORATE AFFAIRS AND SHARED SERVICES**
VP: Corporate Affairs and Shared Services

**HUMAN CAPITAL**
VP: Human Capital

**NEW VENTURES UPSTREAM**
VP: New Ventures Upstream

**NEW VENTURES MIDSTREAM**
VP: New Ventures Midstream

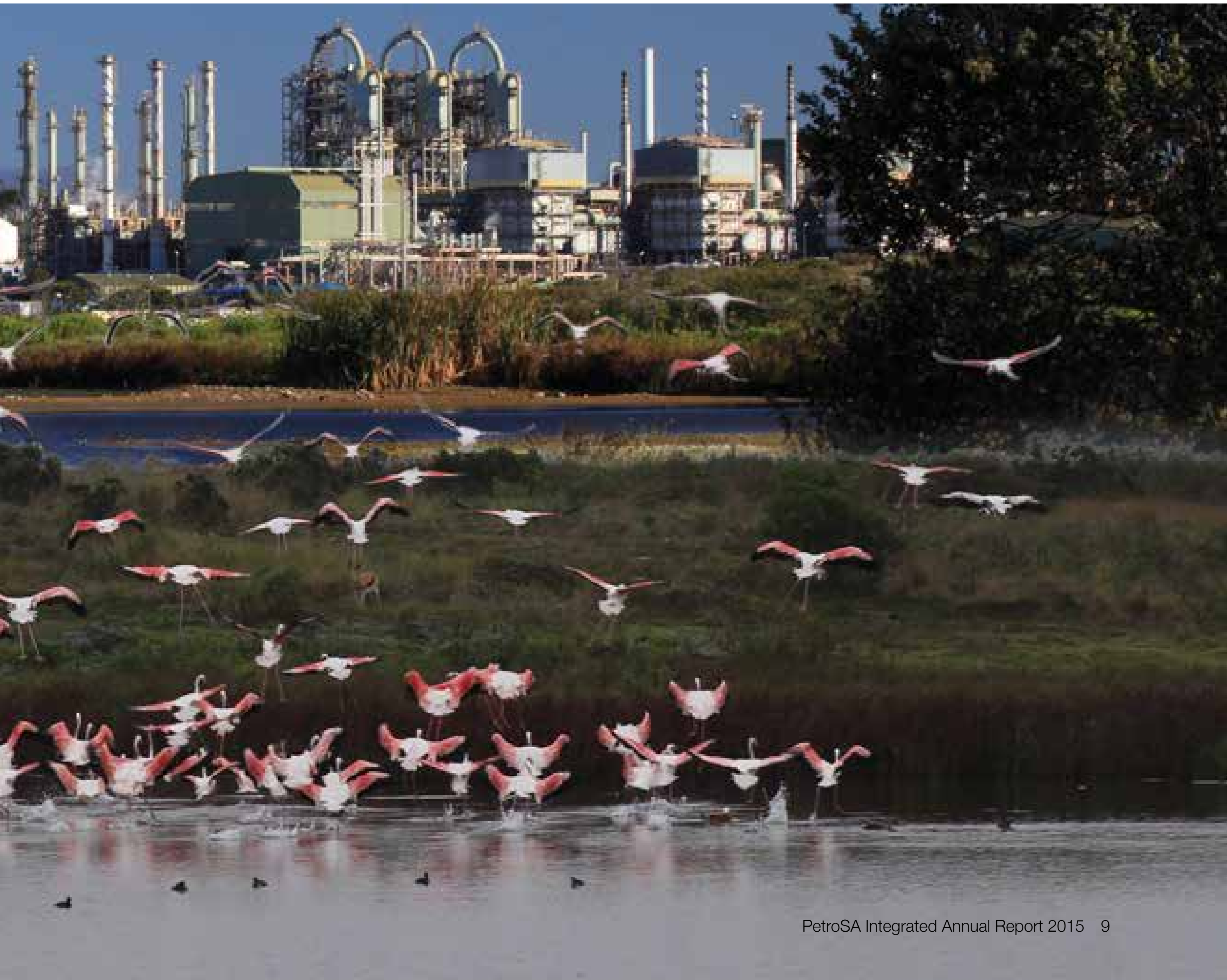
**OPERATIONS**
VP: Operations

**TRADING, SUPPLY AND LOGISTICS**
VP: Trading, Supply and Logistics

The GTL refinery, Mossel Bay

# WHAT WE DO

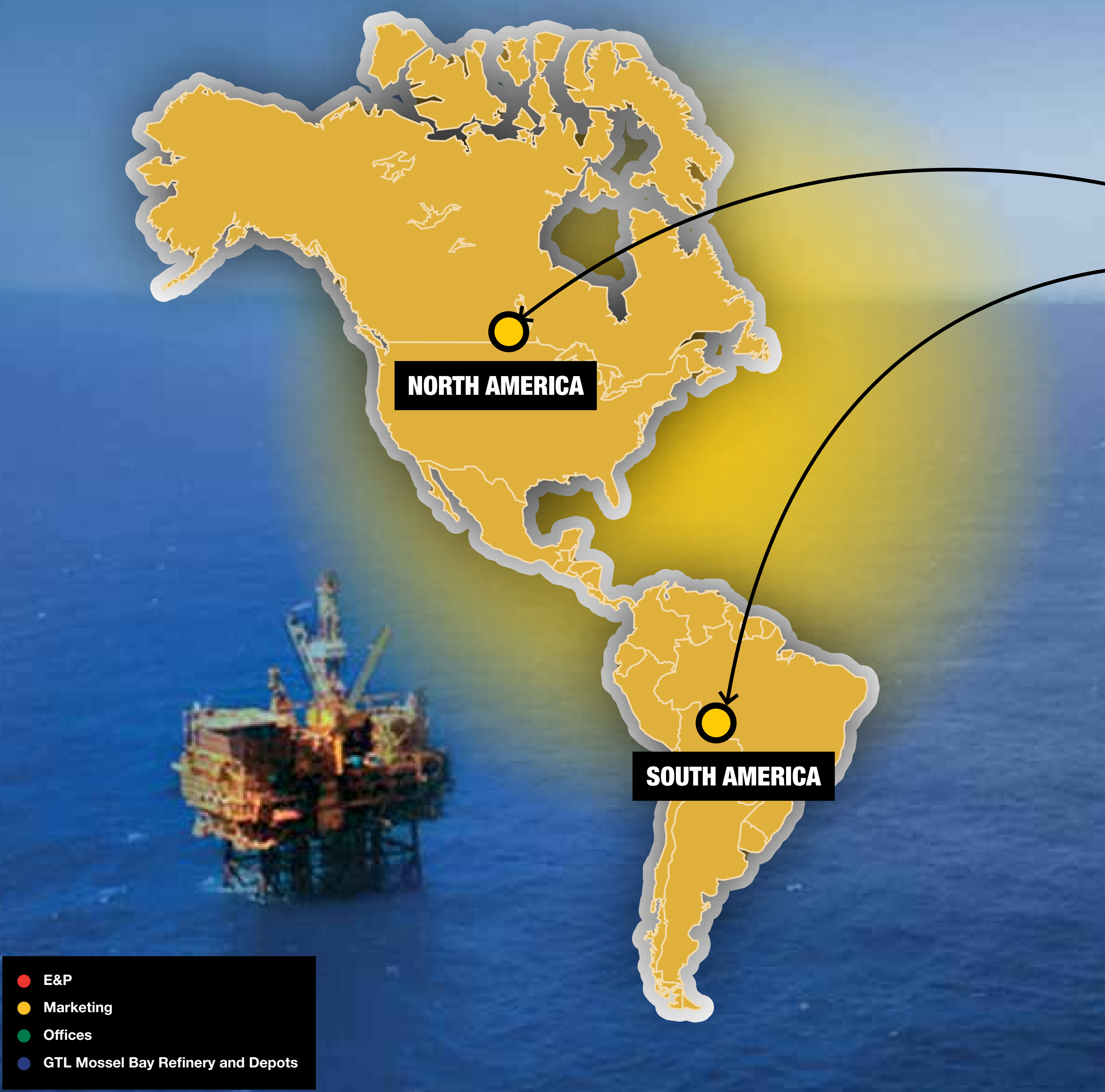
- Exploration and production of oil and natural gas resources locally and internationally. Locally, we operate the FA-EM, South Coast and F-O gas fields. In addition, we have exploration acreage on the west coast of South Africa. Internationally, we have producing and development assets in Ghana.
- Production of synthetic fuels from offshore gas. The GTL refinery produces ultra-clean, low-sulphur, low-aromatic synthetic fuels and high-value products converted from natural methane-rich gas and condensate using the unique GTL Fischer-Tropsch technology. Key commodities we produce include unleaded petrol, diesel, kerosene, fuel oil, propane, LPG, export distillates and alcohols.
- Development of domestic refining and liquid fuels logistical infrastructure.
- Marketing and trading of oil and petroleum products locally and internationally. We sell most of our fuel and fuel-related products to major oil companies operating in South Africa. These also include high-value speciality chemicals sold in the local and international markets.



# OUR GLOBAL FOOTPRINT

## International footprint

PetroSA has formed multiple partnerships with international players across the value chain.




EUROPE
Office in Rotterdam
The Netherlands
MIDDLE EAST
FAR EAST
PetroSA Ghana
PetroSA Equatorial
Guinea
Mozambique Office
RSA West Coast
development
Johannesburg Office
GTL Refinery
Cape Town Office
South Coast development
(including Project Ikhwezi)

## OUR STRATEGY

# The Vision: To be the leading African energy company

**The short- to medium-term strategy of the company is based on the following objectives:**

- Competitively operate PetroSA in a sustainable commercial manner by ensuring sustainability of the GTL Refinery and creating alternative revenue streams
- Assist in attaining Security of Supply of Liquid Fuels for South Africa
- Support and drive transformation in the Liquid Fuels Sector
- Ensure that PetroSA operates in a safe, healthy, and environmentally responsible manner, whilst upholding SHEQ imperatives

## Sustainability

**Sustain, stabilise, execute and build confidence**

Project Ikhwezi
Gas-to-power
Cost optimisation
PetroSA Ghana – Jubilee
Logistics base
Trading
ADP

## Growth

**Add reserves; add refining capacity; increase cleaner fuels; enter downstream; grow market share; diversify income streams**

PetroSA Ghana – TEN Development
Liquefied Natural Gas
Block 9/11a Prospects
Commitments in RSA (West Coast)
Downstream entry
Shale Gas

## Transformation

**Achieve organisational and societal transformation. Position organisation for competitive growth**

B-BBEE (including Enterprise and Supplier Development; Employment Equity)

## SHEQ

**Operating safely and in an environmentally and socially responsible manner**

Adhere to world-class SHEQ standards

**HUMAN CAPITAL**

**GOVERNANCE**

**TECHNOLOGY**

# PERFORMANCE AGAINST OBJECTIVES

**A summary of the Petroleum Oil and Gas Corporation of South Africa SOC Ltd Company business performance against objectives is contained in the table below:**

| Objective | Key Performance Indicator | Target | Actual | Performance results |
|---|---|---|---|---|
| | **To deliver on transformational initiatives** | | | |
| **1. TRANSFORMATION** | 1.1 Women as a % of PetroSA's total population | 33% | 31% | Not achieved |
| | 1.2 Females promoted as % of total promotions | 40% | 34.4% | Not achieved |
| | 1.3 People with disabilities as a % of PetroSA's total population | 2.5% | 2.2% | Not achieved |
| | 1.4 Preferential procurement | 50% of discretionary spend | 103.1% | Achieved |
| | 1.5 BEE sales | 350 Mℓ | 274 Mℓ | Not achieved |
| **Objective** | **Key Performance Indicator** | **Target** | **Actual** | **Performance results** |
| | **To optimise profitability through revenue enhancement and/or cost reduction** | | | |
| **2. FINANCE** | 2.1 Gross margin percentage | 14% | 5.8% | Not achieved |
| | 2.2 Return on assets managed (excluding interest) | 2% | (75.5%) | Not achieved |
| | 2.3 Net operating margin | 2% | (83%) | Not achieved |
| **Objective** | **Key Performance Indicator** | **Target** | **Actual** | **Performance results** |
| | **To obtain the appropriate stakeholder support** | | | |
| **3. STAKEHOLDERS** | 3.1 Approval rating from stakeholders | 75% – 85% | 77.3% | Achieved |
| **Objective** | **Key Performance Indicator** | **Target** | **Actual** | **Performance results** |
| | **4.1 SHEQ** | | | |
| **4. INTERNAL BUSINESS PROCESSES** | 4.1.1 Fatalities | 0 | 0 | Achieved |
| | 4.1.2 Disabling Injury Frequency Rate (DIFR) | <0.4 | 0.32 | Achieved |
| | 4.1.3 Environmental incidents | 12 | 7 | Achieved |
| | 4.1.4 Occupational hygiene survey | 80% | 87.1 | Achieved |
| | 4.1.5 Quality | Retain certification and 85% of internal quality audits completed | Retained certification; 94.5% of audits completed | Achieved |

# PERFORMANCE AGAINST OBJECTIVES (continued)

| Objective | Key Performance Indicator | Target | Actual | Performance results |
|---|---|---|---|---|
| **4. INTERNAL BUSINESS PROCESSES (CONTINUED)** | **4.2 Sustainability** | | | |
| | 4.2.1 Total indigenous GTL refinery production and F-O (7.2047) | 3.0597 MMbbls | 0.325 MMbbls | Not achieved |
| | | 4.145 MMbbls | 4.412 MMbbls | Achieved |
| | 4.2.2 Execute the LNG project – complete FEED in preferred location | 31 March 2015 | Feasibility study completed for a LNG onshore terminal in Saldanha. | Not achieved |
| | 4.2.3 Execute ADP Project – complete ADP feasibility for Thermal Cracker and select preferred ADP Option | 31 March 2015 | Feasibility study for Thermal cracker completed. Pre-feasibility study for the Liquid FEED and Gas to Wax options completed on schedule. | Achieved |
| | 4.2.4 Project Ikhwezi development executed on schedule according to approved development plan | 4.2.4.1 First Gas by end June 2014 | First gas from F-O10 in Dec 2014. | Not achieved |
| | | 4.2.4.2 Project costs within total projected project cost of US$1 295 million +/- 1% (includes contingencies) | US$1 285 million Costs exceeded on a per well basis | Not achieved |
| | **4.3 Growth initiatives** | | | |
| | 4.3.1 To enter the downstream market | 4.3.1.1 Execute Project Irene | | |
| | | – Implement share purchase agreement (SPA) by 31 March 2015 | SPA not executed/ signed due to lack of funding | Not achieved |
| | | – Conclude the memorandum of incorporation for the Lubricants Joint Venture (JV) by 31 December 2014 | MOI could not be executed as the project was cancelled due to lack of funding | Not achieved |
| | | – Develop the business integration strategy for Project Irene by 31 March 2015 | Target not met due to cancellation of project | Not achieved |
| | | 4.3.1.2 Project Mthombo | | |
| | | Secure funding partner and execute feasibility study according to schedule and agreed PEM deliverables by 31 March 2015 | Executive responsibility of project has been moved to the Department of Energy | Not achieved |
| | | 4.3.1.3 Improve operating margin for the trading business from 2% to 3% | 1.1% | Not achieved |
| | | 4.3.1.4 Implement commercial and industrial sales strategy, including LPG. Target Volumes: 100ML | 43.78 ML | Not achieved |
| | **4.4 To grow the upstream resource base, reserves and production for long-term profitability** | | | |
| | To complete 100% of the 2014/15 milestones for work programme | 100% complete by 31 March 2015 | <80% of the 2014/15 Milestones for Work Programme completed. Refer to note 4.4 | Not achieved |

# STAKEHOLDER ENGAGEMENT

PetroSA is committed to engaging with all its stakeholders.

The company recognises that stakeholders are critical to the achievement of strategic goals and long-term sustainable growth. Effective stakeholder engagement is an imperative.

## STAKEHOLDER ENGAGEMENT STRATEGY

PetroSA developed an integrated stakeholder engagement strategy guided by King III, the International Integrated Reporting Council (IIRC), with input from senior management, as well as the Social and Ethics Committee of the PetroSA Board of Directors (the Board). It is envisaged that the strategy will be in full implementation mode by the 2015/16 financial year, which will include the popularisation of a newly developed stakeholder management system hosted on the company intranet.

FA Platform offshore Mossel Bay

## STAKEHOLDER RELATIONS SURVEY

To test the veracity of relationships with its stakeholders, the company has been opening itself to scrutiny by conducting independent research of how it is perceived at the end of each of the past three financial years. The 2014/15 instalment of this research covered nearly 3 000 respondents nationally, as well as internal stakeholders. Results show a lower approval rating than the previous year. Nonetheless, stakeholder perceptions were still rated positive and PetroSA achieved a marginal improvement in the area of government's support for its projects:

- Brand awareness was lower than the previous year (2014: 61%), although still positive at 47%.
- Perception of relations with the Eden District (including Mossel Bay), fell from 69% to 66%.
- Internal stakeholders rated the company at 30%, expressing concerns related to company performance.
- External stakeholders gave the company an approval rating of 77.25% against the internally set target of 75%-85%.

## IMPROVEMENTS FOR 2015/16

- Stakeholder complaints register system to be implemented
- Software to capture all stakeholder engagements
- Adoption of AA 1000 principles of stakeholder engagement in line with inclusivity, materiality and responsiveness or Global Reporting Index (GRI)
- Stakeholder engagement training
- Addressing the leakage of critical information

## CONCLUSION

The year has been challenging and the difficulties PetroSA experienced in the implementation of key projects necessitated intensive and regular engagements with key stakeholders, in particular regarding its capacity to sustain the GTL refinery and grow its fuel supply footprint. Guided by a clear corporate turnaround plan, the stakeholder engagement strategy will be implemented, with a view to positively impact the identified gaps on internal and external stakeholder expectations.


Board induction programme

## STAKEHOLDER ENGAGEMENT ACTIVITIES FOR 2014/15 AND MATERIAL ISSUES ADDRESSED

| Stakeholder/project | Issues – Opportunities, challenges, concerns |
|---|---|
| **PROJECT IKHWEZI (PetroSA'S EXPLORATION PROJECT)** | |
| **Government**<br>**Department of Energy**<br>**Ministry of Energy**<br>**Department of Mineral Resources (DMR)** | **Progress of the project against business expectation**<br>Interest by the Minister and government in the progress towards securing additional natural gas feedstock for the refinery. The project has made some progress, but did not meet the expectations of business.<br>The temporary withdrawal of the F-O production licence in response to a B-BBEE query. The licence was reinstated and drilling for gas continued. |
| **PROJECT IRENE (PetroSA'S ENTRY INTO THE DOWNSTREAM SECTOR)** | |
| **Government Departments and Ministries: Energy, Trade and Industry and National Treasury** | **Government support and approval for the Project Irene transaction to proceed**<br>Considerations about the deal costs and ability of PetroSA to raise the requisite funds. Engagements to secure government support and approvals were embarked on over the period. |
| **PROJECT LIQUEFIED NATURAL GAS (LNG)** | |
| **Government departments of Environmental Affairs, and Trade and Industry**<br>**Western Cape Province and Cape Town Metropolitan Municipality**<br>**Industrial Development Zones**<br>**Mossel Bay community and other interest groups** | **Appropriate location of the LNG receiving facility**<br>Alignment with all stakeholders on the Environmental Impact Assessment process (EIA), considerations for suitable land and consultation on B-BBEE requirements for projects of this nature.<br>Update sessions held with interested parties to communicate the decision to relocate the LNG project outside the Southern Cape.<br>PetroSA was also part of the Eskom War Room. |
| **PROJECT MTHOMBO (NEW CRUDE REFINERY FOR SA)** | |
| **Government**<br>**IDC**<br>**Department of Energy**<br>**Presidential Infrastructure Coordinating Commission** | **Establishing a new crude oil refinery**<br>Engagements with potential partners in an effort to secure funding for feasibility study. The Department of Energy is currently leading the efforts towards the realisation of this Initiative. |
| **TRADING, SUPPLY AND LOGISTICS** | |
| **Potential Clients/Suppliers** | **Prospecting customers**<br>Signing of cooperation agreements, thus strengthening PetroSA's relations with other countries with a view to either purchasing product for the company's customers or securing new outbound markets. Progress is gradually being made in this regard. |
| **Eskom** | **Ensuring PetroSA's diesel supply into the national grid**<br>Daily communication and planning with Eskom to ensure PetroSA's diesel supply to the power stations in Mossel Bay and Cape Town. |
| **LABOUR RELATIONS** | |
| **Employee Relations Forum**<br>**Trade Unions** | **Concern with the future of PetroSA in terms of sustainability and viability.**<br>Following the cost-saving and revenue generation BillionPlus Project, management began engagements with trade unions Ceppwawu, Solidarity and representatives of non-unionised employees in terms of section 189 of the LRA (Labour Relations Act). The consulting parties are busy sharing information and putting into place measures to mitigate the adverse effects of headcount reduction. This process is ongoing and in March 2015 a Contemplation Letter was issued to the Unions and non-unionised employees. |
| **COMMUNITY ENGAGEMENT** | |
| **Eden District Municipality**<br>**Mossel Bay Community**<br>**Mossel Bay Business Chamber**<br>**Mossel Bay NGO Forum**<br>**Greater KwaNonqaba Development Forum (GKwaDF)**<br>**Pinnacle Conservancy**<br>**Mossel Bay Municipality** | **Employment and business opportunities**<br>PetroSA is an integral part of the Eden District Municipality, particularly the Mossel Bay community. In this regard, the company values its participation on the various platforms in this region.<br>PetroSA has been able to facilitate valuable engagements with the Presidency and the Department of Energy in this region.<br>**Care for the environment**<br>A PetroSA partnership with Pinnacle Conservancy, Mosselbay, is making a significant impact to bring environmental awareness to local youth through the PetroSA Nature Reserve Outreach programme. |

| Stakeholder/project | Issues – Opportunities, challenges, concerns |
|---|---|
| MEDIA ENGAGEMENT | |
| **Media** | **Information sharing**<br><br>PetroSA responded to numerous media enquiries in the year under review. Media interest in PetroSA concerned investigations by the company against former executives, progress of Project Ikhwezi, the initiative to establish a downstream presence and the ongoing search for feedstock. To ensure that these media enquiries were adequately responded to, PetroSA, among others, hosted a media briefing session at its Mossel Bay GTL Refinery to brief journalists on its various projects. The company also issued a number of statements during the period under review to update the media on these and many other developments.<br><br>A survey done by an independent media monitoring agency has tabulated that in the year under review PetroSA had an Advertising Value Equivalent (AVE) of R54,2 million. AVE is the value of the free editorial coverage generated about PetroSA in print, online and broadcast media. |
| INDUSTRY ENGAGEMENT | |
| **SAPIA** | **Security of fuel supply for South Africa**<br><br>As a member of the Board of Governors at SAPIA, PetroSA participates and makes inputs relating to security of national fuel supply. |
| **Offshore Petroleum Association of South Africa (OPASA)** | Strategic involvement in the industry.<br><br>As a member of this association, PetroSA contributes to discussions on exploration of offshore petroleum. |
| MINERALS AND PETROLEUM RESOURCES DEVELOPMENT ACT (MPRDA) | |
| **National Parliamentary Committees, government departments and Central Energy Fund** | Strategic and commercial impact of the amendments of the MPRDA on the South African economy, and the highlighting of PetroSA's expertise and experience in the field of petroleum exploration.<br><br>Internally prepared, expert-based input by the PetroSA teams was submitted, to assist the drafters of the Amendment Bill.<br><br>Representations, debate and discussions were held with various external stakeholders |
| GAS INDUSTRY OUTLOOK | |
| **Parliamentary Portfolio Committee on Energy (PCE)** | **Future direction of the gas industry**<br><br>In response to parliament's invitation an industry discussion around the future direction of the gas sector took place.<br><br>**Exploration and exploitation of shale gas onshore** |
| **Government**<br>**Department of Mineral Resources**<br>**Department of Energy** | Participation to give input towards developing new technical regulations to manage exploration and exploitation of shale gas reserves in the Karoo.<br><br>PetroSA remains keen to participate in shale gas exploration, a potential game changer for the company and the country's energy security. |
| INTERNATIONAL RELATIONS | |
| **Government-to-government relations** | **Promoting opportunities for exploration, sourcing and selling**<br><br>Engagements to gain significant offshore exploration presence in, sourcing product from, or selling to a number of countries in the African Continent and Europe. |

# PetroSA Board

# THE BOARD OF DIRECTORS

## Gillian Nonhlanhla Jiyane (Interim Chairman)

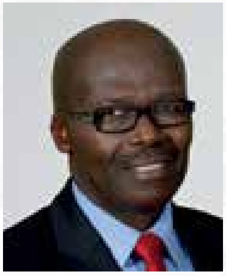
**BCom (Acc), Postgrad Dip (Acc), CA(SA), MCom (Taxation)**

Ms Jiyane is a Chartered Accountant (SA). She has worked at Shell, BP, SARS and at the Department of Public Works as the Chief Financial Officer. Currently, she is the managing partner at Chili & Co and serves as a director at various entities including Thebe Investment Corporation and Kwezi Software Solutions, as well as on various Audit Committees. Ms Jiyane was appointed to the PetroSA Board in November 2014.

## William Solomon Steenkamp

**Certificate in Management MANCOSA**

Mr Steenkamp served as the African National congress (ANC) Northern Cape Provincial Secretary and ANC National Executive Committee member from 1992–1996. He served as South Africa's Consul General to Milan, Italy 1998–2000. He is the Managing Owner of Eagle Services since 2001 which is a fibre optic infrastructure build company, as well as socio-economic research consulting business. He is one of the founders and shareholder of Nexus Connexion which is the BEE company partner of NEOTEL. He serves on the Perishable Products Export Control Board and chairs its ICT Committee. He also serves on the Board of PRASA and chairs its SHEQ Committee. Mr Steenkamp was appointed onto the PetroSA Board in November 2014 and chairs the HC Committee.



## Smunda Shadrack Mokoena

**BSc (Eng), GCC (Mines and Works), MBA**

Mr Mokoena has over 25 years' experience in the mining and energy sectors. He spent over 14 years in the public sector where he was involved in infrastructure development, policy-making and economic regulation. He has served on the boards of CEF SOC Limited, NECSA, iGas and Süd Chemie Zeolites (Chairman). Mr Mokoena was appointed to the PetroSA Board in January 2013.

## Bhekabantu Wilfred Ngubane

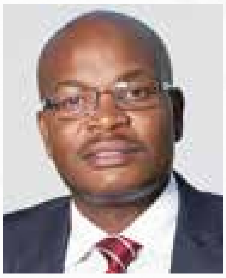
**BCompt, Dip Acc, CA(SA)**

Mr Ngubane is the founder and CEO of Ngubane and Co. Chartered Accountants, which now has offices in four provinces. As a Registered Auditor, he has serviced many high-profile entities, such as Transnet, the University of KwaZulu-Natal and Umgeni Water. Mr Ngubane was appointed to the PetroSA Board in November 2014.

## Johlene Christine Ntwane

**BA (Hons) Anthropology; Cert Public Relations; Cert Public Admin**

Mrs Ntwane is the Managing Director of K2011 (Pty) Limited Agricultural Research Consultancy. Previously, she was the Managing Director of Inis Consulting Solutions, a project management company. She serves on many boards and trusts, including the McGregor Museum Board, Central Drug Authority of South Africa, Winter Cereal Trust and the Vaal University of Technology Council. Ms Ntwane was appointed to the PetroSA Board in November 2014.



## Siphamandla Kenneth Mthethwa

**BCom (Acc), BCompt (Hons), Postgrad Dip (Acc/CTA), CA(SA)**

A Chartered Accountant, Mr Mthethwa is a former General Manager: Finance, with state-owned power utility Eskom. Before that he also worked in the field of corporate and merchant banking. His speciality is in the area of capital management, auditing, project finance, mergers and acquisitions. He has also worked for Standard Chartered Merchant Bank, Deloitte and Absa Capital. Mr Mthethwa was appointed to his current position of Group Chief Financial Officer at the CEF SOC Limited Group of Companies in December 2013. He currently also acts as the CEF SOC Limited Group CEO. Mr Mthethwa was appointed to the PetroSA Board in December 2014.

## Owen Cedric Tobias

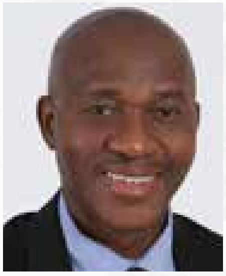
**BA LLB, PMD**

Mr Tobias is a registered attorney and a partner at Webber Wentzel Inc., where he is responsible for integrated upstream and downstream oil and gas practices in sub-Saharan Africa. His experience in the petroleum industry includes having worked at Engen Petroleum as a managing director of Engen Kenya, and at PetroSA as Head: Legal Counsel. Mr Tobias was appointed to the PetroSA Board in November 2014.

## Lemuel Edwin Dumisa Hlatshwayo

**BCom, BCompt (Hons), CTA, CA (SA), MBA**

Mr Hlatshwayo is the Chairman of Imisebe Investment Holdings, which he founded in 1996, a board member of the Road Accident Fund and an independent member of the Board Audit and Risk Committee of CEF SOC Limited. He joined the PetroSA Board in April 2013 and has served as Chairman of the PetroSA Board Risk and Compliance Committee. Mr Hlatshwayo resigned from the PetroSA Board as of 1 April 2015.



## Muzi W Mkhize

**BSc (Chem Eng), BCom, MBL**

Mr Mkhize is Chief Director: Hydrocarbons at the Department of Energy. He has more than 10 years' working experience in the energy industry, which he accumulated after his engineering studies. He joined the Department of Minerals and Energy in 2005. Mr Mkhize previously served on the CEF SOC Limited, iGas and SFF Boards. He joined the PetroSA Board in January 2015.

# EXECUTIVE DIRECTORS

## Nosizwe Nokwe-Macamo

**Group Chief Executive Officer**

**MSc Engineering**

Mrs. Nokwe-Macamo is a Petro-Chemical Engineer having specialised in Petrochemical Technology and Basic Organic Synthesis. She has a rich and diverse experience in the Petroleum Industry having worked in the sector for 18 years, firstly at Engen Petroleum and thereafter at Total SA. She brings with her a wealth of experience in Logistics Management, Supply Planning and Optimisation, Product Trading, Refinery Processing, Marketing, HSEQ, Project Management, International Business Development, Corporate Strategy and Planning. Mrs Nokwe-Macamo also has experience in the Public sector, having been the Director General of Gauteng Province, prior to joining PetroSA. Mrs Nokwe-Macamo also has experience in Corporate Governance, having served as an Executive Director and an Independent Director on both listed and State-owned company boards over 11 years. She joined PetroSA as Group CEO in March 2012.

## Lindiwe Mthimunye-Bakoro

**Group Chief Financial Officer**

**BCom, MCom, HDip Tax (Law), CA(SA)**

Ms Mthimunye-Bakoro joined PetroSA as Group Chief Financial Officer (GCFO) in November 2013. After qualifying as a Chartered Accountant (SA), she started her merchant banking career with Rand Merchant Bank as a structured financier. She later founded a company providing infrastructure and financial advisory services. She has served on the boards of various listed and unlisted companies.

## Kgadi Kekana

**Company Secretary**

**BProc, MBL, EDP**

Ms Kekana is an admitted attorney. She has worked for various leading multinational companies as Head of Legal, Compliance and Company Secretariat in various jurisdictions including the SADC region, East and West Africa. She joined PetroSA on 1 December 2013.

# INTERIM CHAIRMAN'S STATEMENT

Gillian Nonhlanhla Jiyane
Interim Chairman

Of relevance to PetroSA, low crude oil prices and the weak rand had a significant impact on our bottom-line.

We started the financial year with confidence at the back of buoyant economic recovery in various parts of the world and positive sentiments in global markets. However, the latter part of the year was extremely volatile and highly eventful. The events varied from geopolitical turmoil in the Middle East and Ukraine, to falling crude oil prices, weakening of the rand and the outbreak of the Ebola virus. Sadly, these events prevented the world economy from achieving its growth potential. Of relevance to PetroSA, low crude oil prices and the weak rand had a significant impact on our bottom-line.

## LOW CRUDE OIL PRICES

Perhaps, the biggest highlight of 2014/15 financial year came during the fourth quarter when global oil markets experienced a major change that saw crude oil prices fall to their lowest levels in more than five and half years. This change, which persisted into 2015, was initially caused by a huge oversupply in crude oil markets, particularly non-OPEC supply, but was later exacerbated by OPEC's decision not to cut production in order to curb the growing supply glut in the markets. This led to the collapse of crude oil prices with the spot price of Brent crude oil falling by 60% from just above US $115/Bbl in June 2014 to around $47/Bbl in mid-January 2015. This did not augur well for our company as low crude oil prices undermined the commercial viability of some of our strategic initiatives and substantially reduced overall company profitability.

## THE WEAK RAND

Most emerging market currencies, including the rand, were adversely affected by extreme volatility and increased uncertainty in global financial markets during the financial year. Speculation about the timing and extent of interest rate hikes in the United States (US) added to the woes of the rand. However, most of the rand's weakness and volatility was caused by domestic factors including, inter alia, the large twin deficits i.e. the current account and the budget deficits, anaemic domestic growth as the local economy continued to struggle with power outages, protracted workers' strikes, and the stubbornly high unemployment rate. These challenges worsened growth prospects for the local economy and prompted rating agencies such as Moody`s and Standard and Poor`s to downgrade SAs' credit rating during the second quarter of 2014. Consequently, the rand shed more strength slumping to a 13 year low of R12.38 to the US dollar on Wednesday 11 March 2015.

Although the rand weakness had a sizeable positive contribution to our bottom-line during the financial year, the negative impact of increased costs of imported feedstock (such as condensate and reformate) undermined these positive gains. In addition, the costs of imported equipment and associated services for the execution of our capital projects, amidst depleting affordable indigenous gas feedstock, became unbearably high.

## STRATEGIC INTERVENTIONS

Recognising that we cannot fully mitigate the negative impact of low crude oil prices and the weak rand, we decided to launch the BillionPlus project in order to undertake an internal cost-optimisation exercise with a particular focus on revenue enhancement and effective utilisation of resources across the organisation. We received great support from our employees and as a result we managed to achieve our target of identifying at least R1.25 billion in recurring savings.

Given that our role as the board is to ensure that our company strategy creates value for our shareholder, we also launched, during the financial year, a Turnaround Strategy with a clearly defined strategic roadmap that prioritises the sustainability of our Gas-To-Liquids (GTL) refinery in Mossel Bay.

## ADVANCING TRANSFORMATION

As the National Oil Company (NOC), we take transformation as the bedrock of how we do our business. We view the drive for societal and industry transformation as not only an attempt to redress historical imbalances, but also as a recognition of the fact that promoting transformation in the workplace will ultimately improve organisational performance. In this regard, we remained steadfast in our efforts towards broader societal and industry transformation, despite a stringent cost optimisation initiative. This was evidenced by the improvement of our Broad-Based Black Economic Empowerment (B-BBEE) recognition status from Level 3 to Level 2 in the year under review. We take this as a significant step towards meeting overall transformation targets and believe this will go a long way in preparing ourselves for the implementation of the new B-BBEE codes.

## CORPORATE GOVERNANCE

PetroSA is committed to good corporate governance and ensures stringent adherence to all policies and procedures as well as compliance with the King III principles. During the period under review, PetroSA faced a number of governance challenges including, inter alia, significant changes in the composition of the Board.

In cognisance of these challenges, the Board commissioned Ernst & Young to conduct a King III review and requested the Institute of Directors of Southern Africa to perform an evaluation of Board effectiveness. The company has since implemented the recommendations, realigned its committees and revised its terms of reference. A Board Improvement Plan with an Implementation Roadmap was also adopted and implemented.

## LOOKING AHEAD

Unpredictably, the 2014/2015 financial year was challenging compared to the previous one due to the number of constraints that I have alluded to. However, we expect the forthcoming financial year to be challenging, due to dwindling feedstock. Our external operating environment, although showing signs of improvement, is also going to be quite challenging. We already see a remarkable rebound in crude oil prices and the return of stronger economic growth in various parts of the world. We hope that these observed improvements will be sustainable going forward.

We are focussed on positioning ourselves to tackle the challenges faced by our company, particularly over the period of our 2015 – 2019 Corporate Plan. Although our focus in the short-to-medium-term will be on ensuring the sustainability of our GTL refinery, we are also exploring various options to grow the company and deliver on our mandate of ensuring energy security for South Africa.

Looking forward, PetroSA is committed to ensuring its sustainability within the framework of good corporate governance. In the light of the unqualified audit opinion, we have noted the significant matters raised, and intend to strive for a clean audit opinion in the next financial year.

## GRATITUDE

PetroSA values its stakeholders and recognises that they are critical to the achievement of our strategic goals. In this regard, I would like to thank all our stakeholders on behalf of the PetroSA Board of Directors for their continued support during the year. I would also like to extend our sincere gratitude to Minister Tina Joemat-Pettersson, the Department of Energy (DoE), the Parliamentary Portfolio Committee on Energy and CEF SOC Limited for their support throughout the year. Equally important, I wish to thank the Executive Management team of PetroSA and all its employees for their hard work and commitment to the company. I would like to extend futher thanks to Ms Kekana, the Company Secretary, who resigned in June 2015.

The Board has been impressed by the sense of pride and responsibility amongst our staff as we seek, in these difficult times, to realise our vision of being Africa's leading Energy Company.

**Gillian Nonhlanhla Jiyane**
**Interim Chairman: PetroSA**

The board commissioned Ernst & Young to conduct a King III review and requested the Institute of Directors of Southern Africa to perform an evaluation of Board effectiveness.

# CORPORATE GOVERNANCE STATEMENT

This Corporate Governance Report is presented to exhibit how PetroSA applies the principles of good corporate governance, systems of internal control and management, implements compliance and manages risks in its operations. The PetroSA Board of Directors (the "Board") strives to promote the highest standards of corporate governance,
by subscribing to the principles of good corporate governance as outlined in the King Reports, PFMA, Companies Act and other legislative and non-binding rules meant to enhance good governance. These include maintenance of governance structures, processes and practices that the Board of Directors use to direct and manage operations of PetroSA and the group. The aim is to ensure proper accountability by the Board to the shareholders and other stakeholders.

In ensuring that these principles are adhered to, an ongoing monitoring of developments in the field of corporate governance is maintained and necessary improvements made.

During this financial year, the company enlisted Ernst & Young to conduct a King III review and the Institute of Directors of Southern Africa (IODSA) to perform an evaluation of our Board independence. Following the recommendations of these service providers, the Board initiated a process to realign its committees which included a revision of their terms of reference. Furthermore, the Board Improvement Plan and Implementation Roadmap were adopted and implemented.

Following the appointment of new directors to the Board in 2014, an induction workshop was held in Mossel Bay, in January 2015. The programme of the workshop covered specific focus on good corporate governance principles, the oil and gas industry and the business of PetroSA, including the business strategy and Corporate Plan of the company.

In addition, given the sustainability issues facing the company due to dwindling feedstock for the GTL Refinery, the Board established an Turnaround Board Ad Hoc Committee (TBAC) to guide the Turnaround Plan's four key elements critical to the sustainability of the organisation, viz.

- the Project Ikhwezi F012 business case;
- the implementation of the action plans arising from the Project Ikhwezi assessment conducted by Independent Project Assessment Inc. ("IPA");
- the headcount reduction process; and
- the turnaround plan for PetroSA.

Key highlights on governance for the year under review include the following:

- At the Southern Africa Compliance Awards Ceremony, held in Johannesburg on 18 November 2014, PetroSA group Compliance was awarded "Compliance Team of the Year"
- Quarterly reports covering a wide array of governance issues, including compliance, ethics, risk and fraud were presented and discussed to the then Board Audit and Risk Committee (now RMCC and BAC respectively);
- Implementation of Dashboards for Enterprise Risk Management reporting;
- Company-wide extensive training for all divisions on risk management, audit and internal controls, compliance, ethics and SHEQ;
- Risk Culture Assessment Toolkit was developed to provide a practical guide to implement and sustain a meaningful risk culture within PetroSA;
- Regulatory Compliance Universe was revised and approved by the Board;
- The following policies were revised and approved by the Board
  - Group Compliance Policy
  - Code of Ethics
  - Prevention of Fraud and Corruption Policy
- A number of procedures to give effect to the policies as approved by the Board were developed and approved at relevant management level in the organisation.

## THE BOARD

During this financial year, the Board experienced significant changes to its composition, with the following additional directors being appointed to the Board:

- Mr T Kgadima was appointed as Board Chairman in December 2014;
- Ms GN Jiyane, currently the Interim Chairman of the Board, was appointed to the Board of PetroSA effective December 2014;
- Mr WS Steenkamp, currently the Chairman of Human Capital Committee was appointed to the Board of PetroSA effective December 2014;
- Mr OC Tobias, the current Chairman of Strategy, Growth and Business Performance Committee was appointed to the Board of PetroSA effective December 2014;
- Mr BW Ngubane, the current Chairman of the Board Audit Committee was appointed to the Board of PetroSA effective December 2014;
- Ms JC Ntwane who is the Chairman of the Social and Ethics Committee was appointed to the Board of PetroSA effective December 2014;
- Mr S Mthethwa, the Shareholder Representative and the Chairman of the Turnaround Board Ad Hoc Committee, was appointed to the Board of PetroSA effective 1 January 2015;
- Mr M Mkhize who previously served on this Board, was appointed to the Board of PetroSA effective 30 January 2015;

Serving members

- Mr SS Mokoena – January 2013
- Mr LED HLatshwayo – April 2013

Resignations

- Adv B Madumise, the former Interim Chairman of the Board resigned from the Board effective 30 January 2015;
- Mr V Sibiya resigned as a Non-Executive Director of the Board effective 30 January 2015;
- Mr S Mncwango, previously the Shareholder Representative to the Board and the Interim Chairman of the Board, resigned from the Board of PetroSA effective 1 December 2014.
- Mr G Smith resigned on the 28 August 2014
- Mr T Kgadima services were terminated in January 2015

End of term

- Mr ACG Molusi's term expired 14 November 2014;
- Mr MM Zwane's term expired 14 November 2014;
- Ms E Letlape's term expired 14 November 2014;

## BOARD STRUCTURE

In terms of section 49 of the Public Finance Management Act No 1 of 1999 the Board is the accounting authority of PetroSA. The group has a unitary Board structure made up of a majority of non-executive directors, appointed by the shareholder. The Board retains overall accountability for the running of the company and reserves, for itself, decisions on matters that could have a material impact on the business.

To that end, the 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.

The non-executive directors are appointed on a three-year cycle and re-appointment is not automatic. The Board meets at least once every quarter. However, for the past two financial years, the frequency of Board meetings has substantially increased in order to address the serious sustainability risks facing the company. For this financial year, the Board met 17 times, which is slightly less than the previous year.

## BOARD RESPONSIBILITIES

The Board of PetroSA accepts that it is ultimately accountable and responsible for the performance and affairs of the company. The Board functions in terms of the Board Charter, which amongst others, stipulates Board responsibilities to include:

- act as the focal point for, and custodian of, corporate governance by managing its relationship with management, the shareholders and other stakeholders of the company along sound corporate governance principles;
- appreciating that strategy, risk, performance and sustainability are inseparable, the Board:
  - Contributes to and approves the strategy;
  - Satisfies itself that the strategy and business plans do not give rise to risks that have not been thoroughly assessed by management;
  - Identifies key performance and risk areas.
  - Ensures that the strategy will result in sustainable outcomes;
  - Considers sustainability as a business opportunity that guides strategy formulation.
- provides effective leadership on an ethical foundation;

**Board induction programme**

# CORPORATE GOVERNANCE (CONTINUED)

- ensures that the company is and is seen to be a responsible corporate citizen by having regard to, not only the financial aspects of the business, but also the impact that business operations have on the environment and the society within which it operates.
- ensures that the company's ethics are managed effectively.
- ensures that the company complies with applicable laws.
- ensures that there is effective risked-based internal audit.
- appreciates that stakeholders' perceptions affect the company's reputation.
- ensures the integrity of the company's integrated report.
- acts in the best interests of the company by ensuring that individual directors:
  - adhere to legal standards of conduct
  - are permitted to take independent advice (should the need arise) in connection with their duties, following an agreed procedure. A formal process must be followed in accordance with PetroSA's procedure on independent advice
  - disclose real or perceived conflicts to the Board and deal with them accordingly
- appoints and evaluates the performance of the GCEO.
- define levels of materiality, reserving specific powers to itself and delegating other matters, with the necessary written authority to the GCEO;
- ensures that a comprehensive system of policies and procedures is in place and that appropriate governance structures exist to ensure the smooth, efficient and prudent stewardship of the company;
- exercises objective judgement on the business affairs of the company, independent from management but with sufficient management information to enable a proper and informed assessment to be made;

Over and above the responsibilities of the Board in terms of the Companies Act and corporate governance best practice, the Board, as the "accounting authority" in terms of the Public Finance Management Act (PFMA), ensures compliance with the responsibilities under this Act.

**SOCIAL AND ETHICS COMMITTEE**
Ms J Ntwane (Chairman), Mr LED Hlatswayo, Mr M Mkhize

**HUMAN CAPITAL COMMITTEE**
Mr W Steenkamp (Chairman),
Ms J Ntwane,
Mr O Tobias,
Mr M Mkhize

**BOARD AUDIT COMMITTEE**
Mr W Ngubane (Chairman),
Mr W Steenkamp,
Mr S Mokoena,
Mr LED Hlatswayo

**BOARD**
Ms N Jiyane (Interim Chairman),
Ms N Nokwe (GCEO),
Ms L Bakoro (GCFO),
Mr W Steenkamp,
Mr O Tobias,
Ms J Ntwane,
Mr S Mthethwa,
Mr M Mkhize,
Adv B Madumise,
Mr S Mokoena,
Mr LED Hlatshwayo

**RISK MANAGEMENT AND COMPLIANCE COMMITTEE**
Mr LED Hlatshwayo (Chairman),
Ms N Jiyane,
Mr W Ngubane

**GROWTH STRATEGY AND BUSINESS PERFORMANCE AND MONITORING COMMITTEE**
Mr O Tobias (Chairman),
Mr W Steenkamp,
Ms N Jiyane,
Mr S Mthethwa,
Mr S Mokoena

**TURNAROUND BOARD AD HOC COMMITTEE**
Mr S Mthethwa (Chairman), Mr W Steenkamp, Ms J Ntwane, Mr S Mokoena

## BOARD COMMITTEES

The Board established several committees in order to assist it in the discharge of its duties. All committees operate under Board approved terms of reference, which may be updated from time to time to align with the latest developments in corporate governance. Each committee operates within these defined terms of reference and is chaired by a non-executive director.

## BOARD AUDIT COMMITTEE (BAC)

The primary objective of the committee is to assist the Board in fulfilling its oversight responsibilities in terms of the Companies Act No 71 of 2008 and the Public Finance Management Act No 1 of 1999. Its area of authority is to assist the Board in discharging its responsibilities with regard to matters relating to Audit, Regulatory Compliance, Finance, Combined Assurance, Internal Audit, Appointment of External Audit and Reporting which includes, but is not limited to, Financial Misconduct, Annual Reports and the Annual General Meeting (AGM).

The committee consists of four non-executive directors, elected by the shareholder at each annual general meeting (AGM), who are suitably skilled and collectively have sufficient qualifications and experience to fulfil their duties. The Board recommended the appointment of a non-executive director to chair the committee.

The committee has formal terms of reference approved annually by the Board. The effectiveness of the committee is assessed annually.

The Group Chief Executive Officer, Group Chief Financial Officer, Chief Audit Executive, Chief Risk and Compliance Officer, External Auditors and other assurance providers are permanent invitees to the committee meetings. Other executive managers are invited to the committee meetings when appropriate.

## BOARD HUMAN CAPITAL COMMITTEE (HCC)

This committee is chaired by a non-executive director and comprises four non-executive directors appointed by the Board. The Group CEO and the Vice President Human Capital attend the committee meetings by invitation.

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

## GROWTH, STRATEGY AND BUSINESS PERFORMANCE AND MONITORING COMMITTEE

The primary objective of the committee is to assist the Board in:

- the formulation of the corporate vision, mission statement and strategy;
- the formulation of the Corporate Plan in line with the group's mandate and overarching strategy;
- prioritising and developing new business ideas, innovations and initiatives which impact the group on a strategic level;
- reviewing project and programme portfolio regularly ensuring alignment to strategic objectives;
- making recommendations around stopping, fast-tracking and re-sequencing projects and programmes on a strategic level;
- ensuring that the following company processes are aligned with the group's overall mandate and strategic direction:
  - strategy management;
  - business management;
  - capital investment; and
  - joint venture formations;
- reviewing projects, programmes and taking into account the Capital Allocation Model, funding requirements and due diligence findings;
- tracking and monitoring key performance indicators of strategic projects and programmes;
  - receiving and reviewing quarterly reports and to recommend to the Board submission of same to the Shareholder, in compliance with the PFMA and the Shareholders Compact;
  - monitoring the implementation of the Shareholders Compact;

This committee is chaired by a non-executive director and comprises five non-executive directors appointed by the Board. The Group CEO, GCFO and relevant EXCO members attend committee meetings by invitation.

# CORPORATE GOVERNANCE (CONTINUED)

## SOCIAL AND ETHICS COMMITTEE

The Companies Act No 71 of 2008 (the Act) requires that companies falling within specific categories appoint a Social and Ethics Committee (the committee) to report on the company's performance in respect of non-financial aspects of the company relating to social and environmental governance. In terms of section 72 (4) of the Companies Act, 2008 and regulation 43 (2), every state-owned company (SOC) is required to establish this committee.

The purpose of the committee is to monitor the company's activities, having regard to any legislation, other legal requirements, or prevailing codes of best practice, with regard to employment equity, B-BBEE, health and safety, good corporate citizenship, consumer relationship, labour and employment, and environmental issues.

The committee comprises of three non-executive directors with three non-executive directors as members of the committee. The GCEO, GCFO and relevant EXCO members attend committee meetings by invitation.

## TURNAROUND BOARD AD HOC COMMITTEE (TBAC)

The purpose of the PetroSA TBAC is to provide:

- the Board with independent advice on the way forward and business case for Project Ikhwezi;
- provide independent advice to the Board on the implementation of action plans and recommendations outlined in the Project Ikhwezi IPA report;
- provide the Board with independent advice on the BillionPlus Project and the Headcount Reduction Process;
- provide a turnaround plan for PetroSA

The TBAC performs its task within the principles of good governance. Upon finalisation of its mandate it will submit its final report to the Board for consideration and approval.

The committee is Chaired by a non-executive director with four non-executive directors as members of the committee and other executive managers on invitation.

## RISK MANAGEMENT AND COMPLIANCE COMMITTEE (RMCC)

The Board has delegated responsibility for risk management (including information technology governance risks), compliance with laws and regulations, health, environment, quality and safety to this committee to ensure the quality, integrity and reliability of the group's risk management process. The committee's roles and responsibilities as per Board delegation include:

- To review and monitor the Risk Management Policy and Process at least annually, on behalf of the Board of Directors. Any proposed changes should be approved by the Board;
- To review and recommend to the Board for approval the PetroSA risk appetite and tolerance levels and statement;
- To fulfil an oversight role on the implementation of the fraud and corruption policy;
- To review the status of litigations and related exposures within the company;
- To ensure that information technology risks are adequately addressed;
- To review, formulate and revise with Management the organisation's Health Safety and Environment (HSE), Quality and Security Policies; and
- To oversee the PetroSA group's compliance with applicable laws, regulations and non-binding rules, codes and standards.

This committee is chaired by an non-executive director and comprises three non-executive directors appointed by the Board. The GCEO, GCFO and relevant executives attend the committee meetings by invitation.

## COMPANY SECRETARY

The Company Secretary is responsible for ensuring that the company's affairs as well as the Board proceedings are properly carried out in accordance with relevant laws and standards. She is also responsible to provide the Board of Directors with guidance on how they should properly discharge their duties and responsibilities in the best interest of the company. Each of the directors have unlimited access to the advice and services of the Company Secretary in pursuance and execution of their duties.

# KING III APPLICATION

## APPROACH TO KING III

During this financial year, the company enlisted Ernst & Young to conduct a King III review and the Institute of Directors of Southern Africa (IODSA) to perform an evaluation of our Board independence. Details of the report on the group's application of each King III principle are available on its website (www.petrosa.co.za). The group assesses its compliance levels in respect of King III to ensure that all areas that require improvement are identified and addressed. The Board Audit Committee has identified the following five key focus areas to ensure adherence with the obligations placed on the group.

| | Priority 1 | Priority 2 | Key outputs | Overall due date |
|---|---|---|---|---|
| Baseline | **Planned initiatives:**<br>• Agree on a baseline for King III compliance per principle, including those CEF SOC Limited is responsible for.<br>• Allocate responsibility for each principle that required attention aligned to the baseline. | | • King III baseline agreed per principle.<br>• Responsibilities allocated per principle with timelines attached. | FY16 |
| Board oversight, efficiencies and accountabilities | **Planned initiatives:**<br>• Review and update the Board Charter and Board Committee Terms of reference (TOR).<br>• Determine and document how mandates are dismantled to the existing management structure and how and what feedback is required (including escalation levels).<br>• Develop a working plan for each committee and what needs to be covered in each meeting. | **Planned initiatives:**<br>• Document and review a management governance structure. Consider a role specifically to drive and monitor corporate governance.<br>• Review and update Levels of Authority.<br>• Formalise a training plan for the Directors. | **Reviewed, updated and documented:**<br>• Board Charter.<br>• Board Committee TORs.<br>• Working plan for each committee.<br>• Process outlining mandates are dismantled to the management governance structure.<br>• Management governance structure.<br>• Levels of Authority.<br>• Training plan. | FY16 |
| IT governance | **Planned initiatives:**<br>• Determine the Board requirements for IT governance.<br>• Review and approve the IT strategy. | **Planned initiatives:**<br>• Establish reporting and oversight mechanisms to ensure Board IT governance requirements are effectively executed. | • Board IT governance requirements determined.<br>• IT strategy reviewed and approved.<br>• Board IT governance reporting and oversight mechanisms established. | FY16 |

| | Priority 1 | Priority 2 | Key outputs | Overall due date |
|---|---|---|---|---|
| Stakeholder management | **Planned initiatives:**<br>• An integrated approach to stakeholder management and reporting needs to be documented.<br>• The structure and skills of the stakeholder management division need to be reviewed to allow for an integrated and proactive stakeholder approach. | **Planned initiatives:**<br>• Stakeholder policies and processes should be updated to include the equitable treatment of stakeholders.<br>• Implementation plans should be developed and monitored to ensure stakeholder survey feedback is adequately and effectively utilised.<br>• The complaints schedule needs to include clear action plans and timelines for resolution including levels of materiality that would need to be escalated. | • Documented integrated and proactive stakeholder management approach.<br>• Reviewed, updated and implemented stakeholder management division structure aligned to the integrated and proactive approach.<br>• Reviewed, updated and implemented stakeholder management policies and processes.<br>• Implementation plans for the utilisation of stakeholder survey feedback.<br>• Comprehensive complaints schedule developed. | FY16 |
| Integrated reporting | **Planned initiatives:**<br>• Clear ownership needs to be assigned to the design, development and co-ordination of the integrated report.<br>• The BAC TOR should include the responsibility to ensure there is an independent assurance over the integrated report.<br>• Develop a process with clear accountabilities to provide assurance over non-financial information.<br>• Agree on disclosing the level of compliance to King III. | **Planned initiatives:**<br>• Agree on what needs to be included as part of the integrated report:<br>• Clearly documented mandate of existing sustainability project.<br>• Stakeholder participation. | • Ownership assigned to design, development and co-ordination of the integrated report.<br>• BAC TOR reviewed and updated in terms of independent assurance over the integrated report.<br>• Fully developed integrated report. | FY17 |

# REMUNERATION PHILOSOPHY

The Company's remuneration policy has been designed to achieve the following objectives:

- **Attract and retain talented people** with the optimum mix of skills, competencies, values and behaviours.
- **Aggressively** drive a distinction between high performers and low performers by offering high potential remuneration/reward for high performance.
- Drive the Company's performance and the **creation of shareholder value**.
- Encourage and remunerate **team and individual performance**.
- **Pay people relative** to their specific market and their individual contribution.
- **Offer people choice** in terms of the structuring of their remuneration and benefits to meet individual needs and lifestyle requirements.
- Encourage the **development and application of skills and competencies** required to meet current and future organisational objectives.
- **Remunerate individuals differentially** based on their market value, competence and level of performance.
- Enable high achievers to **share in the financial success** of the organisation.
- Enable people to have a stake in the long-term future of the organisation.
- Reflect the Company's approach to its people as being fair, transparent and equitable.

Remuneration at PetroSA is based on a total reward strategy, which aims to achieve the right mix between guaranteed and variable pay, as well as a positive work environment with opportunities for learning and growth.

Remuneration will be linked to business goals and objectives through organisational value drivers and balanced scorecard measures.

The remuneration mix of guaranteed and variable remuneration will differ according to job level as illustrated in the table below:

| Job level | Guaranteed remuneration | Variable remuneration |
|---|---|---|
| Executives and senior management | 75% | 25% |
| TASK Grades 14 and higher | 80% | 20% |
| TASK Grades 13 and lower | 85% | 15% |

The following is a summary of the above mentioned remuneration components:

## Guaranteed remuneration

Guaranteed remuneration is designed to ensure that individuals are paid equitably internally and externally relative to their worth in the market and their contribution to the success of the company.

Guaranteed remuneration consists of the following components and represents that portion of remuneration that is payable for achieving targets:

- Basic salary
- Retirement funding
- Medical aid
- Car allowances
- Group life assurance
- Disability insurance

Market comparisons are based on total guaranteed remuneration and in order to calculate the market values, the most relevant and appropriate remuneration surveys produced by reputable remuneration consultants are used.

## Variable remuneration

In PetroSA's case, the variable component of its remuneration structure consists of a short-term incentive plan (STIP) which was designed with the following objectives in mind:

- To drive organisation, team/departmental and individual performance;
- To encourage and reward participants for achieving and exceeding targeted performance levels annually, i.e. to foster a performance culture; and
- To attract and retain critical/scarce skills.

In terms of the STIP, employees who qualify for participation in the scheme, are categorised into bonus leagues.

The bonus leagues have been categorised into an A, B and C League. The definitions of these leagues and the on-target incentive bonuses applicable to each league are as follows:

| League | Definition | On-Target Bonus |
|---|---|---|
| A | TASK Grades 13 and lower | 20% of TGR |
| B | TASK Grades 14 and higher | 25% of TGR |
| C | Executives and senior management | 30% of TGR |

Incentive bonuses payable under STIP are not guaranteed and payment will be dependent on PetroSA's performance against its Corporate Balanced Scorecard. Bonuses declared will be paid differentially to teams and individuals based on performance against specified Divisional Balanced Scorecard measures. Individual performance management results are used to differentiate between individuals.

In terms of the rules of the STIP, bonuses of up to 200% of on-target bonuses could be earned if the performance targets that are defined in the Corporate Balanced Scorecard are exceeded by a significant margin.

## Annual salary reviews

General increases, which are subject to approval by the Board having taken into account the Company's overall performance, salary market movements and the Company's parity against the external salary markets, are effected on 1 July of each year.

For the purpose of salary adjustments, employees have been categorised as follows:

### BARGAINING UNIT (TASK GRADE 14 AND LOWER)

The level of annual increases of all employees that fall within the Bargaining Unit) are determined at national level through negotiations at the National Bargaining Council for the Chemical Industry (NBCCCI).

### NON-BARGAINING UNIT (TASK GRADES 15 AND HIGHER, INCLUDING EXECUTIVES)

The level of the annual increases to be awarded to employees that fall within the Non-Bargaining Unit are determined by the Board. Performance-based increases apply to this category of employees and for this purpose a linear scale, with a minimum and maximum that is determined on an annual basis after the quantum of the average increase that may be awarded becomes known, is used to calculate individual increases.

The level of increases to be awarded to this category of employees is based on following factors and indicators:

- Affordability of increases
- Consumer price index
- Movements in the salary market
- Comparative ratios

# REMUNERATION PHILOSOPHY (CONTINUED)

## BOARD DECISIONS

The following decisions need to be made by the Board on an annual basis with regard to the remuneration policy:

- Quantum of increase to be given to employees that fall outside the bargaining unit i.e. employees on TASK job Grades 15 and higher;
- Approval of discretionary increases in excess of the quantum of increases awarded to bargaining unit employees, i.e. employees on TASK Grades 14 and lower, as agreed and approved from time to time by the National Bargaining Council for Chemical Industries (NBCCI);
- Determination of the level of Executive's remuneration;
- Approval of the payment or non-payment of annual incentives; and
- The quantum increases awarded to bargaining unit employees are as agreed and approved from time to time by the National Bargaining Council for Chemical Industries (NBCCI).

The Human Capital Committee is the governance structure that monitors adherence to the remuneration strategy and policy.

## NON-EXECUTIVE REMUNERATION

The remuneration of non-executive directors is determined by the shareholder and consists of a fixed monthly fee. Non-executive directors are reimbursed for Company-related expenses.

## PERTINENT FACTS IN RELATION TO 2014/2015 EXECUTIVE REMUNERATION AND SENIOR MANAGEMENT REMUNERATION

An average increase of 6% was awarded to the members of the Executive Team (EXCO) and Senior Managers on TASK Grades 20 and higher.

An interim adjustment of 11.2% was also awarded to one Executive to address an internal anomaly.

In support of the company's cost-saving initiatives, the members of the Executive Team who were in service at the time when bonuses became payable in terms of the company's short-term incentive plan (STIP) jointly agreed to sacrifice these bonuses. Two Executives who had left the service of the company and were not bound by this agreement, were however paid prorata bonuses in accordance with the rules of the scheme. Bonuses equal to 25% of Total Guaranteed Remuneration (TGR) were paid to the two Executives.

# DIRECTORS AND EXECUTIVES REMUNERATION

The remuneration of the directors and the group executives is disclosed as follows:

**Year-ended 31 March 2015**

| | Salary/Fee R'000 | Bonuses and performance payments R'000 | Pension contributions R'000 | Other contributions R'000 | Expenses R'000 | Acting allowance R'000 | Other R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | | | |
| NN Nokwe | 3 694 | – | 424 | 151 | – | – | – | 4 269 |
| LE Bakoro | 2 780 | – | 464 | 114 | – | – | – | 3 358 |
| Total | 6 474 | – | 888 | 265 | – | – | – | 7 627 |

| | Salary/Fee R'000 | Bonuses and performance payments R'000 | Pension contributions R'000 | Other contributions R'000 | Expenses R'000 | Compensation for loss of office R'000 | Other R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|---|
| **Non-executive directors** | | | | | | | | |
| S Mncwango | – | – | – | – | 51 | – | – | 51 |
| ACG Molusi | 376 | – | – | – | 5 | – | – | 381 |
| FE Letlape | 529 | – | – | – | 64 | – | – | 593 |
| MM Zwane | 467 | – | – | – | 20 | – | – | 487 |
| V Sibiya | – | – | – | – | 37 | – | – | 37 |
| GC Smith | 272 | – | – | – | 37 | – | – | 309 |
| B Madumise | 710 | – | – | – | 58 | – | – | 768 |
| S Mokoena | 825 | – | – | – | 93 | – | – | 918 |
| S Hlatshwayo | 679 | – | – | – | 66 | – | – | 745 |
| GN Jiyane | 287 | – | – | – | 28 | – | – | 315 |
| W Ngubane | 186 | – | – | – | 21 | – | – | 207 |
| W Steenkamp | 229 | – | – | – | 72 | – | – | 301 |
| O Tobias | 159 | – | – | – | 9 | – | – | 168 |
| J Ntwane | 200 | – | – | – | 45 | – | – | 245 |
| S Mthethwa | – | – | – | – | 5 | – | – | 5 |
| MW Mkhize | – | – | – | – | 6 | – | – | 6 |
| Total | 4 919 | – | – | – | 617 | – | – | 5 536 |

| | Salary/Fee R'000 | Bonuses and performance payments R'000 | Pension contributions R'000 | Other contributions R'000 | Acting allowance R'000 | Leave pay R'000 | Expatriate allowance R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|---|
| **Executive management** | | | | | | | | |
| JEP Falbe | 2 827 | – | 138 | 161 | – | – | 1 359 | 4 485 |
| D Arendse [1] | – | 439 | – | – | – | – | – | 439 |
| T Kgogo [2] | 391 | – | 26 | 18 | – | 90 | – | 525 |
| B Zwane [3] | 1 226 | 299 | 228 | 202 | 354 | – | – | 2 309 |
| G Griessel [2] | 553 | (921) | 78 | 24 | – | – | – | (266) |
| X Hewu [3] | 716 | – | 80 | 14 | 62 | – | – | 872 |
| P Luthuli | 1 558 | – | 181 | 160 | – | – | – | 1 899 |
| M Modipa | 1 167 | – | 117 | 70 | – | – | – | 1 354 |
| K Zono [3] | 1 269 | 68 | 152 | 115 | 128 | – | – | 1 732 |
| A Dippenaar [3] | 1 691 | 414 | 250 | 149 | 166 | – | – | 2 670 |
| Total | 11 398 | 299 | 1 250 | 913 | 710 | 90 | 1 359 | 16 019 |

*[1] – Contract expired*
*[2] – Resigned*
*[3] – Acting Vice Presidents*

# CORPORATE COMPLIANCE

## Code of Conduct and Business Ethics

In today's competitive and rapidly changing business environment, doing the right thing has never been more important. The success of PetroSA is dependent upon the highest ethical conduct of its Board, Executive Management, employees and contractors.

In support of ethical conduct, an employee Group Compliance Manual was developed and distributed to all staff. This manual is a condensed summation of the code of ethics policy, gift register procedure and declaration of related party interests, prevention of fraud and corruption policy and other conduct related policies and procedures.

As a South African oil company, ethical behaviour underpins the trust placed in us by our customers, suppliers, shareholders, communities and employees. It is a non-negotiable element of the way in which all associated with PetroSA must behave and conduct themselves. There is a formal governance framework and a set of policies that are regularly reviewed, but it is actual behaviour that is ultimately important.

Significant progress was made in embedding awareness and appreciation of ethical behaviour within PetroSA through specific educational and communication programmes. The Board leads in this regard, and a regular review of behaviour and attitudes is a key item on the agenda of the Social and Ethics Committee.

Values are integral to PetroSA's operations and to the building of a compliance culture. The company places a high value on stewardship, honesty, integrity, respect and transparency.

Through the Employee Group Compliance Manual, Code of Ethics and the associated group-wide attestation processes, employees are made aware of compliance related policies. Employees are also appraised of their expected conduct, as described in PetroSA's Code of Ethics.

All PetroSA's employees are required to acknowledge they have read and understood the manual on first joining the company and every year thereafter.

Quarterly Group Compliance and Ethics Reports are tabled to EXCO and the Board in which key risks, ethical issues, major regulatory developments and issues relating to compliance incidents are brought to their attention in line with the defined materiality levels.

## Awareness and training

During the financial year under review, the various PetroSA internal assurance providers conducted training and awareness campaigns directed at ensuring that risk management, assurance, internal controls, fraud risk management, ethics and compliance are embedded in the organisation. In this regard, all divisions of PetroSA were trained leading to the establishment and operationalisation of Governance Manco's across the company. The primary focus was to equip the first line of defence with the necessarily skills to discharge their fiduciary duties, and by so doing create an enabling culture of good governance which is required to permeate across the company.

Targeted initiatives aimed at enhancing the culture of risk management included:

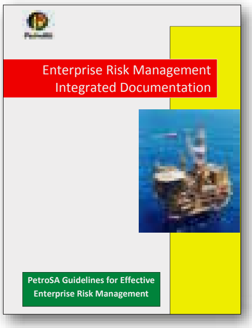
- training on CURA (PetroSA's risk management software) to all accountable employees;
- dedicated Assurance workshops;
- fraud risk management training on areas exposed to significant fraud and corruption risks;
- compliance, ethics and risk management induction training; and
- quarterly forensic awareness bulletins distributed throughout the organisation and compliance communications shared on the PetroSA intranet and YizaSithethe internal newsletter.

PetroSA utilises risk management software across the group which provides for seamless capturing and reporting of group risks. Training on the use of the risk management software was conducted across all divisions and attended by the GCEO and Executive Committee Members. During the period under review, the ERM (enterprise risk management) Dashboard module was provided to management and used to monitor all aspects of the company's risk profile. ERM Dashboards introduced full web user functionality without the requirement for users to navigate long lists of risks. It was designed to make interaction with the risk management framework more accessible and user-friendly. The rollout of the risk management dashboards has empowered the business to do proactive real-time management and monitoring of the company's risk exposures.

The consistent documenting of "fraud messages" in the quarterly news bulletin "*Shifting Sands*" continues to serve to awaken and heighten the moral conscience of all PetroSA employees. It is also a regular reminder of the work done by the forensic investigative function and the potential consequences of illegal activities. The main thrust of the bulletin is to communicate results of anti-fraud initiatives, provide feedback on the status of forensic matters under review or concluded, and to share lessons on control breakdowns and how these can be prevented in the future.

As part of its quest for excellence, the organisation continued to distribute and educate employees on the contents of the Employee Group Compliance Manual in the year under review. To ensure accountability and responsibility by all employees, this was distributed to, and acknowledged by, all employees in the organisation. The following core frameworks continue to be the focal point of the work executed by assurance providers:

- ***Enterprise-wide Risk Management Integrated Documentation*** – This document is designed to provide a complete guide to the Enterprise Risk Management (ERM) Framework for the PetroSA group. It contains the full range of ERM documentation including policy, processes and procedures and clarification of roles and responsibilities, together with key templates to assist in implementation.




- ***Group Compliance Integrated Documentation*** – This document is designed to provide a complete guide to the Group Compliance Framework. It contains the full range of Group Compliance documentation including policies, processes and procedures and clarification of roles and responsibilities. As a principle, PetroSA does not tolerate non-compliance with laws, regulations and any of its own standards.


- ***Group Forensics Integrated Documentation*** – This document is designed to provide a complete guide to the Group Forensics Management Framework. It contains the full range of Forensics related documentation including policies, processes and procedures and clarification of roles and responsibilities. The Board and Group Chief Executive Officer of PetroSA have committed the company to a process of Fraud and Corruption Risk Management that is aligned to the principles contained in the Public Finance Management Act, 1999.


## ANTI-BRIBERY AND CORRUPTION

The purpose of regulating the anti-bribery and corruption framework in PetroSA is amongst others to:

- Ensure that the company and its subsidiaries have appropriate systems and procedures in place to prevent bribery and corruption; and
- Detail the rules for the company, including its subsidiary companies, its officers and employees pertaining to the recognition and prevention of bribery and corruption.

The company continues to implement the approved policy by entrenching a culture and environment where bribery and corruption behaviour is not tolerated. The anti-bribery policy is the cornerstone of the group's anti-bribery and corruption programme. Specific guidance is tailored to meet the needs of different business units while ensuring alignment of global regulatory and best practice requirements.

### Declarations of interest

The Board has overseen the implementation of the process to improve declarations of interest by employees via the Group Compliance Function platform available online. The electronic declaration of interest allows for easy and reliable declaration of gifts and ownership interests by employees and is currently being rolled out to the rest of the group.

### Fraud and corruption

PetroSA is committed to fighting fraudulent behaviour at all levels of the organisation. The company manages fraud risk exposure through the implementation of its Fraud Prevention Plan. In addition to fighting fraud and corruption and promoting ethical conduct within PetroSA, the Fraud

# CORPORATE COMPLIANCE (CONTINUED)

Prevention Plan is also intended to assist in proactively anticipating, preventing, detecting, investigating and responding to fraud and corruption. The Fraud Prevention Plan re-inforces the role of the first line of defence in establishing and maintaining a culture intolerant of fraud and unethical behaviour. It also builds the competencies and capabilities to prevent and mitigate against fraud within an area of responsibility.

The group has an outsourced whistleblower hotline, which is available to all staff, various stakeholders and members of the public. All reported cases are treated with utmost confidentiality, by the Fraud Response committee (FRC) in order to protect the rights of both the whistle blower and the alleged implicated party. The FRC is accountable to the new Risk Management and Compliance Committee (formerly known as the Board Audit and Risk Committee) for its activities. The primary objective of the committee is to ensure that all fraud allegations from sources are recorded and investigated in accordance with the Prevention of Fraud and Corruption Policy. At its quarterly meeting, all cases are discussed, including progress relating to the implementation of report recommendations (status of implementation of internal controls, disciplinary action, disclosure etc. as applicable). Any matters not adequately dealt with are escalated as appropriate.

## COMPLIANCE RISK MANAGEMENT

The PetroSA Board of Directors is accountable for ensuring compliance with laws, regulations, policies and procedures and any adopted standards applicable to the company. The function of compliance has been delegated throughout the company based on specialist areas. In addition, the Group Compliance Function is charged with assisting management in discharging its responsibility to comply with statutory, regulatory and supervisory requirements by facilitating the development, establishment and maintenance of an efficient and effective compliance risk management process. Group Compliance continues to monitor key controls implemented by management and to a large degree found the control environment to be satisfactory.

Over and above the ongoing advisory and monitoring responsibilities, the changing regulatory landscape remained a key focus area for Group Compliance, leading to the revision and approval of the new Regulatory Compliance Universe for the group by the Board. Several group-wide projects relating to the requirements of various legislative requirements were undertaken by Group Compliance. Shortcomings identified were communicated to management and integrated into the respective control environments.

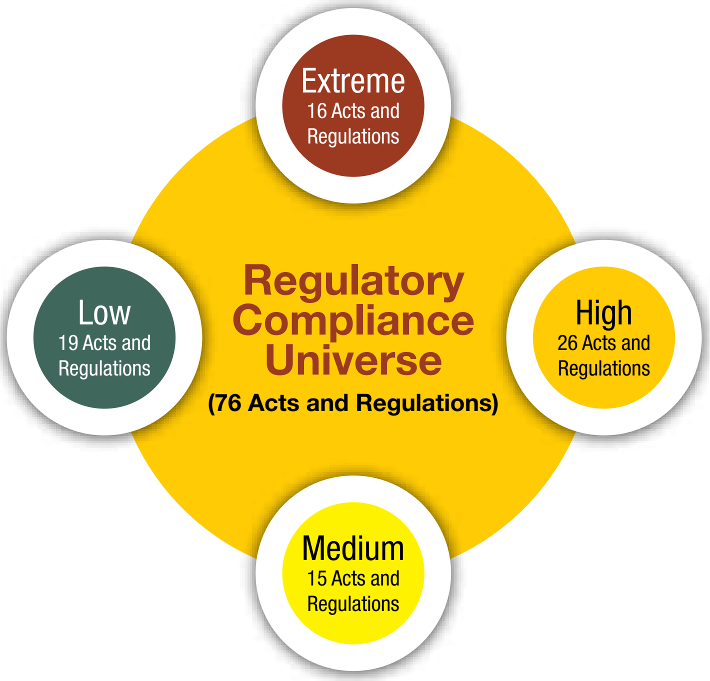
As a principle PetroSA does not tolerate non-compliance with laws, regulations and any of its own standards. Through the Group Compliance Function, the recording of non-compliance, using the materiality levels (quantitative and qualitative) defined in the Group Compliance Policy, is designed to provide EXCO and the Board with an on-going view of the compliance environment.

### Awarding excellence in compliance

At the Southern Africa Compliance Awards Ceremony, held in Johannesburg on 18 November 2014, the PetroSA Group Compliance Department was awarded the Title of "Compliance Team of the Year". This award ceremony formed part of the Anti-Corruption Summit 2014.

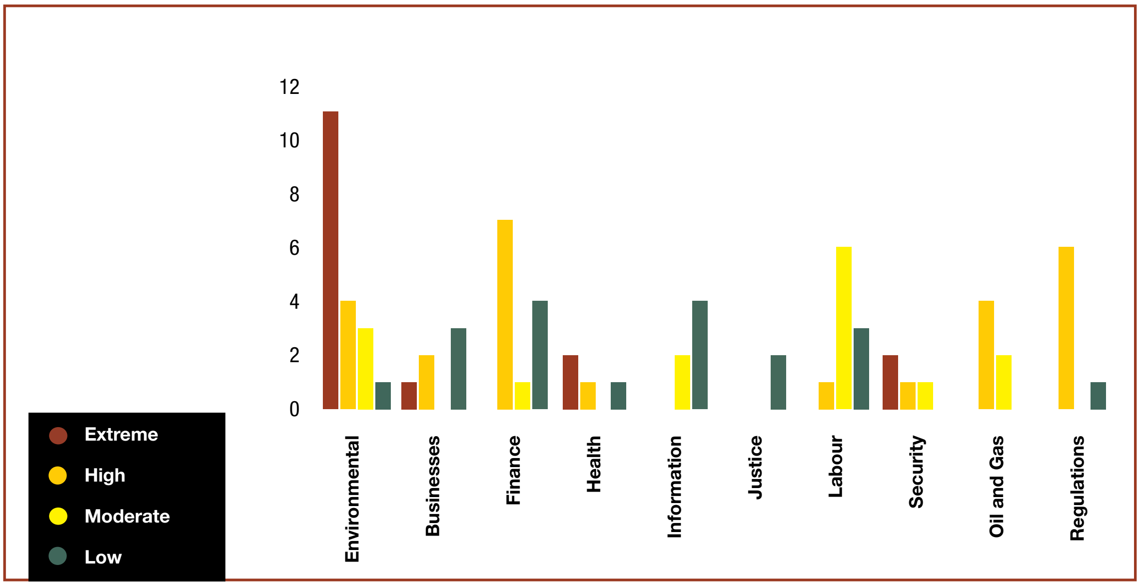

## REGULATORY COMPLIANCE UNIVERSE

PetroSA's revised Regulatory Compliance Universe contains a list of 76 Acts which are applicable to the company as depicted below. The acts are risk rated based on probability and impact of non-compliance.




| Description of risk rating | Risk Rating |
|---|---|
| Catastrophic impact of non-compliance | Extreme |
| Major impact of non-compliance | High |
| Moderate impact of non-compliance | Medium |
| Low impact of non-compliance | Low |

The Regulatory Compliance Universe was revisited in the year under review and subsequently approved by the Board. The Acts/regulations in the universe are currently being profiled and the process is at various stages of completion. The graphical representation below expresses the regulatory universe per compliance category and in relation to risk assessment and/rating done by management.




As at year-end of the 2014/15 financial year, 69% of the Regulatory Universe had been profiled.

# CORPORATE COMPLIANCE (CONTINUED)

As part of inculcating a culture of compliance within the Group, the Executive Management signs off a Management Representation Letter to the Group CEO and the Board every quarter. This declares and attests to: the presence or absence of any issues of conflict of interest; compliance to laws, policies and procedures; the status and knowledge of fraudulent activities within the division; and the application of risk management techniques in discharging their duties.

## Ensuring business continuity

Business Continuity Management, as a discipline within PetroSA, maintains a collection of plans that are readily accessible and available for use in the event of a disaster, or major disruption to business activities. These plans are informed by an approved Business Continuity Management policy and accompanying procedures. These require that all Business Continuity Plans across the organisation be kept in "ready" mode for execution and are updated at least annually, or as and when material changes to business processes occur.

PetroSA maintains Business Continuity Plans for all of its locations and business-critical processes. These plans are updated and reviewed for their relevance and ability to mitigate scenarios described in the plans and strategy. The Group Compliance Function ensures their continued relevance through the allocation of these plans to different role players in the company and through training, awareness and the deployment of an Employee Group Compliance Manual.

## Combined assurance

PetroSA's Board Audit Committee (formerly Board Audit and Risk Committee) understands that it has to remain vigilant and that its role is not simply to ensure that audit procedures are performed, but to ensure that the work performed is effective and adds value to stakeholders. This requires increasing collaborative approaches to work undertaken by the Group's assurance providers.

King III advocates that the Audit Committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities. In response to this principle, the group has formulated a combined assurance framework for use by all PetroSA assurance providers to ensure a broader coverage of risks facing the organisation.

Combined assurance is the process of integrating and aligning assurance processes in a company to maximise risk and governance oversight and control efficiencies, and optimise overall assurance to the audit and risk committee, considering the company's risk appetite.

During the year the committee approved the respective assurance provider plans and reviewed individual quarterly reports. A workshop was held between all PetroSA internal assurance providers with the Group CEO where matters of mutual interest pertaining to implementation of combined assurance in PetroSA were deliberated on. A number of key recommendations were made to the GCEO which are at various stages of implementation:

- Drive accountability of risk and control management
- Formulate and implement a communication plan
- Provide awareness training to EXCO
- EXCO agrees on current and target Control Environment (CE) Maturity
- EXCO agrees on criteria to be used to rate the divisional CE
- VPs drive accountability at a divisional level
- Key operational and financial controls identified, monitored, tested and reported by divisions and departments at various levels within the company
- Implement combined assurance (ensures holistic view of CE and control activities)
- Perform regular climate surveys/health checks to test CE consciousness
- Finalisation and implementation of Business Processes
- Improve and drive consequence management – first line of defense
- Enhance the tone at the top

The assessment done thus far in implementing the Group Combined Assurance model at PetroSA revealed some limitations herein listed below and communication with the Board in this regard took place. Some of the limitations noted include:

- The approach being adopted for this framework assumes that the risk profiles form the complete risk universe.
- Risks, at a process or departmental level, are not completely accounted for in arriving at the corporate strategic risk register.
- Escalation of risks to corporate strategic risk does not, in all instances, consider risks at process level.
- The identification and cooperation of all assurance providers within and outside the company remains a challenge.

PetroSA recognises that a concerted effort will be required to ensure that the work done by all assurance providers (internal and external) is properly coordinated and that the reliability and interdependence of such work can be assured. The three lines of defense include management and internal control framework design, oversight functions and external/ independent assurance.

## Management and internal control framework design

PetroSA has a number of management controls and governance structures in place to provide assurance on the status of governance and control at a group level. These include clearly defined and documented processes, policies that are approved by the Board and controlled and accessible to all staff through the SAP Document Management System, defined procedures, and organisation-wide work practices.

## Oversight functions

The company has a number of oversight functions that exist to provide structure, process, strategic management, policy and procedures within the company. Some of the key oversight functions at PetroSA include:

- Corporate Safety, Health, Environment, and Quality – exercises oversight through a systematic quarterly review of performance, internal audits and monitoring. These are outlined in the annual Corporate SHEQ Management Plan.
- Enterprise Wide Risk Management – facilitates the ongoing identification of risks and related controls throughout the company. This process is subject to quarterly updates and reporting.
- Group Compliance Function – reports to the GCEO and has a direct reporting line to the Chairman of the RMCC (formerly known as BARC) on compliance matters. The compliance matters are reported to various specialised risk management committees including the Proposals Committee, Group Assurance Committee (GAC), Executive Management Assurance Committee (EMAC), ITSC (Information Technology Steering Committee), EXCO, RMCC and the BAC. Group Compliance is actively functioning and represented in these committees.
- BUCCs (Business Unit Compliance Champions) provide a degree of oversight in relation to the business activities of each division. Each BUCC has the responsibility to assist divisional management in handling compliance risk within the division and reporting on these activities to an oversight committee known as the Group Assurance Committee (GAC). All BUCCs also report to the divisional Vice Presidents (VPs). BUCCs co-ordinate compliance activities and report quarterly, or as required by the Risk and Compliance Department, on the state of compliance in their divisions. VPs enter into formal agreements with the Risk and Compliance Department to ensure that BUCCs for all divisions are allocated and or reconfirmed and that the percentage time they spend on risk and compliance activities (KPAs and KPIs) is standardised across the company. This is done to inculcate a culture of risk management and compliance.

## External/Independent assurance

The Auditor-General’s responsibility is to express an opinion on the financial statements and to report on findings relating to the audit of the report on predetermined objectives and compliance with material matters in respect of laws and regulations applicable to the entity.

The PetroSA Internal Audit (IA) function provides independent, objective assurance and consulting services designed to add value and improve the Group’s operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Various independent statutory and regulatory bodies including but not limited to SARS, Nersa, DoE, SABS, National Treasury, and the Department of Environmental Affairs play a pivotal role in the review of specific company processes and provide independent assessment of these processes.

# ENTERPRISE RISK MANAGEMENT

The primary role of the Risk Management function is to design, implement and monitor the process of enterprise wide risk management and its integration into the day-to-day activities of the company.

PetroSA's philosophy on enterprise wide risk management is that of proactive management of risks accompanied by the exploitation of any related opportunities. To this end, the Risk Management and Compliance Department, under the guidance of the Group CEO, has put in place a number of governance structures and documents. These are subject to yearly review and regular updating to ensure alignment with best practices and include the following:

- Group Compliance Policy (updated in 2014)
- Anti-Bribery and Anti-Corruption Policy
- Enterprise Wide Risk Management Policy
- Business Continuity Management Policy
- Prevention of Fraud and Corruption Policy (updated in 2014)
- Gift Register Procedure and Declarations of Related Party Interests (updated in 2015)
- Code of Ethics (updated in 2014)

In line with integrating and embedding a culture of enterprise-wide risk management, risk management plays a pivotal role and informs key decisions taken by management and the Board.

## PetroSA's Strategic Risk Profile aligned to strategy

### Sustainability

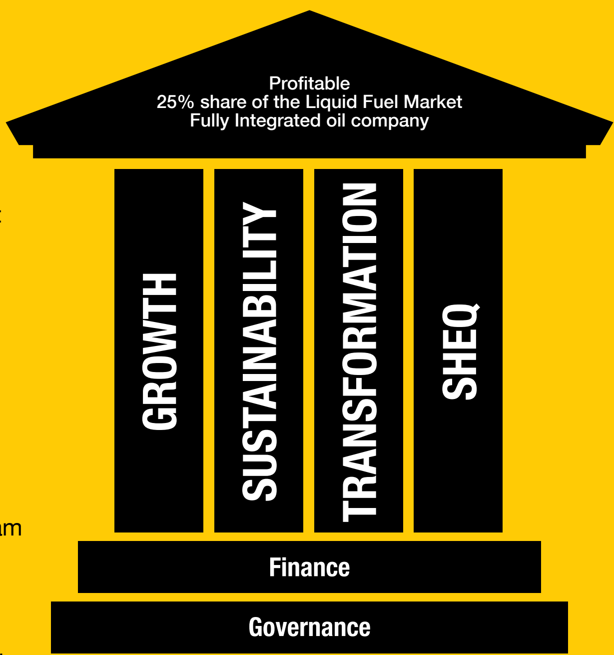
- Failure to complete Project Ikhwezi to 2014/2015 schedule, FID Budget, within desired Production range and to required SHEQ standards.
- Long-term sustainability of (post 2019) GTL Refinery not sustainable post Project Ikhwezi.
- Short to medium-term sustainability (2014-2019/20): Insufficient feedstock for the GTL Refinery.

### Growth

- Failure to access downstream market through acquisition.
- Failure to provide logistical infrastructure required to market finished product and crude to meet the objectives of Corporate Strategy.

### Governance

- Non-compliance with laws, standards, regulations and practices in all jurisdictions where we do business.




### Transformation

- Failure to achieve transformation targets.

### SHEQ

- Non-compliance and non conformance to key SHEQ regulatory requirements.

### Finance

- Failure to achieve targeted profits during the period.

### Key risks and mitigating activities

In analysing and assessing the strategic risks facing the organisation during the year under review, PetroSA has graphically depicted Corporate Strategy. In addition to the four primary focus areas, PetroSA has identified two additional focus areas. The strength of any structure is directly dependent on the integrity, stability and strength of its underlying foundations. The PetroSA Group has therefore identified skills, finance and governance as foundations on which the pillar structure and ultimately Corporate Strategy rests. Without solid foundations any structure will eventually collapse. The graphic opposite shows the alignment between strategic focus areas and business risks.

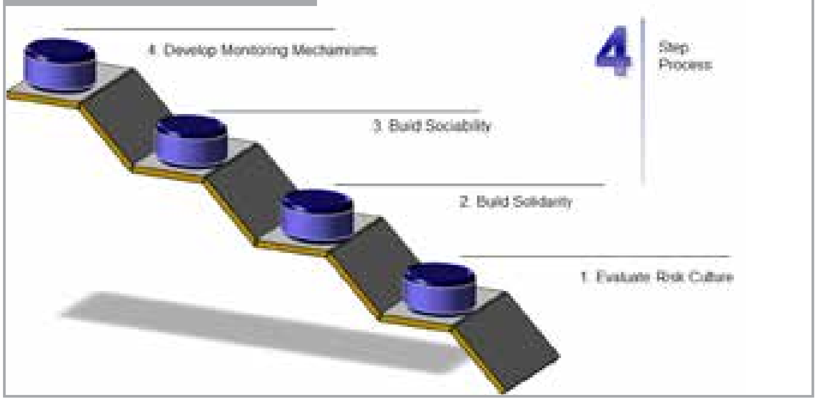
## The table below provides further detail in respect of identified risks:

| Focus area | Risks | Mitigations |
|---|---|---|
| **Sustainability** | • Failure to complete Project Ikhwezi to schedule, FID budget, within desired production range and to required SHEQ standards.<br>• Insufficient short-term indigenous feedstock for the GTL Refinery.<br>• The Mossel Bay refinery not sustainable in the long-term. | • Project managed by competent team and enhanced processes.<br>• Complete pre-feasibility study for Asset Development Projects studies for alternative feed stock.<br>• Complete LNG study.<br>• Complete pre-feasibility of fuels development project.<br>• Investigate gas to power option and develop a viable business case.<br>• Develop and submit business case for execution of drillable prospects.<br>• Well intervention and optimisation program.<br>• Proactive and preventative maintenance.<br>• GTL Refinery/FA Plant Optimisation. |
| **Growth** | • Failure to access downstream market through an acquisition.<br>• Failure to provide logistical infrastructure required to market finished product and crude to meet the objectives of Corporate Strategy. | • Project managed per project execution plan and risk managed per detailed project risk register mitigations and action plans.<br>• Access to NMPP pipeline.<br>• Acquisition of key distribution points within South Africa.<br>• Hospitality arrangements held with oil majors. |
| **Governance** | • Non-compliance with laws, standards, regulations and practices in all jurisdictions where we do business | • Dedicated Group Compliance and Ethics office and governance structures in place.<br>• Formal, quarterly Management Representation process in respect of compliance. |
| **Transformation** | • Failure to achieve transformation targets | • Active Employment Equity Forums in place.<br>• Regular monitoring and reporting on B-BBEE targets. |
| **SHEQ** | • Non-compliance and non-conformance to key SHEQ regulatory requirements | • Legal appointments in terms of relevant Acts.<br>• Implementation of Annual SHEQ Management Plan<br>• Incident Management System<br>• Site-specific SHEQ legal registers. |
| **Finance** | • Failure to achieve targeted profits during the period. | • Continuous and stringent operational cost management and continuous financial performance reviews.<br>• Operations scorecard modified to ensure the management of gross revenue margin is a key performance indicator.<br>• Effective management of supplementary feedstock and other imported product costs. |

# ENTERPRISE RISK MANAGEMENT AND GOVERNANCE PROCESSES

The Risk Management and Compliance Department has initiated a project to assess and track the PetroSA Risk Culture. To this end, a Risk Culture Assessment Toolkit was developed to provide a practical guide to implement and sustain a meaningful risk culture within PetroSA. It draws on a range of proven tools and techniques that have been successfully implemented in other local and international companies. The roll-out of this toolkit will gain traction in future financial years.

**A screenshot of a toolkit report**





## ENTERPRISE PORTFOLIO MANAGEMENT OFFICE (EPMO)

In the year under review the EPMO was approved by the executive. Furthermore, the EPMO piloted and benchmarked its proposed design and processes. The EPMO in addition completed the development of the Company project management governance framework. The revised framework is intended to achieve the following:

- Harmonisation of project management language;
- Standardisation of processes;
- Role clarification of various players in project, programme and portfolio management;
- Creating efficiency and simplicity; and fostering a project management culture in the company.

At year-end the project had presented its output for approval at various company governance authorities.

When approved the EPMO will be a permanent office going forward mandated to do the following:

- provide a support function to PetroSA that monitors and evaluates all strategic project performance against a common execution framework;
- drive adherence to appropriate governance and best practice to enable delivery excellence across PetroSA;
- take responsibility for the overall tracking and analysis of the PetroSA strategic portfolio, while execution remains the business/project managers responsibility; and
- provide a simple reporting structure that gives visibility to both the strategic and consolidated portfolio and supports the process of project approval in the gated process.

As the EPMO gets traction and is implemented in the coming financial periods, it will provide an umbrella service across the organisation in programme and project management disciplines. As an end goal, this will create high-level operational visibility, governance and management accountability in areas that endorse, sponsor or facilitate programmes and projects company-wide.

## INTERNAL AUDIT AND CONTROL

The Internal Audit activity is governed by the Internal Audit Charter, which is reviewed and approved annually by the Board Audit Committee (previously the Board Audit and Risk Committee). To provide for the independence of the Internal Audit activity, the Chief Audit Executive reports functionally to the Board Audit Committee, and administratively to the GCEO. The Chief Audit Executive has unrestricted access to the GCEO and Chairman of the Board and meets privately with the Board Audit Committee Chairman on a quarterly basis. The Chief Audit Executive has a standing invitation to attend meetings of the Executive Committee, or other committees made up of a majority of executives, but is not a member of these committees.

The Internal Audit Department is responsible for providing independent, objective assurance on the adequacy and effectiveness of the Group's governance, risk management and internal control processes to the executives and the Board. The Internal Audit activity includes the provision of consulting services, which are designed to add value and improve the company's business systems.

The Internal Audit Department follows a risk-based approach in formulating its annual and strategic internal audit plan, approved by the BAC. The annual plan is reviewed on a quarterly basis for material changes in the Group's risk profile. Revisions to the annual plan are approved by the BAC.

The Chief Audit Executive submits formal quarterly reports to the BAC summarising the results of the internal audit activity, the progress made by management in addressing exceptions previously raised by Internal Audit, as well as other significant issues.

The Chief Audit Executive maintains a quality assurance and improvement programme to ensure that a continuously effective level of performance, compliant with the Institute of Internal Auditors (IIA) standards and the code of ethics, is upheld. An improvement plan is maintained and monitored to address the deficiencies noted during quality assurance reviews.

# PetroSA LEADERSHIP

# PetroSA EXECUTIVE MANAGEMENT TEAM

## Nosizwe Nokwe-Macamo

**Group Chief Executive Officer (GCEO)**

**MSc Engineering**

Mrs. Nokwe-Macamo is a Petro-Chemical Engineer having specialised in Petrochemical Technology and Basic Organic Synthesis. She has a rich and diverse experience in the Petroleum Industry having worked in the sector for 18 years, firstly at Engen Petroleum and thereafter at Total SA. She brings with her a wealth of experience in Logistics Management, Supply Planning and Optimisation, Product Trading, Refinery Processing, Marketing, HSEQ, Project Management, International Business Development, Corporate Strategy and Planning. Mrs Nokwe-Macamo also has experience in the Public sector, having been the Director General of Gauteng Province, prior to joining PetroSA. Mrs Nokwe-Macamo also has experience in Corporate Governance, having served as an Executive Director and an Independent Director on both listed and State-owned company boards over 11 years. She joined PetroSA as Group CEO in March 2012.

## Lindiwe Mthimunye-Bakoro

**Group Chief Financial Officer (GCFO)**

**BCom, MCom, HDip Tax (Law), CA(SA)**

Ms Lindiwe Mthimunye-Bakoro joined PetroSA as GCFO in November 2013. After completing her articles and qualifying as a Chartered Accountant (SA) in 1998, Ms Mthimunye-Bakoro started her merchant banking career in 1999 with Rand Merchant Bank as a structured financier focusing on property finance.

She later moved into project finance to specialise in concessions, public private partnerships and infrastructure finance. Her role involved financial advisory, debt and B-BBEE equity structuring and arranging. She has also worked as a financial advisor on transactions in the Maritime, Transport and Logistics, Property, ICT and Power sectors. Towards the end of 2005, Ms Mthimunye-Bakoro founded her own financial advisory business, Palau Structured Solutions, where she focused on providing infrastructure and financial advisory services. She was also involved in a family property business and growing its retail portfolio.

Ms Mthimunye-Bakoro has extensive governance and business experience, having served on the boards of various listed and unlisted companies including Woolworths, Group Five, Sea Harvest and Hyundai Automotive South Africa.

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## Joern EP Falbe

**Vice President: New Ventures Midstream**

**BEng (Chem), MSc (Chem Eng), MBA**

A graduate in Chemical and Industrial Engineering from the Technical University, in Hamburg, Germany, Mr Falbe has run an integrated petrochemical and refinery complex at Shell in Europe, specialising in driving efficiency within the Shell refinery. Mr Falbe joined PetroSA in 2005 as a Vice President: Operations Division, after working in Europe for 16 years. He also represents PetroSA as a director in GTL.F1, a joint venture with Statoil and Lurgi, which commercialises the GTL technology. Mr Falbe was promoted to his current position of Vice-President: New Ventures (Midstream), in June 2007. He is responsible for the development and implementation of PetroSA's infrastructure projects in South Africa.

## Mapula Modipa

**Vice President: Human Capital**

**BA, MBA, SEP**

Ms Modipa has 28 years' experience in the Human Resources environment, dating back to 1987. She was Chief Director HR and was seconded to the GSSC in the Gauteng Provincial Government. She also served as Deputy Director-General of Corporate Services at the Department of Water Affairs and Forestry, before moving to the National Intelligence Agency (NIA) where she served as Deputy Director General of Corporate Services. During her five-year career at the NIA she received an award from the State President for Best Financial Management and Savings in 2006. Ms Modipa later joined the Department of Infrastructure as the Head of Department and Accounting Officer. She also worked at Rotek Roshcon as a Human Capital Executive. Ms Modipa was appointed Vice President of Human Capital at PetroSA on 1 October 2014.

## Andrew Dippenaar

**Acting Vice President: New Ventures Upstream**

**BSc, MSc (Exploration Geophysics)**

Mr Dippenaar is a veteran of the oil and gas industry, having started work in the sector for PetroSA's predecessor, Soekor E&P, in 1986. At the time of the formation of PetroSA Mr Dippenaar was the Chief Geophysicist for Soekor E&P. Among other roles he has filled within PetroSA is that of Chief Geophysicist and Manager: Geosciences and Data Support. In 2013 Mr Dippenaar was appointed Acting Vice-President: New Ventures – Upstream.

## Baxolile Zwane

**Acting Vice President: Trade Supply and Logistics (TS&L)**

**BCom, Postgrad Dip (Mgmt)**

Ms Zwane began her career in finance and has worked for several years at large FCMG companies, including Unilever. She joined PetroSA in 1998. Over the years she has held different positions, such as Management Accountant, Assurance and Administration Manager and Marketing Manager at PetroSA Europe, among others. She holds a BCom degree in Finance and Auditing and a Postgraduate Diploma in Business Management. She is currently the Acting Vice President: TS&L.

## Kholly Zono

**Acting Vice President: Operations**

**MTech, BSc (Hons) Chemistry, BTheol, MDP, MBA**

Mr Zono has worked as a Lecturer and Research Associate at the Nelson Mandela Metropolitan University. He joined PetroSA as a Research Scientist and has served PetroSA in various internal roles such as a Chemist, Scheduler, Production Planner and LP Modeller. He has also held key roles in strategic PetroSA projects; these include representing PetroSA on various engagements with the Department of Energy.

## Zama Radebe-Luthuli

**Vice President: Corporate Affairs and Shared Services**

**BA, MBA**

Ms Radebe-Luthuli has worked for several years in the fields of communications, corporate affairs, stakeholder management and corporate social responsibility. She has held management positions with companies such as Absa, Ithala Development Finance Corporation, Richards Bay Coal Terminal and Richards Bay Minerals. She holds a BA degree in Communications as well as Master of Business Administration. Ms Radebe-Luthuli joined PetroSA as Vice President Corporate Affairs and Shared Services in August 2013.

### EXECUTIVE COMMITTEE (EXCO)

The EXCO of PetroSA consists of all the Executive Management Team, including the following as invitees; Chief Audit Executive, Chief Risk and Compliance Officer, Corporate Strategy and Planning Manager and (other specialists including) Group Security Manager and Corporate SHEQ Manager. Under the leadership of the GCEO, EXCO is responsible for implementing the strategic plan of the company as well as for managing its business. The Executive Committee meets at least twice a month.

# STATEMENT FROM THE GCEO

Nosizwe Nokwe-Macamo

The past year has been a challenge in many respects. This was a year in which we were negatively affected by the sharp drop in the oil price, whilst we were focused on the capital intensive gas feedstock Project Ikwhezi. We experienced delays in achieving the critical 'first gas' from our offshore F-O fields, resulting in lower than planned company performance.

Faced with the challenge of the reduction of the gas reserves, and its implication on profitability, I am proud to share that Project Ikhwezi, a complex off-shore drilling project, flowed gas to our gas-to-liquids (GTL) refinery in Mossel Bay on 31 December 2014. This was the culmination of years of hard work and dedication by our employees.

## COMPANY PERFORMANCE

A number of factors impacted the lower than planned performance of the company. These included the substantial crude oil price decline of over 60% between June 2014 and mid-January 2015, sluggish global economic recovery, under-performance of Project Ikhwezi and, in consequence, an impairment charge of R14.5 billion.

We recorded an operating loss of R102 million before impairment, and a net loss after taxation of R14.6 billion for the financial year. The bulk of the reported loss is attributable to the impairment of the Property, Plant and Equipment (PPE).

Total revenue and the gross margin also came in under budget. However, recognising the need for cost management, we followed through with our commitment to optimise costs within the company. We launched a company wide cost-optimisation project and managed to achieve our target of at least R1.25 billion in declared savings. It is with the enthusiastic cooperation and concerted efforts of our staff that we achieved this important goal, and I would like to personally thank everyone who made this possible. This initiative will continue into the coming year.

A significant proportion of our business depends on exploiting our South Coast Gas reserves, and refining this gas through our Mossel Bay GTL refinery to petroleum products. Both the viability and the profitability of the GTL refinery were severely tested in the year under review considering the uncertainty of gas supply from these fields. Given this uncertainty, it is clear that we will have to change our business strategy in order to strengthen our performance. There is no doubt that this can be successfully achieved in the coming year.

## CHANGE AND CONTINUITY: OUR STRATEGIC DRIVERS

In the past year, we undertook a strategic review with the aim of testing the resilience of our core strategy and current business model. Whilst our key strategic pillars (sustainability, growth, transformation, SHEQ) remain intact, we are in the process of implementing a five-year strategic roadmap that allows us to turnaround our business towards profitability.

Initiatives identified in this roadmap span the full value chain and are located within our key operational areas. Execution of this roadmap will mitigate the risks associated with being overly reliant on our GTL refinery as a primary income source, and ensure that we deliver on our mandate.

## SUSTAINING AND GROWING OUR BUSINESS

One of our primary goals is sustaining the GTL refinery. Our five-year corporate plan underlines the urgent need to select an appropriate operating model for our GTL refinery. In this regard, a number of options are currently being investigated. These include the option of supplying some of our indigenous gas for power generation to support government's efforts of ensuring energy security. Furthermore, we have made progress with regards to our initiative of importing liquefied natural gas (LNG) for power generation. We are working closely with our shareholder to realise this project and will solidify our plans in the coming year.

We also continue to work closely with our shareholder, the Department of Energy (DoE), on Project Mthombo, a crude oil refinery planned for Coega, in order to meet South Africa's existing fuel supply shortfall.

## TRANSFORMATION

Taking heed from our government, and having full appreciation of the prevailing social challenges which continue to plague our country, PetroSA has in the past year solidified its leading position in social and industry transformation. We are proud to announce that our company achieved a Level 2 Broad-based Black Economic Empowerment rating, an improvement from the previous year. We are proud of this achievement and are fully committed to maintaining the high standards that we set ourselves as a key agent of transformation in our society and industry.

## OUR FUTURE

Looking ahead, we are confident of the commitment of our stakeholders in ensuring that we deliver on our strategic roadmap towards growth. Part of this growth will involve leveraging our existing assets for revenue enhancement, delivering on planned projects, whilst continuing to manage our operating costs. Underpinning these goals is a process of organisational change, which is a journey that we believe will gear us for the future.

We remain confident that with the support of our shareholder, we will realise our vision of being the leading energy company in Africa.

## APPRECIATION

On behalf of the Executive Management, I would like to thank the Minister of Energy, her department, the Department of Energy (DoE), CEF SOC Limited and our Board of Directors for their full support. More importantly, my sincere vote of thanks goes to our staff and contractors for their diligence and commitment.

**Nosizwe Nokwe-Macamo**
*GCEO: PetroSA*

Looking ahead, we are confident of the commitment of our stakeholders in ensuring that we deliver on our strategic roadmap towards growth. Part of this growth will involve leveraging our existing assets for revenue enhancement, delivering on planned projects, whilst continuing to manage our operating costs.

# PETROSA GCFO'S REPORT

Lindiwe Mthimunye-Bakoro

Cash generated by operations increased to R3.5 billion (2014: 2.2 billion). This was mainly due to positive working capital movements of R1.5 billion versus the negative movement of R294 million in 2014, and constitutes a R1.8 billion turnaround in working capital.

The salient performance indicators for the group are

| Summary of financial information | 2015 Rm | % Change | 2014 Rm |
|---|---|---|---|
| Turnover | 18 049 | (15) | 21 199 |
| EBITDA | 2 214 | (30) | 3 151 |
| Net operating loss before impairment | (102) | >(100) | 2 157 |
| Operating loss | (14 551) | >(100) | (1 238) |
| Loss for the year | (14 574) | >(100) | (1 663) |
| Cash generated by operations | 3 471 | 60 | 2 171 |
| Total assets | 19 831 | (42) | 34 058 |
| Capital expenditure | 5 902 | (9) | 5 433 |
| Total debt | 865 | (46) | 1 591 |
| Net asset value | 4 137 | (78) | 18 472 |
| Year-end exchange rates | | | |
| ZAR/USD | 12.21 | (15) | 10.61 |
| ZAR/EURO | 13.09 | 10 | 14.58 |
| CRUDE OIL ANNUAL AVERAGE | 85.44 | (21) | 107.59 |

## INTRODUCTION

The group experienced a challenging financial year, with production and sales volumes below expectations of the corporate plan, 30% and 17% respectively. The average price of crude oil declined by 21% year on year and 51% compared to the price at the beginning of the financial year. Even though the rand was on average 15% weaker against the dollar, the net benefit was outweighed by lower sales volumes and oil prices.

## FINANCIAL PERFORMANCE

Gross revenue decreased by 15% from R21.2 billion to R18 billion this year and resulted from lower volumes and product prices driven by the fall of crude oil prices worldwide. The fall in the crude oil price affected the group negatively across all operational units, necessitating the suspension of the Oribi/Oryx crude oil production section. The weakness of the rand against all major currencies, normally a positive influence on revenue, could not offset the impact of the reduction in crude oil prices. The gross profit margin declined from 13% in the previous year to 5.8% in the current year. The quality of the profit margin generated has diminished over the years since the contribution from high-value GTL Refinery sales has reduced from a high of 82% in 2008 to 40% in the current year. The low margin purchased product sales contribute 55% to group sales, and the balance of 5% is generated in Ghana:

| Revenue | GTL | Purchased product | Ghana |
|---|---|---|---|
| Revenue (R'm) | 7 277 | 9 935 | 837 |
| Contribution to total revenue | 40% | 55 % | 5 % |
| Gross margin % | 5% | 1% | 45% |

The group achieved EBITDA of R2.2 billion compared to R3.2 billion the previous year. Direct operating costs were relatively higher than in the previous year as more imported feedstock was utilised to maximise non-indigenous production in order to make up for the lower indigenous production due to the delay in the delivery of gas from the Project Ikhwezi field. Also, semi-fixed costs could not be optimally leveraged in the short-term. Other operating expenses amounted to R1.3 billion (2014: R1.6 billion) and were well managed.

The group achieved an operating loss before impairment of R102 million (2014: R2.2 billion operating profit). The shorter life span over which the assets are depreciated and capitalisation of Project Ikhwezi increased depreciation and amortisation costs significantly to R2.3 billion (2014: R994 million).

The group is developing medium and long-term sustainability plans that will ensure continued supply of feedstock to the GTL Refinery beyond the end-of plateau of the indigenous reserves.

# PetroSA GCFO'S REPORT (CONTINUED)

In 2011 the Board approved Project Ikhwezi, a five-well drilling campaign at a cost of US1.3 billion. As at year-end US1.2 billion (R12 billion) had been spent on the project and three-wells were completed, of which only one was flowing from December 2014. At approval, the project was expected to deliver 242 Bcf of commercial gas reserves thus extending the life of the GTL Refinery to the year 2020. As at year-end only 25 Bcf of commercial gas reserves was expected thus shortening the commercial life of the GTL Refinery to 2017. This excludes any tailgas that may be commercialised at a later date. The project did not achieve its objectives therefore necessitating a large impairment charge in the current year.

The group posted a net operating loss of R14.6 billion (2014: R1.6 billion loss) after booking an impairment charge of R14.5 billion in the year, of which R11.7 billion is allocated to the company against local onshore and offshore production assets based on the hydrocarbon reserves outlook that was considerably revised downwards, a shorter lifespan for GTL Refinery and connected gas reserves, as well as lower expected oil prices for the next few years in a soft global market. Overall, 80% of the impairment charge at company level is attributed to lower than expected hydrocarbon reserves and 20% to the weak crude oil price. A review of carrying values of the Jubilee and TEN development assets in Ghana, in light of current soft commodity prices and changes in hurdle rates from 10% to 11% resulted in a gross impairment charge of R2.8 billion.

Investment income was R409 million compared to R439 million in 2014 due to a reduction of R1 billion in cash reserves utilised to finance capex for Project Ikhwezi. Higher finance costs of R1 306 billion were recorded for the year compared to R804 million in 2014 due to an increase in the abandonment provision.

## TAXATION

The group's assessed tax loss position increased from R12.2 billion to R19.1 billion in 2015. The increase in the assessed tax loss position is attributable to the attractive tax uplifts that oil and gas companies receive under the Tenth Schedule to the Income Tax Act for capital expenditure incurred on oil and gas exploration and development activities. The significant taxes paid by the group are those ascribed to duty at source (DAS) levied upon the removal of fuel levy products (diesel, petrol and illuminating paraffin) from the GTL Refinery. The DAS paid in 2015 was R4.9 billion.

## COST MANAGEMENT

The drive to contain and optimise cash operating costs across the group got new impetus with the launch of the BillionPlus project which sought to achieve cost savings in key business areas (operations, procurement and labour). The set target of R1.25 billion to save recurring costs has largely been achieved and as at year-end savings amounting to R1.1 billion were achieved. Efforts to reduce labour costs are still at a consultative phase. BillionPlus has also enforced company-wide cost awareness, which is a positive addition to the culture. Whilst cost management has been successful, it is, however not adequate to sustain the business. With a large number of the assets expected to be redundant post commercial operation of the GTL Refinery, management has initiated an exercise to optimise the utilisation of assets and enhance revenue.

## FINANCIAL POSITION

The group's financial position has weakened as total assets reduced to R19.8 billion (2014: R34 billion) and available cash balance to R4.1 billion (2014: R5.1 billion). Total interest bearing debt of R1.5 billion at 31 March 2014 was repaid and refinanced at the subsidiary level.

Property, plant and equipment increased by R5.8 billion, of which R4.9 billion relates to the Project Ikhwezi and R800 million to Ghana fields development. At 31 March 2015 the carrying value of the onshore and offshore production assets were evaluated against the recoverable amount, taking into consideration economic conditions, operating budgets and available hydrocarbon reserves. As a result a gross impairment amount of R14.5 billion was charged against income.

The group's balance sheet has a current gearing of 27.9% at 31 March 2015, presented as a ratio of gross interest-bearing debt to equity (2014: 10.5%). Gearing has increased mainly due to the large impairment charge during the year resulting in a reduced equity balance to R4.1 billion (2014: R18.5 billion), even though interest-bearing debt decreased by R746 million to R1.2 billion at 31 March 2015. The group is not geared on a net debt basis (comprising gross debt net of cash and cash equivalents) to equity. The optimal funding structure for the group has been considered, with a targeted long-term gearing ratio of 30% to 40%, in line with the group's long-term strategy and growth initiatives.

The group provided R9.6 billion for onshore and offshore abandonment and environmental rehabilitation costs. Based on expert estimates, the liability is expected to mature over a period of 11-years to 2028. The liability is not fully funded, as at year-end R1.9 billion was set aside and the balance is expected to be funded over time. However, the recently promulgated National Environmental Management Act requires that the liability be fully funded by 31 March 2016. Consequently, the group has requested financial support from the shareholder while engagement to source guarantees from the insurance market continues.

## CASH FLOW

Cash generated by operations increased to R3.5 billion (2014: R2.2 billion). This was mainly due to positive working capital movements of R1.5 billion versus the negative movement of R294 million in 2014, and constitutes a R1.8 billion turnaround in working capital. Delays in flowing gas from Project Ikhwezi have had an adverse effect on cash generation. Investing activities were financed from cash generated in the current year and own reserves. Project Ikhwezi was wholly funded by the company. Efforts to raise external funding were unsuccessful due to the lower-than-expected gas discovery.

### Capital expenditure

Commitments for 2015/16 amount to R3 billion mainly for further expansion in Ghana and some other local upstream joint ventures.

### Liquidity and interest rate risk management

The group manages its cash and cash equivalents in line with Board-approved policies. The cash portfolio is split into a core and liquid portfolio to ensure that short-term liquidity needs are met, whilst maximising the return on cash under management. Investment counterparties are approved based on their assessed ratings and are monitored.

Investments are predominantly matched to liability profiles, and hedged accordingly. The foreign loans are currently benefiting from the low interest rate environment.

Cash under management for the group decreased from R5.1 billion in the previous year to R4.1 billion as at 31 March 2015, mainly due to the Project Ikhwezi development capital expenditure exceeding cash generated by operations.

As at 31 March 2015, South African Rand cash and cash equivalents were invested at a fixed rate of 6.25% (2014: 5.51%) and a floating rate of 5.87% (2014: 5.68%). The rate of return achieved on investments improved during the financial year, in line with rising market rates, contributing R409 million in interest income in the period under review, down from R439 million the previous year. This marginal reduction in the interest income is directly attributed to the reduction in cash and cash equivalents being offset by increasing market rates.

### Foreign currency risk management

The group is exposed to foreign currency fluctuations mainly from US dollar funding, imports of raw material and equipment, and exports of finished product. All local sales of finished products are sold in South African Rand on a foreign currency denominated basis.

The group hedges foreign exchange transactions where there is a future currency exposure and employs both natural and synthetic hedges to manage foreign currency exposure.

### Funding

The US$150 million bridge loan facility raised for the acquisition of PetroSA Ghana was fully repaid in February 2015. The bridge loan was repaid from the proceeds of the Reserve Based Loan (RBL) facility, supplemented by own cash resources. A limited recourse RBL facility, which is ring-fenced at the PetroSA Ghana asset level, for an amount of up to US$150 million, was concluded during the financial year. The initial available facility was US$119 million with an initial draw-down of US$75 million. Leaving available an undrawn facility of US$44 million to fund capital commitment in Ghana. In addition, the group is considering a trade finance facility of up to R1 billion, to support the increasing trading business of the Trading, Supply and Logistics division and to ease pressure on the working capital.

The group’s funding strategy that supports the pipeline of projects and investments, has been to raise bridging finance in the short-term, thereafter convert to longer-term debt at the asset level. A number of options are being explored in conjunction with the funding community to optimise the currently low-geared balance sheet in order to raise funding for sustainability projects under consideration.

The PetroSA Ghana acquisition and its further development, and investment in Project Ikhwezi have largely utilised cash reserves available to fund future projects in the short to medium-term. Consequently, in order for the group to achieve its sustainability and growth strategy initiatives, support from the shareholder in the form of a recapitalisation or shareholder guarantees will be required for significant projects in addition to the current areas of focus and commitments contained in the corporate plan.

# PetroSA GCFO's report (continued)

## GOING CONCERN

The Board believes that the group is a going concern and has adequate financial resources to continue operations into the future. Notwithstanding the diminished reserves outlook as reported in these financial statements, the company does not intend to liquidate or cease trading.

There are medium to long-term plans under development to sustain the GTL Refinery and related offshore assets beyond the commercial cut-off date of 2017. The purchased product supply and trading business and PetroSA Ghana activities are unaffected and continue to expand.

## DIVIDENDS

No dividends were declared in this financial year.

## ACCOUNTING STANDARDS

For all periods up to and including the year-ended 31 March 2014, the group prepared its financial statements in accordance with South African Statements of Generally Accepted Accounting Practices (GAAP). These financial statements for the year-ended 31 March 2015 are the first the group has prepared in accordance with International Financial Reporting Standards (IFRS).

## PREFERENTIAL PROCUREMENT

For the period under review (i.e. April 2014 to March 2015), payments made to suppliers of goods and services totalled R20.4 billion. In terms of the B-BBEE codes of good practice, certain expenditure may be excluded from total procurement spend (i.e. procurement from other organs of state, imported goods and services that cannot be sourced locally, as well as specific branded sole-source procurement). The total procurement expenditure from organs of state, sole-source suppliers and foreign entities equalled R11.7 billion. The group's total discretionary procurement for the period under review, in terms of the codes (i.e. level 1-8), was thus R8.7 billion. Total B-BBEE procurement expenditure of R9 billion (in terms of the B-BBEE codes) equates to 103.1% of discretionary spend for the period under review.

## AREAS OF FOCUS IN THE NEXT FINANCIAL YEAR

### Cost Optimisation and Revenue Enhancement

The cost optimisation efforts that originated under the BillionPlus project require to be entrenched in the ensuing period to ensure continued realisation thereof. The asset optimisation and revenue enhancement initiatives continue unabated and demand concerted focus given the acute challenges ahead. Working capital management remains an area of focus.

### Sustainability plan

The group is developing medium and long-term sustainability plans that will ensure continued supply of feedstock to the GTL Refinery beyond the end-of plateau of the indigenous reserves. Plans to diversify income streams by optimally utilising the tailgas are also underway. The medium-term plans are expected to be funded mainly from internal cash reserves. However, all long-term solutions will require shareholder support.

## APPRECIATION

I thank our finance team for their diligence and unwavering support during a very challenging year beset by a volatile economic environment and pressures related to the precarious business outlook. Under these wearisome circumstances the finance team still delivered appropriate financial management and governance systems across the group, and provided the required support to all business initiatives. The team met its performance targets for the year.

**Lindiwe Mthimunye-Bakoro**
*GCFO: PetroSA*

**Helicopter landing at FA Platform**

# REVIEW OF THE 2014/15 FINANCIAL YEAR



# STRATEGIC FOCUS AREA 1: BUSINESS SUSTAINABILITY

PetroSA's strategy is to become a fully integrated, commercially competitive oil company, supplying at least 25% of South Africa's liquid fuel needs by the year 2020.

The sustainability strategic focus area seeks to ensure stable and diversified income sources. This we are doing by advancing additional feedstock to our GTL refinery through our offshore development project called Project Ikhwezi, stabilising our upstream prospects, in particular in Blocks 9 and 11a offshore Mossel Bay, redeveloping the refinery in line with expected production demands, and optimising our trading business.

## 1. FEEDSTOCK SUPPLY TO THE GTL REFINERY

Our activities on the South Coast focused on the following strategic objectives:

- Execution of the F-O field development project (Project Ikhwezi), which involved the drilling of long horizontal development wells,
- Ongoing assessment of the Southern Cape's offshore hydrocarbon potential to supply feedstock to the GTL refinery, as well as to provide non-feedstock (oil) sources of revenue.

### Project Ikhwezi

The F-O Field Development project (Project Ikhwezi) is of strategic importance to PetroSA. The successful execution of Project Ikhwezi will extend the indigenous gas feedstock supply to the refinery, extending its life, and benefiting the local and regional economies. The drilling and completion of wells has been challenging as the F-O reservoir is a high temperature, high pressure reservoir with *in-situ* temperatures of ~160° Celsius. The reservoir is structurally complex with variable reservoir quality along the horizontal well bore paths. In recognition of these challenges, long horizontal well trajectories were specifically designed to access and drain several fault blocks or compartments.

During the course of the reporting period, two wells, F-O10 and F-O11, were drilled and the F-O09 resuscitation proved successful.

The F-O10 horizontal well was drilled to a total depth of 5 718 metres and lined with a pre-perforated liner. During the testing of the F-O10 well, gas flow rates exceeding 50 mmscfd were achieved. The F-O10 well was brought on line on 31 December 2014 and continued to produce at good rates throughout the remainder of the reporting period.

Due to operational reasons PetroSA hired a second rig, the Transocean Marianas semi-submersible, to initially drill in parallel to the first rig, the ENSCO 5001, and then to continue with the programme on its own. Well F-O11 was spudded in June 2014 and completed in November 2014. It is the longest horizontal well ever drilled offshore South Africa, at a total measured depth drilled of 5 787 metres.

Completion of the testing of the F-O10 well and improved understanding of the reservoir properties gained during drilling operations resulted in the completion strategy for F-O11 being simplified and changed to a "barefoot completion". Gas flowed to the surface on 5 December 2014 at a rate of 16 mmscfd, thereafter reaching a maximum of 25 mmscfd. The well was shut in and suspended awaiting tie-in to the production facilities.

Well F-O09 was suspended in 2013 after failing to flow gas to surface. An intervention programme designed to resuscitate the well proved successful and on 6 February 2015 gas flowed to the surface achieving a maximum flow rate of 70 mmscfd.

The FA topsides modifications and subsea infrastructure for Project Ikhwezi were completed, certified and commissioned. As a result the F-O10 well was successfully opened and flowed to the F-A platform on 31 December 2014 closing the calendar year 2014 with the achievement of the "First Gas" milestone.

### Assessment of potential offshore fields

In 2012, PetroSA spent US$25 million to acquire a 3 800 km$^2$ 3D seismic survey in the Central Basin of Block 9. A Schlumberger Exploration team of five experienced geoscientists was brought in by PetroSA to use the new seismic data and assist in quantifying the remaining potential of the Central Basin of Block 9, update our workflows and technical processes, as well as provide opportunities for our early to mid-career geoscientists to work with and be mentored by expert geoscientists.

As part of its ongoing commitment to develop critical and scarce skills for the local industry, young PetroSA geoscientists have been exposed to a variety of exploration workflows. These range from screening potential leads to generating and maturing prospects, as well as assessing risks related to prospects and calculating reserves, amongst others. Our junior geoscientists were also provided the opportunity to master geological/geophysical software interpretation platforms widely used in the oil and gas industry and given insights into management and project planning.

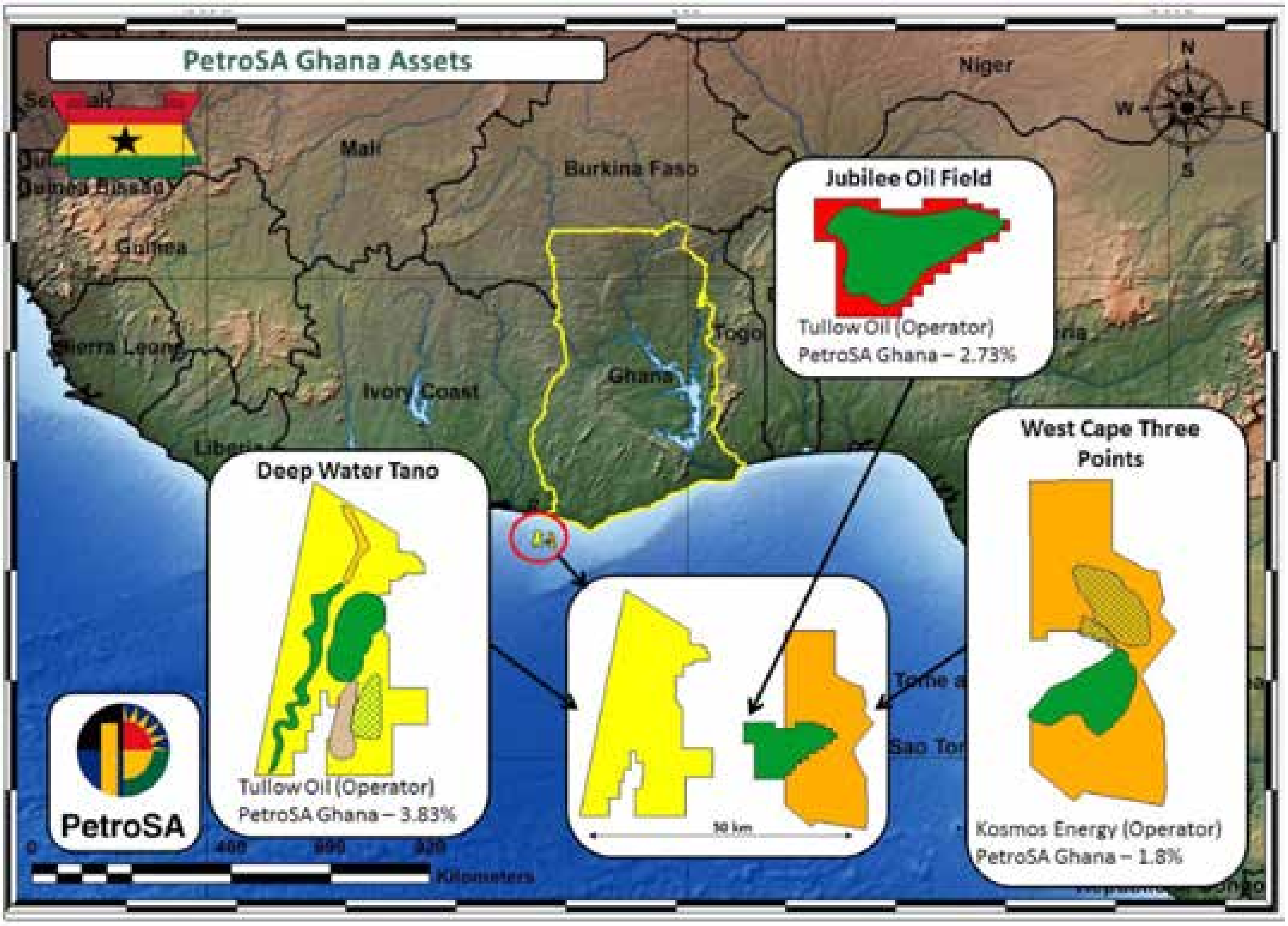
To date, the Exploration Centre has catalogued more than 100 new leads in the "Syn-rift" and "Drift" sequences, ranking and prioritising the most promising for development into "drill-ready" prospects. Consultants are working within asset teams to mature the leads and prospects, while providing technical guidance to PetroSA staff.

## The E-BK and E-CB field feasibility study

E-BK is a discovered gas field and E-CB is a discovered oil field, both located in Block 9. The E-BK and E-CB fields are strong candidates for the next development project. E-CB is an oil field which potentially can reuse the Orca FPSO and E-BK is a condensate rich field near South Coast Gas (SCG) infrastructure which could contribute gas and condensate feedstock into the existing infrastructure. The gas feedstock could either be utilised for the Mossel Bay gas-to-liquids refinery, or towards power generation. The E-BK development will contribute positively to the GTL refinery economics because of its high condensate yield, on condition that we can use existing SCG infrastructure to deliver to the refinery. The feasibility investigation into these fields is ongoing and aimed at compiling an updated business case for the development of E-CB and E-BK, either as standalone, staged or joint development projects.

## West Africa assets – Ghana

PetroSA Ghana Limited is a wholly owned subsidiary of PetroSA. PetroSA Ghana is party to the Deepwater Tano and West Cape Three Points Petroleum Agreements, as well as the Jubilee Unitisation and Unit Operating Agreement and has joint venture partnerships with recognised Independent Oil Companies such as Tullow Oil, Kosmos and Anadarko, as well as with Ghana National Petroleum Corporation (GNPC).




These areas and the minority equity in the assets held by PetroSA Ghana, are depicted in the figure above.

# STRATEGIC FOCUS AREA 1: BUSINESS SUSTAINABILITY (CONTINUED)

In the period under review, the Jubilee oil field production averaged 102 189 barrels of oil per day (bopd). This contributed on average 83 693 barrels per month to PetroSA.

Gas infrastructure was completed in the fourth quarter of 2014, alleviating some of the gas constraints previously experienced.

The Deepwater Tano and the West Cape Three Points blocks have known oil and gas discoveries and are currently in the "development" and "declaration of commerciality" phases respectively. The development of the Tweneboa, Enyenra and Ntomme Fields (TEN Fields), located in the Deepwater Tano Block, and approved by the Ghana Government in May 2013, are on track to deliver first oil in mid-2016.

### Forward looking activities

PetroSA will look for partners with the financial capacity and technical competence to execute a multiple well programme in order to accelerate its activities in Block 9.

## 2. REFINERY OPTIMISATION: OPERATIONS

During 2014, PetroSA structured its operations to improve efficiency across the group's assets. Asset managers were empowered to ensure the GTL refinery and offshore assets are run effectively and efficiently to improve safety margins, plant integrity and long-term sustainability.

The primary focus in the 2014/15 financial year, was to achieve the Operations Division's targets as set out in the balanced scorecard for the year. Chief among those was the delivery of the Project Ikhwezi first gas target, processing of the gas through the GTL refinery, and an attainment of production volumes for market sales.

Particular focus areas included safety, cost containment/reduction, performance and talent management, quality management and margin optimisation. These focus areas were the basis for the delivery of the Operations Division's strategy for the year.

### Performance review and production

Project Ikhwezi was commissioned in December 2014 and came into production in the last quarter of the 2014/15 financial year. However, first gas production from Project Ikhwezi was delayed, and production was lower than budgeted. This shortfall, together with plant operational challenges, resulted in a total refinery production for the year of 6.6 MMbbls of refined product, up 14% from 2013, but 30% below the budgeted target of 9.4 MMbbls for the year (see accompanying table).

Indigenous production (i.e. without FO) for the year exceeded the budgeted production target by 6%. Platformer unit yields were reduced in the fourth quarter as a result of catalyst deactivation. However, by year-end catalyst regeneration had been achieved and full production restored. Considering the falling oil price, relative to operational costs, it was decided not to put the ORCA platform into production. A future alternative use for ORCA is being investigated.

### Table 2: Indigenous production volumes for Q4 and FY 2014/15

| KPI | 2014/15 FY (MMbbls) | | |
|---|---|---|---|
| | Target | Actual | % Dev. |
| Indigenous production without FO | 4.145 | 4.412 | +6 |
| FO only production | 3.060 | 0.325 | -89 |
| Indigenous production with FO | 7.103 | 4.736 | -33 |
| Total production | 9.425 | 6.622 | -30 |

### Refinery sustainability

PetroSA embarked upon a number of initiatives to improve overall octane values and product margins, including the blending of light alcohols into the petrol pool, and increasing alkylate throughput.

A feasibility study was completed on revamping the isomerate unit to further improve gasoline octane. The revamp study involves converting the existing De-isobutaniser (DIB) to a De-isohexaniser column (DIH). Engineering design work was initiated early in April 2015, and we aim to commission the unit by 2017.

In light of dwindling gas feedstock, we focused on increasing the utilisation of the refinery through enhanced condensate processing, and achieved processing of 52% above budget for import condensate for the last quarter of the year. The return on this investment will continue into next year, and we are confident we can increase condensate throughput by a further 25%. In the 2016/17 financial year, PetroSA aims to process at least 18 000 barrels per day of condensate through the GTL Refinery.

A concept feasibility study to remove bottlenecks in the capacity of the liquid refinery to 40 000 – 50 000 barrel per day, based on liquid feed compared to gas feedstock, was successfully completed. A phased implementation approach has been adopted to manage the complexity associated with a brown field refinery project.

In light of decreasing feedstock and depressed oil prices, it was paramount to manage costs that are not related to the Brent crude oil price. PetroSA transformed the way its Operations Division manages costs, including the introduction of a new approach to procuring for services. Overall, the division's fixed and variable costs were 14% and 20% below budget respectively for the 2014/15 financial year.

***Gas to Power*** – The gas to power project is of significant importance to PetroSA. The aim of the project is to reduce Eskom's generation cost as well as to add value to PetroSA's gas reserves. To date, a common understanding of the configuration and scope of the project has been reached. Project FID is expected to be achieved by the last quarter of 2015.

***Risk management*** – In 2014, the Operations Division focused on risks associated with strategy and execution, governance and values. In response to the shift in the business focus, the Operations Division focused on production and financial risks. The management of the Operations Division sought to improve the unit's risk management capability, in line with the PetroSA Strategic risk profile. A significant drive has been to ensure that all employees reporting to line managers are exposed to governance issues and understand their responsibility as the first line of defence against such risks. This has resulted in an improvement in the identification, measurement and monitoring of risks, as well as in more effective risk assurance.

***Logistics business*** – The Operations Division provided critical logistics services to both PetroSA's Project Ikhwezi drilling campaign and to Total E&P South Africa B.V. for their crude oil exploration well. Both projects provided the Logistics Base the opportunity to showcase its logistics service offering and to prepare for the expansion of Logistics Base services through organic growth, as well as in support of the South African Government's Operation Phakisa.

## 3. OPTIMISING THE TRADING BUSINESS

The trading function is the interface between PetroSA and the market. The key focus of the PetroSA trading business is to:

- Source feedstock for the GTL Refinery at competitive prices
- Market the refined products produced by the GTL Refinery
- Source additional volumes of fuel products for resale to the industry and commercial customers.

Both PetroSA feedstock costs and overall business revenue reduced in line with falling oil prices. However the impact on revenue reduction was softened by the weaker rand to the US dollar exchange rate.

### Security of supply

Considering that South Africa is a net importer of finished product, PetroSA plays an important role in securing a sustainable supply for the country's needs, by purchasing finished product to supplement local production.

Imports accounted for approximately 56% of PetroSA's total volumes sold for the year-ending March 2015, of which the balance of 44% was produced from the GTL Refinery, as shown in the diagram below. Imports accounted for approximately 58% of PetroSA's total revenue. The volumes were mainly sold to the oil industry and commercial business customers. PetroSA continues to achieve its annual targets on imported volumes.

Sales to the commercial sector remained strong for the period under review, exceeding the budget and surpassing sales achieved in the previous financial year. The buoyant sales came on the back of strong demand from Eskom's open gas cycle turbine plants. PetroSA's supply and logistics capabilities ensured continued support of Eskom's quest to ensure continued power supply to the country.

Efforts to grow and retain sales for LPG and B-BBEE reseller businesses continue in line with the company's mandate to ensure security of supply.

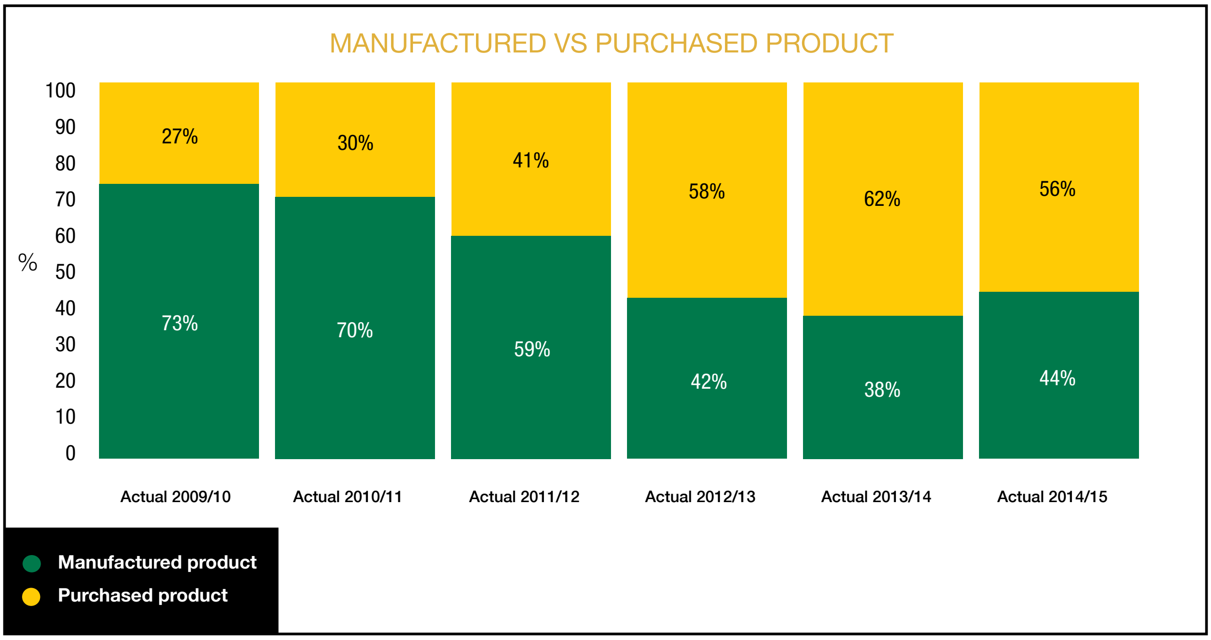



Figure 4: Ratio of manufactured vs purchased product

# STRATEGIC FOCUS AREA 1: BUSINESS SUSTAINABILITY (CONTINUED)

### Petrochemicals

Petrochemical sales for 2014/15 performed better than the previous year, showing an average increase of 8%. Sales totalled 134 million litres up from 125 million litres in 2013/2014. This was achieved despite the supply constraints experienced by the business.

### Supply and distribution

Supply and distribution optimisation remained a key focus area in 2014/15, with PetroSA rationalising its supply chains associated with the various business streams. 2014/15 financial year focused on reducing logistics costs to be within the Magisterial District Zone (MDZ). International storage tanks were rationalised to lower working capital and increase tank utilisation. Both the Bloemfontein and Tzaneen depots performed well, with better stock management, improved SHEQ performance and 100% availability. PetroSA continued with its contribution to security of supply by introducing ULP95 and 50 ppm into the Inland Market (Bloemfontein and Tzaneen depots).

### Business development

PetroSA continues to develop its footprint into the sub-Saharan region. Several Co-operation Agreements have been signed and put into effect with neighbouring countries. These include the conclusion of supply contracts with other NOCs. PetroSA pursues its strategy of identifying relevant infrastructure to support its business development initiatives.

## 4. TECHNOLOGY DEVELOPMENT

### Continuous evolution of GTL technology

PetroSA's interest in and participation in GTL.F1 continues to remain core to PetroSA's growth strategy. The energy efficient Low-Temperature Fischer Tropsch Technology continues to attract interested clients and numerous studies were undertaken during the past year. The GTL.F1 technology offering is proprietary, with only a few individuals in the world that have in-depth knowledge of the process. We have seconded skilled individuals from PetroSA to support the various studies and projects on a full-time basis to fast track the growth and transfer of the unique technology.

PetroSA, together with its Joint-Venture partner Air-Liquide, continued with its GTL.F1 research and development programme into the continuous improvement of the technology, both locally and abroad.

### GTL technical expertise

PetroSA, in its position as an experienced GTL operator, signed a consultancy agreement with a North American GTL project developer to provide support and expertise. This consultancy agreement highlights the value and importance of the GTL technical and operational expertise that exists within PetroSA.

### COD development

The PetroSA Synthetic Fuels Innovation Centre, located at the University of the Western Cape, has spearheaded new growth and understanding of the COD Technology. A new patent application for a modified zeolite catalyst was lodged and further progress was made following PetroSA's request in 2013 for a patent application, by feeding the COD commercial plant a higher alcohol feed-mix in the laboratory. International recognition is being received for the advances made on modelling the COD reaction, predicting the effect of different feed-mixes and process changes on the product profile.

### Fuel Alcohol Project – fuel validation testing and implementation

Mostanol L is a high octane component and the blending of this stream into the Mogas stream reduces the volume of imported reformate required. This initiative has led to significant cost savings. A test programme to manage the change of the new formulation, focused on three main areas: vehicle emissions, carburetor corrosion and vehicle inlet valve deposits.

Vehicle testing performed on a Euro 2 Polo Vivo at VW delivered the following results:

- Tailpipe emissions that meet the Euro 4 specifications for the proposed blends;
- Inlet valve deposits in line with the industry's "best in class" standard; and
- Most importantly, adequate protection against carburetor corrosion.

The introduction of alcohol blends commenced in November 2014 and it is envisaged that this initiative will contribute at least R60 million per annum to our cost-saving initiative.

### Technology Support – Laboratory Support

The research Laboratory completed over 100 investigations supporting the GTL process and technology, ranging from market support to identifying deposit processes.

## 5. ASSET DEVELOPMENT PROGRAMME

The production of gas from the indigenous South Coast gas reserves, currently used for the production of transportation fuels at the GTL Refinery, is declining. In order to sustain the company and drive long-term viability of plant operations in Mossel Bay, an Asset Development Programme (ADP) was initiated in early 2014. The programme, which is a collective of various initiatives being explored to sustain the operations in Mossel Bay, aims to select an appropriate option and develop a business case for the recommended option. The initiatives currently under development as part of the Asset Development Programme are the Liquid Feed Project and the production of high-value Petrochemicals.

### Liquid feed project

The Liquid Feed Project team was established to evaluate the option of increasing the liquid processing capacity of the GTL Refinery. The pre-feasibility study was initiated in early 2014 and was completed in November 2014. While the results of the study confirm the technical viability of the concept, further work is being undertaken to enhance its commercial case and to integrate the project with near-term refinery development options.

### High-value petrochemicals

A pre-feasibility study was conducted to investigate the production of high value petrochemicals at Mossel Bay. The results indicate that the project has the potential to provide a long-term future for the Mossel Bay facility by increasing gas feedstock affordability, thereby allowing the expansion of a range of feasible gas feedstocks. If successful, the project has the potential to maximise utilisation of the existing asset in Mossel Bay, preserve employment, expand the product range and create synergies with other PetroSA strategic projects.

### Liquefied natural gas

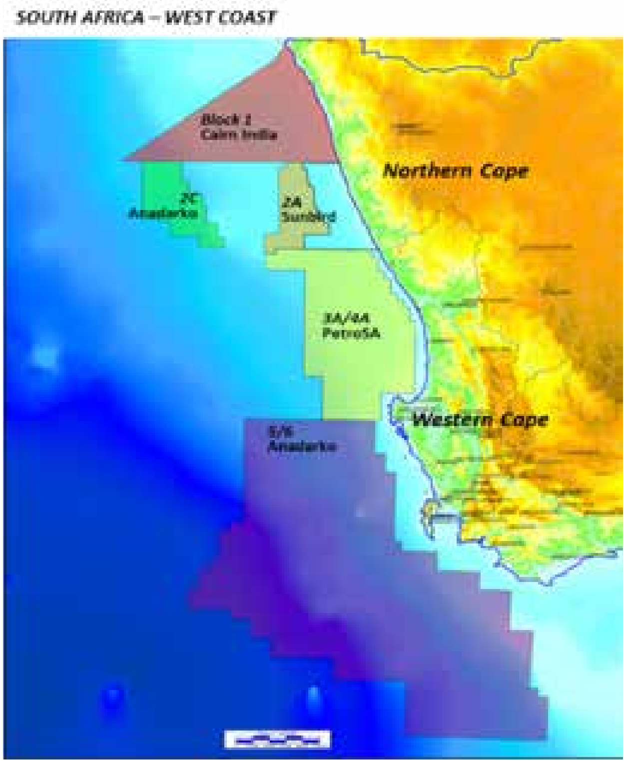
The role of LNG and natural gas is assuming national, strategic significance as clean energy is central to South Africa's goals to diversify sources of energy supply and reduce its carbon emissions. PetroSA has investigated alternative gas feedstock options, including the importation of Liquefied Natural Gas (LNG), and the development of other discovered but undeveloped South Coast gas fields. During the year under review a feasibility study was conducted to investigate a land-based LNG import terminal within the area of Saldanha Bay, with a pipeline connection to Mossel Bay as the long-term option. PetroSA continues to work with sister companies in the CEF SOC Limited group with the view of developing LNG importation infrastructure to support the implementation of the Department of Energy's Integrated Resource Plan and to increase the utilisation of natural gas in the economy.

# STRATEGIC FOCUS AREA 2: GROWTH

PetroSA's growth ambition is to operate as a fully integrated business across all sectors of the value chain by 2020. In fulfilling this ambition, PetroSA's growth strategy is to build the company into a significant player and leader in the South African petroleum industry, thereby contributing to the security of the country's energy supply. Our growth strategy takes place across the three main elements of the value chain: upstream, comprising our West Coast South Africa Assets, midstream and downstream, which entails entering the market as a supplier and distributor of petroleum products.

## Upstream

### WEST COAST SOUTH AFRICA ASSETS




**Location Map: PetroSA Upstream West Coast South Africa Assets**

### Block 1

Block 1 is situated off the west coast of South Africa, north of the Ibhubesi gas field (Block 2A) and the A-J1 oil discovery (Block 2B), and south of the Kudu gas field. PetroSA holds a 40% equity and Cairn India, with 60% equity, operates the block. Gas has been discovered in the block (A-F1 well), promising similar prospects to the Ibhubesi gas field.

During the last Exploration Rights phase, a 1 900 km$^2$ 3D seismic survey and 2 000 line km's of 2D seismic infill was acquired and processed. A deep-water oil prospect portfolio is currently being generated in order to determine the location for an exploration well.

### Block 2C

Anadarko and PetroSA made a joint application for a new Exploration Right over Block 2C with 65% and 35% equity respectively. The deep-water structural oil play, similar to Block 1, will be the focus of exploration activities. The work commitment for the Exploration Right is to acquire 3D seismic data in order to determine the best location for an exploration well.

### Block 3A/4A

PetroSA and Sasol Petroleum International (SPI) both hold 50% equity in Block 3A/4A, PetroSA being the operator. On 29 May 2014, upon culmination of the one year Technical Co-operation Permit, PetroSA and SPI applied for an Exploration Right. The application process is in progress and awaiting governmental approvals.

Two proven plays, namely the Albian fluvial gas play and the syn-rift graben oil play, are on trend with Block 3A/4A. Discoveries in these two plays are less than a 100 km north of the block, but it is uncertain to what extent these plays extend into Block 3A/4A, due to the poor quality 2D seismic data available.

Technical work done during the Technical Co-operation Permit highlighted in particular the requirement for modern data to better image the syn-rift graben play. In addressing this, the work programme proposed for the first exploration phase included the acquisition of an airborne gravity and magnetics survey, results of which will inform how to optimally design the modern 2D seismic survey to delineate the identified plays and leads.

### Block 5/6

PetroSA and Anadarko entered the first three-year term of the Block 5/6 Exploration Right in August 2012. Anadarko is the operator with 80% equity, with PetroSA holding the remaining 20%. This large acreage covers an area of about 94 000 km$^2$ and includes the southern Orange Basin as well as the Cape Basin.

The minimum work programme included the acquisition of new 2D seismic data and the reprocessing of existing 2D data. The new and reprocessed 2D data (about 6 000 line km each) gave insights on the presence and quality of source rocks in the block as well as reservoirs and hydrocarbon traps.

Beyond the minimum commitments, additional work completed in the block includes a high-resolution bathymetry survey, acquired in 2013, and geological and geophysical studies. Various targets for seabed sampling were identified from the bathymetry survey.

### Block 2A

PetroSA holds 24% equity in the Block 2A Production Right, which is operated by Sunbird Energy (76% equity). The Production Right is currently suspended until a gas market for the discovered gas can be secured. Once an interim sales agreement is negotiated, the Joint Venture will enter into a nine-month front-end engineering and design study in order to make a final investment decision on the development of the Ibhubesi Gas Field.

Negotiations are ongoing between the Joint Venture and Eskom to supply gas through a 400 km offshore pipeline to the Ankerlig power station in Atlantis, on the coast 60 km north of Cape Town.

## MIDSTREAM

### Project Mthombo

Project Mthombo, the plan to build a crude oil refinery in Coega, completed its pre-feasibility study in the 2013/14 financial year. During the year under review the focus of the project was to secure a funding partner and initiate feasibility studies. PetroSA continues to work closely with our shareholder, the Department of Energy (DoE), on Project Mthombo, a crude oil refinery planned for Coega, in order to meet South Africa's existing fuel supply shortfall.

## DOWNSTREAM

### Project IRENE

Project Irene contemplated PetroSA securing South African ownership and control of a significant downstream operator, in line with the company's acquisition strategy and its shareholder's mandate. Such an acquisition would not only have given PetroSA access to the downstream market, but would have assisted the country in addressing South Africa's security of fuels supply risk.

Currently more than 25% of South Africa's transportation fuel is imported. PetroSA and the Seller had been in discussions regarding the potential transaction since June 2012, with substantive and detailed discussions having commenced in July 2013. Significant progress was made regarding the transaction in negotiating legal agreements. However, PetroSA was unable to raise the requisite funding for the transaction.

Consequently, the transaction was closed in February 2015. Given the strategic importance of gaining access to the downstream market, PetroSA will continue to pursue other downstream opportunities.

Project Ikwhezi "First-Gas" December 2014

## STRATEGIC FOCUS AREA 3: TRANSFORMATION

# PetroSA is a proudly South African, state-owned entity that is committed to socio-economic transformation. The company understands that as a Proudly South African-owned entity in the oil and gas sector, it has a responsibility to embrace and champion development initiatives of Historically Disadvantaged Individuals (HDI) and communities.


TechnoGirls Programme

# STRATEGIC FOCUS AREA 3: TRANSFORMATION

## Transforming the company

### PetroSA'S EMPLOYMENT EQUITY STATUS AS AT 31 MARCH 2015

The table below shows the breakdown of employees by gender, nationality and race.

| | Male | | | | Female | | | | Foreign nationals | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Occupational levels** | A | C | I | W | A | C | I | W | Male | Female | |
| Top management | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Senior management | 7 | 1 | 3 | 13 | 3 | 0 | 1 | 0 | 1 | 0 | 29 |
| Professionally qualified and experienced specialists and mid-management | 133 | 59 | 12 | 93 | 78 | 23 | 4 | 20 | 13 | 0 | 435 |
| Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents | 189 | 225 | 11 | 161 | 108 | 88 | 6 | 50 | 0 | 1 | 839 |
| Semi-skilled and discretionary decision-making | 78 | 82 | 0 | 15 | 56 | 29 | 1 | 7 | 0 | 1 | 269 |
| Unskilled and defined decision-making | 12 | 5 | 2 | 2 | 19 | 4 | 0 | 4 | 0 | 0 | 48 |
| **TOTAL PERMANENT** | 419 | 372 | 28 | 284 | 265 | 144 | 12 | 81 | 14 | 2 | 1 621 |
| **Temporary employees** | 42 | 34 | 0 | 8 | 12 | 2 | 1 | 0 | 0 | 0 | 99 |
| **GRAND TOTAL** | 461 | 406 | 28 | 292 | 277 | 146 | 13 | 81 | 14 | 2 | 1 720 |

## Employment equity

Significant progress was made regarding transforming the company in the previous financial year and the company exceeded its 30% target for women and its 2% target for people living with disabilities. Stretch targets were subsequently set for the 2014/15 financial year.

During the course of the year the company implemented the BillionPlus cost-optimisation initiative and consequently there were limited opportunities to appoint people, resulting in PetroSA not meeting its stretched target of 33% employment in the workforce for women and 2.5% for people living with disabilities.

Despite these constraining factors, ensuring a culture of inclusivity for women and people living with disabilities remained a key driver for the company. However, females constituted 48% of total recruitment against a target of 33% and total female promotions for the year were 33% against a target of 40%. A Disability Access Audit was conducted and recommendations were implemented to establish a working environment that is conducive to people living with disabilities.

### Building a solution's driven Women's Council with a clear agenda

The PetroSA Women's Council is a structure that addresses the many aspects that impact on women in the workplace. These include, but are not limited to, career development, gender specific, gender equity and disability issues. The emphasis is on creating an enabling environment for women's empowerment and gender equity. In the year under review elections were held to nominate and elect a governing council for the body.

# STRATEGIC FOCUS AREA 3: TRANSFORMATION (CONTINUED)

## Transforming the company

### SKILLS DEVELOPMENT

In the year under review, PetroSA instituted a Leadership Development Programme to unearth and mentor management talent. A total of 41 delegates graduated from the programme during 2014; 21 at junior management level, 13 at middle management level, and seven at senior management level.

### PetroSA Bursary Programme

At the end of the 2014/15 financial year, the PetroSA Bursary Programme supported 31 full-time tertiary students, with 10 bursaries awarded to recipients from the TechnoGirl Programme.

The intake comprises mainly HDI students studying towards qualifications in engineering, geosciences, accounting and Economics.

### Graduate-in-Training (GIT) Programme

Following the completion of studies, bursary recipients are appointed on two-year fixed-term contracts within PetroSA. For the 2014/15 financial year, the PetroSA Graduate-in-Training Programme consisted of 61 graduates placed in various divisions within the company.

There are five students from the Cape Peninsula University of Technology Disability Unit who are currently placed on the Graduate-in-Training Programme.

## ››› CASE STUDY

**From GIT to Process Engineer in two years**

Tsholofelo Pooe is one of many youths who have benefited from PetroSA's career guidance support. His journey started with PetroSA back in 2007. As one of the top 10 matriculants in Gauteng he was being interviewed by Metro FM when a PetroSA employee listened to the interview and recommended we offer him a bursary.

He became a PetroSA bursar at Wits University where the company funded his chemical engineering studies.

Upon completion of his studies in 2012, Tsholofelo joined PetroSA as a GIT (Graduate-in-Training) i.e. a two-year training programme aimed at gaining practical experience. It is a programme that he views as an important platform for graduates to bridge the gap between the university and the workplace. Currently he is a Process Engineer at our Mossel Bay plant.

"A much needed programme aimed at providing graduates with the opportunity to acquire skills. It provides a framework to make the transition from theoretical to practical application."

"I believe it is important for youth to get a proper foundation and support, especially for those doing mathematics and science."

To this end he is playing an active role in the coaching and mentoring of the TechnoGirls.

### TechnoGirls Programme

The TechnoGirl initiative is a government and PetroSA-supported programme in collaboration with UNICEF, aimed at encouraging girl learners to study science, technology, engineering and mathematics (STEM) at both secondary and tertiary level. In 2012, 15 Grade 10 girls were enrolled on the programme. The girls have now graduated from the training programme and in January 2015, 10 received PetroSA bursaries to commence their tertiary education. A further 12 Grade 10 girls joined the programme in 2014.

## Centre of excellence

The Centre of Excellence (COE) makes a significant contribution towards addressing the twin challenges of skills development and youth development. PetroSA's COE, established in 2003 as an artisan training provider, has grown remarkably over the past 12 years.

It has grown from initially offering four artisan programmes to now offering seven trades namely; rigging, welding, boiler making, fitting, electrical and instrumentation. In 2003 all seven trades, including turners, received full accreditation by the Chemical Industries Education and Training Authority (CHIETA).

The COE's vision is to be a leading provider of top quality Artisans for the petrochemical industry and industry at large. Through this, PetroSA is continually contributing to close the skills shortage gap in the industry and the country as a whole.

A full Learnership (NQF 2 to 4) extends over a period of three years and a full Apprenticeship (Phases 1 to 4) over four years, including both theoretical and practical training.

Although PetroSA is the main sponsor, funding is also received from the CHIETA in the form of grants.

For the reporting period 1 April 2014 to 31 March 2015, a total of 23 groups were enrolled at different levels in different disciplines. During the same period, 80 of these graduated as fully qualified red seal Artisans – their training played a major role in imparting skills to the youth and improving their job prospects.

As at 31 March 2015 there were 218 learners registered at the COE.

**Learners and apprentices as at 31 March 2015**

| Trade | No | Coloured male | Coloured female | Black male | Black female | White male | White female | Indian male | Indian female |
|---|---|---|---|---|---|---|---|---|---|
| Boilermakers | 13 | 4 | 1 | 3 | 4 | 1 | 0 | 0 | 0 |
| Electrical | 42 | 9 | 7 | 12 | 11 | 3 | 0 | 0 | 0 |
| Fitting | 67 | 16 | 8 | 23 | 13 | 6 | 0 | 1 | 0 |
| Rigging | 31 | 6 | 3 | 11 | 7 | 4 | 0 | 0 | 0 |
| Turners | 9 | 2 | 1 | 3 | 1 | 2 | 0 | 0 | 0 |
| Welders | 31 | 12 | 1 | 11 | 6 | 1 | 0 | 0 | 0 |
| Instrumentation | 25 | 7 | 2 | 6 | 7 | 3 | 0 | 0 | 0 |
| **Total** | **218** | **56** | **23** | **69** | **49** | **20** | **0** | **1** | **0** |


Centre of Excellence learners

# STRATEGIC FOCUS AREA 3: TRANSFORMATION (CONTINUED)

## Transforming the business sector

### ADVANCING BROAD-BASED BLACK ECONOMIC EMPOWERMENT

#### 2015 B-BBEE Verification Status Level

The 2014/2015 (B-BBEE) Verification Audit conducted during the months of January and February 2015 indicated that PetroSA has performed well by improving its compliance level from a B-BBEE level 3 contributor status to an impressive level 2. The table below indicates the PetroSA 2014/15 and 2013/14 B-BBEE status and the score achieved in each element as per the report of the verification audit:

| B-BBEE elements | Current results 2014/15 | Target | Previous results 2013/14 |
|---|---|---|---|
| Equity ownership | N/A | N/A | N/A |
| Management and control | 16 | 15 | 15 |
| Employment equity | 8 | 15 | 8 |
| Skills development | 17 | 20 | 19 |
| Preferential procurement | 20 | 20 | 17 |
| Enterprise development | 15 | 15 | 6 |
| Socio-economic development (CSI) | 15 | 15 | 15 |
| **Total** | **91** | 100 | **80** |
| Contribution level | 2 | | 3 |

#### Advancing our transformation mandate

Better results in the 2014/15 financial year were mainly achieved in the areas of Preferential Procurement and Enterprise Development (ED). The ED score has seen a gradual improvement from 2.85 (2011/12) to 6.07 (2012/13) and 15 in the 2014/15 financial year. This means that the target set by PetroSA for improving the ED score has been achieved.

Comparing PetroSA's B-BBEE performance with other national oil companies who are SAPIA members, Shell is leading with an overall B-BBEE score rating of 92.71%, followed by PetroSA (90.65%), Total SA (88.96%) and Chevron (85%), all at level 2. Sasol, Engen and BP are at level 3. However, PetroSA is leading in the area of Preferential Procurement, Management Control, skills development and socio-economic development. Part of the reason for the variance in scores is that amongst all of these, PetroSA is the only company that is not measured on the ownership component.

In relation to other state-owned entities that collaborate with PetroSA in some business areas and are considered critical in spearheading meaningful transformation, PetroSA is leading with an overall B-BBEE score rating of 90.65%. This shows that transformation remains a critical aspect of doing business for PetroSA, and is in line with the company's corporate strategy. The B-BBEE Codes are as follows:

| New codes B-BBEE score | Old codes B-BBEE score | B-BBEE status | Recognition level |
|---|---|---|---|
| 100+ | 100+ | Level 1 | 135% |
| 95 – 100 | 85 – 100 | Level 2 | 125% |
| 90 – 95 | 75 – 85 | Level 3 | 110% |
| 80 – 90 | 65 – 75 | Level 4 | 100% |
| 75 – 80 | 55 – 65 | Level 5 | 80% |
| 70 – 75 | 45 – 55 | Level 6 | 60% |
| 55 – 70 | 40 – 45 | Level 7 | 50% |
| 40 – 55 | 30 – 40 | Level 8 | 10% |
| < 40 | < 30 | Non-compliant | 0% |

## Enterprise and Supplier Development

Several initiatives are being pursued to drive the implementation of PetroSA's Enterprise and Supplier Development programme and Business Development Incubation initiative. The ESD Programme continues to gain momentum nationally, constantly receiving requests from interested entrepreneurs.

***Growing enterprises through Enterprise Development***

The ESD programme incubates 15 SMEs, all inclusively black, situated in various South African provinces that include the Western Cape, Eastern Cape, KwaZulu-Natal and Gauteng. On a monthly basis, the beneficiaries continue to meet with their business mentors at their own business premises. Funding support has been disbursed to deserving applicants in the form of small grants and loans ranging from R50 000 to R500 000, mainly assisting them to purchase assets such as equipment and technology to advance their businesses.

## Developing Suppliers through Supplier Development

As part of developing suppliers the following initiatives were pursued:

*Skills Upgrade Programme SUP*

The Skills Upgrade Programme (SUP) is one of the key initiatives in ensuring that PetroSA suppliers continue to be effective and efficient in delivering their services. This includes building their capacity, skills and expertise. Through the training programme PetroSA continues to impart technical skills and expertise to ESD beneficiaries with major emphasis on improving their capacity in the areas of supervision, safety and quality. During the year under review, 240 employees of our ESD beneficiaries were successfully trained.

*Women Empowerment through Supplier Development*

The Skills Upgrade Programme (SUP) has benefited 21 women-owned construction companies from Mossel Bay and Cape Town. The aim is to equip the women-owned companies with skills to make them competitive within the construction industry, and also to assist them acquire Construction Industry Development Board (CIBD) grading levels.

*Women in Petroleum*

To ensure that disabled women are empowered, PetroSA in partnership with the Department of Energy (DoE), are devising an intervention that would promote the inclusion of deaf women in the oil and gas industry. To kick start this programme, PetroSA hosted a group of 10 women from the Deaf Women in Economic Emancipation Programme (DWEEP) at the GTL Refinery during March 2015. This relationship is now being formalised with a programme of action being finalised for adoption.

*Women in Business Information National Seminars*

In partnership with the Department of Energy and the Women in Oil and Energy South Africa, the company embarked on country-wide road shows that provided awareness around business opportunities in the oil and gas industry.

*Promoting Market Access and Business Exposure*

In total, 20 suppliers, mainly from Gauteng and Cape Town were supported to attend both the Johannesburg (September 2014) and Cape Town (March 2015) Annual Exhibition hosted by Smart Procurement World in collaboration with Absa Enterprise Development. These companies are mainly involved in sectors such as engineering, oil and gas trading (fuel distributors); transport and logistics; construction and services. The Cape Town group was mainly dominated by women in the construction industry. The forum presents them with the opportunity to market their goods and services whilst networking with other key industry clients.

*Industry participation through SAPIA*

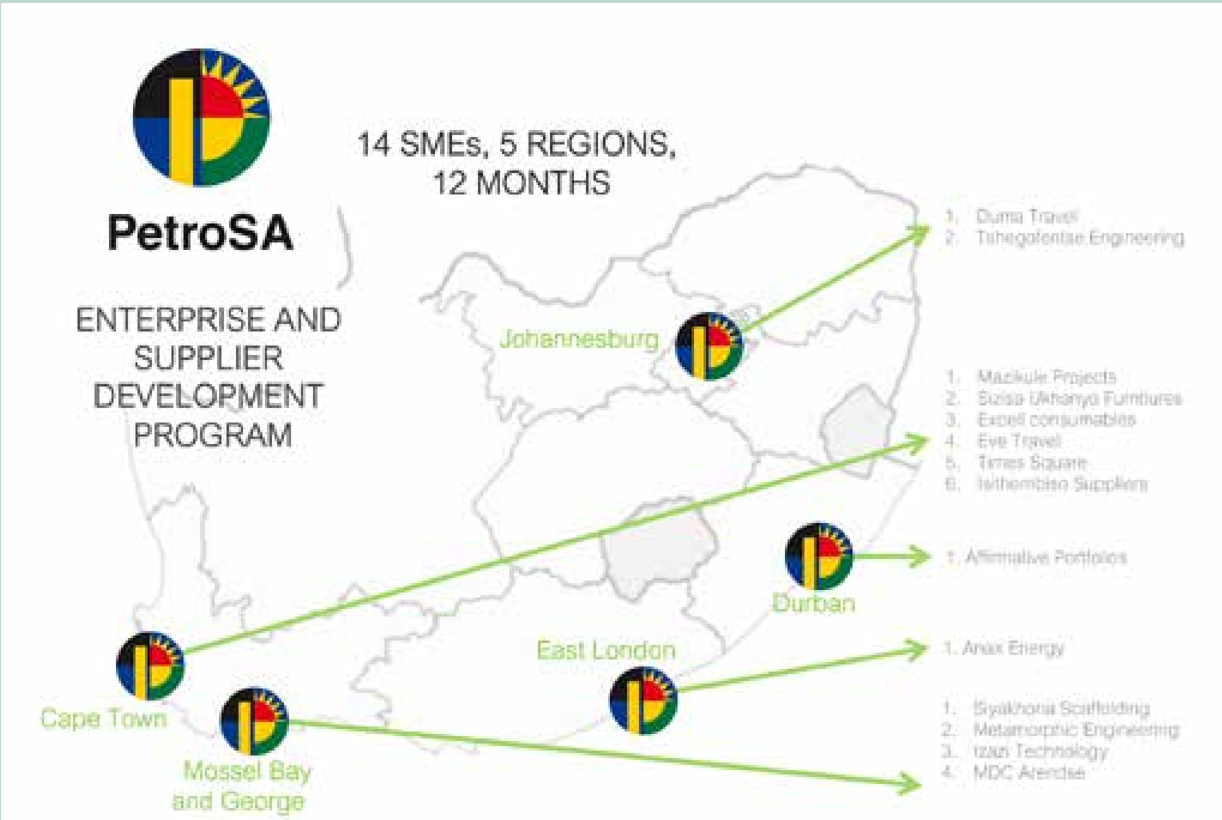
PetroSA continues to play a pivotal role in influencing transformation through various social and business forums, in particular the South African Petroleum Industry Association (SAPIA). The PetroSA group CEO is a member of the SAPIA Board of Governors, while other company representatives serve on similar strategic structures such as the transformation committees. PetroSA is very active and vocal in articulating how best transformation related legislation, policies and strategies can be further strengthened to ensure that the oil and gas sector can be transformed. This year's focus has mainly been on the development of the scorecard requirements of the Revised B-BBEE Codes of Good Practice.

# STRATEGIC FOCUS AREA 3: TRANSFORMATION (CONTINUED)

## Transforming the business sector

### Collaboration with ESD strategic partners


The following diagram reflects the geographical location of all the incubation beneficiaries.




*Operation Phakisa (Oil and Gas) C1 Local Content Workstream Initiative*

PetroSA is working with the Department of Mineral Resources, Department of Trade and Industry and South African Oil and Gas Alliance: Operation Phakisa (Oil and Gas) C1 Local Content workstream which is aimed at ensuring that black- and women-owned local enterprises benefit from the initiative.

*PetroSA and the Construction Industry Development Board (CIBD)*

PetroSA has established an official partnership with the Construction Industry Development Board (CIBD). The partnership is aimed at establishing a formal training programme to train small contractors doing work for PetroSA. This relationship has already assisted PetroSA to provide the training required by small companies contracted to execute work at its operational sites.

*PetroSA and Standard Bank*

A partnership has been entered into with Standard Bank, which has seen the financial institution contribute R600 000 towards the training of PetroSA suppliers in financial management and budgeting skills. This partnership is now being further reviewed and extended as part of securing increased financial support for PetroSA customers and suppliers.

## PREFERENTIAL PROCUREMENT: QUARTER 4 B-BBEE REPORT 2014/15 (AS AT 31 MARCH 2015)

PetroSA supports the notion that preferential procurement is the most effective instrument to advance both the economic transformation of the South African economy and the participation of black people, women and people with disabilities.

To assist local B-BBEE enterprises to grow, create jobs and ultimately alleviate poverty, PetroSA has implemented various interventions. These include the following:

- Awarding tenders, either entirely or partially, to black-owned enterprises;
- Permitting price matching for certain tenders;
- Allowing subcontracting and unbundling as a means of assisting B-BBEE suppliers that lack capacity for delivering the entire service required;
- Facilitating and encouraging joint ventures between B-BBEE and non-B-BBEE entities to enable transfer of skills and expertise;
- Arranging early payment, which in this case may also include advance payments. In all instances the associated risk will be evaluated by the procurement and finance department.

For the period under review (i.e. April 2014 to March 2015), payments made to suppliers of goods and services totalled R20.4 billion. In terms of the B-BBEE Codes of Good Practice, certain expenditure may be excluded from total procurement spend (i.e. procurement from other organs of state, imported goods and services that cannot be sourced locally, as well as specific branded sole-source procurement). The total procurement expenditure from organs of state, sole-source suppliers and foreign entities equalled R11.7 billion. The group's total discretionary procurement for the period under review, in terms of the codes (i.e. level 1-8), was thus R8.7 billion. Total B-BBEE procurement expenditure of R9 billion equates to 103.1% of discretionary spend for the period under review.

# STRATEGIC FOCUS AREA 3: TRANSFORMATION (CONTINUED)

## Transforming the community

### CORPORATE SOCIAL INVESTMENT

PetroSA subscribes to the principle of good citizenship through its Corporate Social Investment (CSI) programme, which is aimed at fundamentally improving the lives of historically disadvantaged South Africans.

Since its inception, PetroSA has contributed approximately R348 million towards community development initiatives. During the 2014/15 financial year the company spent R10, 3 million on CSI, which was spread across the four key focus areas of education, sustainable development, community development, health and environment.

### Community Development

PetroSA allocated R3.7 million to this focus area. This intervention was aimed at improving the living conditions and quality of life among historically-disadvantaged communities.

The highlight for this focus area was the establishment of a Shelter-for-Homeless people based in Mossel Bay.

## ››› CASE STUDY

**Sheltering the homeless**

As part of its FA Production Right Licence, PetroSA contributed R3 million towards the establishment of the Shelter-for-Homeless in Mossel Bay, Western Cape.

The project was a joint partnership between the Mossel Bay Municipality, which contributed R1.5 million, and The Haven NGO, which also contributed R1.5 million. The scope of work entailed purchasing and refurbishing the Rose and Crown hotel into a Shelter-for-Homeless facility.

The newly refurbished Shelter-for-Homeless was handed over to the Mossel Bay Municipality on 25 June 2014. By 31 March 2015, the Shelter had accommodated 83 homeless people in the Mossel Bay CBD, affording them social survival skills and a platform to re-unite with their families.


## Education

PetroSA spent R4,6 million to address the education challenges facing primary and secondary schools in disadvantaged communities. In particular, it supported programmes that focused on building basic school infrastructure, such as ablution facilities, computer laboratories, multipurpose halls and classrooms.

### ››› CASE STUDY

**Education for future generations**

PetroSA supported the Mandela 94+ Schools Initiative headed by the National Department of Basic Education through funding infrastructural projects at Reneilwe and Boitshoko primary schools in Galeshewe, Kimberley. For the 2014/15 reporting year, a 650 $m^2$ multipurpose hall was constructed at Boitshoko primary school. The multipurpose hall is such that it can also accommodate people living with disabilities.

The school hall was built at a cost of R4,6 million and hosts approximately 700 learners.

Learners will no longer be exposed to bad weather conditions for assembly, or find alternative venues to hold school functions and meetings. The school generates income through hiring out the school hall for weddings, birthday parties, church conferences and cultural activities.

This extra income enables the school to upgrade its existing structures and equipment in order to provide a more comfortable and effective learning environment for educators and learners.

"Our new hall generates extra income for our school and has improved the education environment for our learners," said Ms V.S Morwe, Principal of Boitshoko Primary School.

**Ablution facilities gives dignity to the young**

PetroSA achieved a milestone when newly constructed ablution facilities were handed over to two primary schools; Garden Route and Isalathiso in 2014. This work was undertaken in fulfilment of the South Coast Gas (SCG) production right. Local level 3 B-BBEE companies, based in Mossel Bay with 80% of local labour, were awarded the contract to install the ablution facilities at the schools. The companies executed the work within budget and on time. At the completion of the facilities, the Principal of Isalathiso Primary School, said: '"We have waited for this project since 2012; it is now unbelievable that it has finally taken place, thank you PetroSA for your continued support."

# STRATEGIC FOCUS AREA 3: TRANSFORMATION (CONTINUED)

## Transforming the community

### Health

In line with its social responsibility obligations to improve primary health care in disadvantaged communities, PetroSA funded the refurbishment of healthcare facilities.

### ››› CASE STUDY

**Building a reliable health system**

PetroSA donated R1 million towards the Carte Blanche Making-A-Difference Trust for the upgrading of paediatric theatre suites at Frere Community Hospital in East London. The Frere Hospital paediatric theatre boasts state-of-the-art surgical units that can accommodate up to eight patients a day and a total of 1 200 children a year.

### Environment and Sustainable Development

PetroSA was the national co-sponsor of the WESSA Eco-Schools programme, which is aimed at environmental education. Projects involve food gardens, healthy living, saving electricity, water recycling and conservation, community and heritage. In turn, educators use these projects to strengthen and improve the quality of their lessons.

# STRATEGIC FOCUS AREA 4: SHEQ

PetroSA recognises that sustainability issues are shaping the global business world and acknowledges that its long-term sustainability depends on its commitment and ability to safeguard the health and safety of its employees, reduce its environmental impacts and continually improve the quality of its business operations.

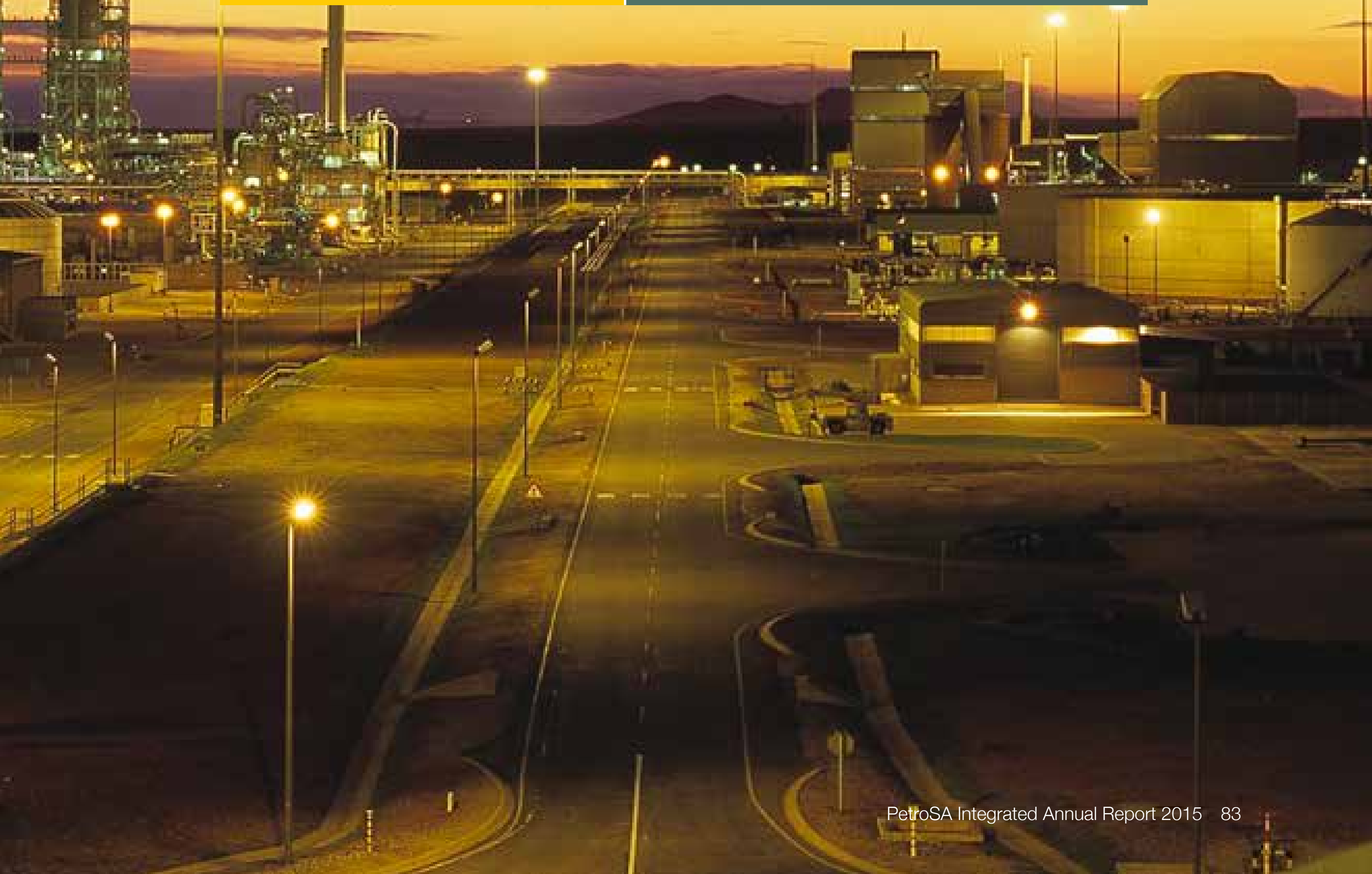
## GROUP HEALTH, SAFETY AND ENVIRONMENTAL MANAGEMENT SYSTEM (GROUP HSE-MS)

PetroSA aims to ensure that its business activities do not harm the environment, at the same time recognising that it operates a hazardous and resource intensive business that requires the company to actively manage its HSE risks. Last year PetroSA completed the development of a structured Health Safety and Environmental Management System (HSE-MS) as a framework within which all parts of the business are working to achieve this aim. This integrated HSE-MS conforms to the requirements of internally recognised standards and sets the expectations for conducting business in a consistent and responsible manner.

This year, PetroSA started the process of rolling out newly developed performance standards, procedures and guidelines to the organisation. The policy and the HSE-MS may set the framework within which HSE is managed, but world-class HSE performance involves more than mechanically applying a management system – it requires the involvement of all in the organisation, from top to bottom. Key to achieving the goal of zero harm is capacitating its leaders with the skills to lead the necessary cultural change. HSE leadership training was therefore undertaken for all senior management in PetroSA. The company has started rolling out this programme to the supervisory level, a process that PetroSA hopes to complete within a year.

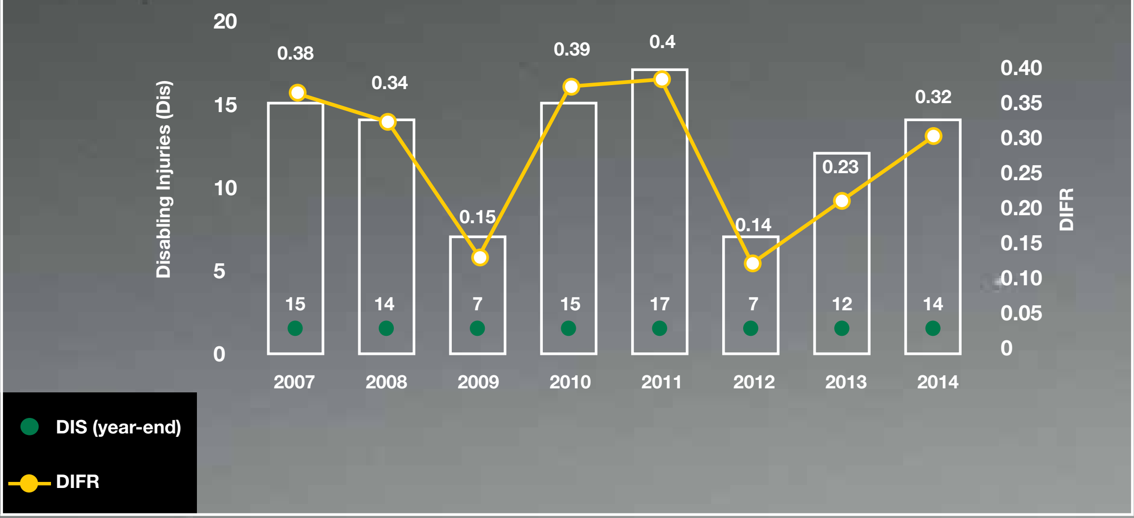
Initiatives around improving PetroSA's Emergency Response system and Incident Management System have been successfully integrated into the new HSE MS. HSE also offers an opportunity to visibly live the PetroSA Values, e.g:

| | |
|---|---|
| **Stewardship** | We inspire pride by being an example of effective HSE risk management, efficient use of resources, energy and waste minimisation. |
| **Honesty** | We inspire an open and honest culture where effective HSE performance is rewarded. Errors are seen as a learning opportunity because we accept the consequences of our actions. |
| **Integrity** | We operate in an environment where HSE is considered equal to all other business priorities. |
| **Respect** | HSE leadership is not determined by hierarchy or seniority. We are inspired by the knowledge and experience of all people to enhance our HSE performance. |
| **Transparency** | We proactively engage with our stakeholders on our HSE performance and share positive and negative experiences for the benefit of our industry peers. |



# STRATEGIC FOCUS AREA 4: SHEQ (CONTINUED)

YEAR-END DISABLING, INJURIES (DIS) AND DISABLING INJURY FREQUENCY RATE (DIFR) (2007 – 2014)




Disabling Injuries and DIFR (2007-2014)

## Incident management

Incident management is a cornerstone of continual improvement. The investigation of incidents allows PetroSA to learn from these and ensure that preventive or corrective actions are taken to eliminate any recurrence.

The company has completed nearly a full year of using the SAP EHS Incident Management System as the primary tool for the management of incidents. There have been some challenges associated with the new system but it is already proving its worth in terms of PetroSA's ability to provide more in-depth analysis of incidents.

## Health and safety performance

The business is pleased to report that it again recorded a fatality-free year. PetroSA achieved a commendable Disabling Injury Frequency Rate of 0.33 against the target of 0.4.

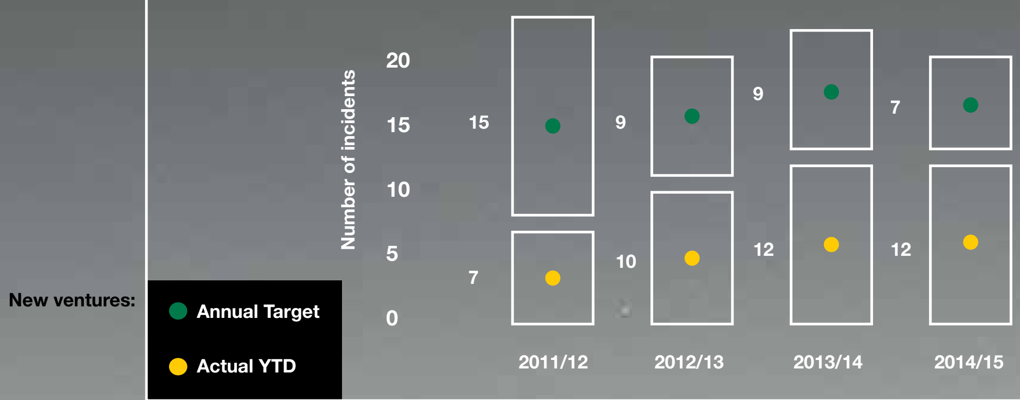
Of concern is a year-on-year increase in the number of Disabling Injuries, particularly at low risk facilities. Increased efforts in terms of risk awareness and supervision during task execution are being placed to improve the unsafe behaviours which resulted in these injuries.

PetroSA maintains a system of medical surveillance that is proportionate to the health risk profile of the organisation. This medical surveillance programme is key to assessing the effectiveness of the occupational health risk controls that are in place for employees. PetroSA is also pleased to report that 87.1% of staff completed the necessary medical surveillance examination during the year under review, against a target of 80%.

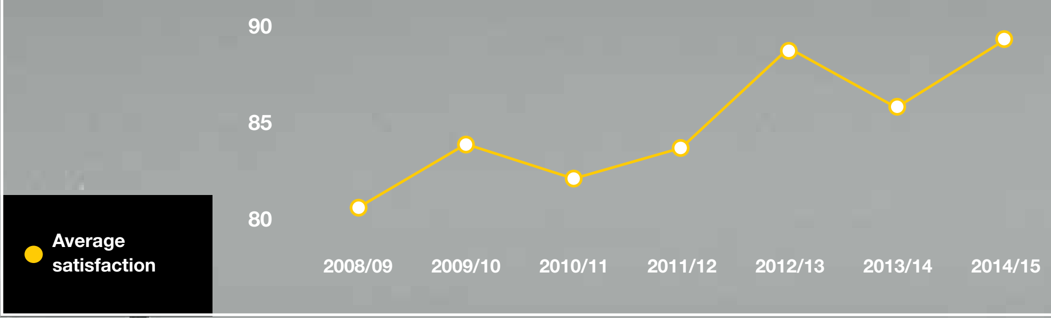
***Project Ikhwezi SHEQ***

The project achieved 1 346 630 man hours without a Lost Time Injury (LTI) as at 31 March 2015.

## CORPORATE ENVIRONMENTAL INCIDENTS VS ANNUAL TARGET APRIL 2011 – MARCH 2015




## EXTERNAL CUSTOMER SATISFACTION (%)




## Environmental performance

The main indicator for environmental performance is the number of environmental incidents, defined as any event that has a localised effect that causes environmental damage beyond any fence boundary, or that results from a substantiated community complaint, or that constitutes the exceeding of permit conditions, or non-compliance with relevant regulation. This broad definition encompasses a wide range of environmental concerns, which we believe constitute PetroSA's key environmental risks.

There were seven environmental incidents in the 2014/15 financial year, a pleasing improvement on the two preceding years (nine each) and significantly fewer than the 15 experienced in 2011/12.

The Auditor-General undertakes an annual environmental audit at PetroSA. The audit is focused on environmental legal compliance, specifically in relation to potential liabilities. There were no repeat findings recorded and progress has been made in the implementation of recommendations. Significant progress has been made in remediating the contamination at the Voorbaai tank farm and progress will continue to be monitored by PetroSA on a quarterly basis.

## Quality performance

PetroSA's core priority is the continued delivery of good quality products and services, as well as the continual improvement of internal processes to meet and exceed customer expectations. In order to fulfil this objective, PetroSA maintains a Quality Management System that conforms to the internationally recognised ISO 9001:2008 standard. PetroSA continually tests this conformance by conducting internal and external audits.

A surveillance audit of the Quality Management System (QMS) was undertaken by the South African Bureau of Standards (SABS) in the second quarter of the 2014/15 financial year. This audit assesses PetroSA's continued conformance to the ISO 9001:2008 code and Mark-scheme requirements. With all the requirements having been met, the SABS approved the continued retention of PetroSA's ISO 9001 certification. This certificate expires in March 2016.

This ISO 9001:2008 re-certification demonstrates PetroSA's ability to provide products and services that enhance customer satisfaction and meet statutory and regulatory requirements. This includes the development and maintenance of systems that sustain a mutually beneficial supplier/customer relationship.

PetroSA's external customer satisfaction index has shown a continuous improvement in the past few years. This is an indication that PetroSA values its external customer base and seeks to meet their needs and expectations.

# FINANCIAL PERFORMANCE

# THE PETROLEUM OIL AND GAS CORPORATION OF SOUTH AFRICA SOC LIMITED

## GENERAL INFORMATION

| | |
|---|---|
| **Country of incorporation and domicile** | South Africa |
| **Nature of business and principal activities** | Exploration for and production of oil and gas, refining operations, converting gas and gas condensate to liquid fuels and petrochemicals and the marketing thereof. |
| **Directors** | Ms NN Nokwe |
| | Mr S Mokoena |
| | Mr D Hlatshwayo |
| | Ms GN Jiyane |
| | Mr BW Ngubane |
| | Mr W Steenkamp |
| | Mr O Tobias |
| | Ms J Ntwane |
| | Mr S Mthethwa |
| | Mr MW Mkhize |
| | Ms LE Bakoro |
| **Registered office** | 151 Frans Conradie Drive<br>Parow<br>7500 |
| **Postal address** | Private Bag X5<br>Parow<br>7499 |
| **Holding company** | CEF SOC Limited<br>incorporated in South Africa |
| **Auditors** | Auditor-General of South Africa<br>Registered Auditors |
| **Secretary** | Ms M Sebothoma |
| **Company registration number** | 1970/008130/07 |

These annual financial statements were internally prepared and supervised by:

Mr JP Rhode CA(SA) (Group Financial Manager) and Ms LE Bakoro CA(SA) (Group Chief Financial Officer)

Published 31 July 2015

# INDEX

The reports and statements set out below comprise the annual report presented to the shareholder:

# REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE PETROLEUM OIL AND GAS CORPORATION OF SOUTH AFRICA SOC LIMITED

## Report on the consolidated and separate financial statements

### Introduction

1. I have audited the consolidated and separate financial statements of the Petroleum Oil and Gas Corporation of South Africa SOC Limited and its subsidiaries (PetroSA) set out on pages 106 to 158, which comprise the consolidated and separate statement of financial position as at 31 March 2015, the consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity and statements of cash flows for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

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

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

### Auditor-general's responsibility

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

### Opinion

6. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Petroleum Oil and Gas Corporation of South Africa SOC Limited and its subsidiaries as at 31 March 2015 and their financial performance and cash flows for the year then ended, in accordance with IFRS and the requirements of the PFMA and the Companies Act of South Africa.

### Emphasis of matters

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

### Significant uncertainties

8. With reference to note 15 to the financial statements, PetroSA commissioned additional research into the requirements to fully close or decommission redundant exploration wells. A reliable estimate of the cost cannot currently be made; therefore no amounts have been provided for these items.
9. With reference to note 29 to the financial statements, PetroSA notified employees in terms of section 189 of the Labour Relations Act, 1995 (Act No. 66 of 1995) of a possible headcount reduction based on operational requirements, on 24 February 2015. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

10 With reference to note 29 to the financial statements, PetroSA Ghana's place of effective management changed to South Africa on 14 September 2012 and the company became a tax resident in South Africa. South African Income Tax legislation does not expressly deal with the tax treatment of the opening balances of capital expenditure on property, plant and equipment (and intangible assets) prior to becoming a tax resident. Clarity in this regard is being sought from the South African Revenue Service and National Treasury

### Restatement of corresponding figures

11. With reference to note 2 to the financial statements, the Group adopted IFRS for the first time in the year under review. Approval to adopt IFRS was granted by National Treasury in terms of section 79 of the PFMA with effect from 1 April 2014. For periods up to and including the year ended 31 March 2014, the Group prepared its financial statements in accordance with South African Generally Accepted Accounting Practice (SA GAAP). Accordingly, the Group has prepared financial statements which comply with IFRS applicable for periods ending on or after 31 March 2015, together with the comparative period data as at and for the year ended 31 March 2014.

### Material impairments

12. We draw attention to notes 3 and 19 to the financial statements which detail the impairment of R14,5 billion raised during the current financial year in respect of property, plant and equipment of PetroSA. This impairment was driven by the decrease in commodity price outlook and gas reserves, resulting in the shift in the end life of the field from 2021 to 2017.

### Funding of abandonment provision

13. We draw attention to note 15 to the financial statements relating to the funding of the abandonment and rehabilitation provision. PetroSA has an obligation to rehabilitate and abandon its offshore and onshore operations valued at R9,3 billion which are currently not fully funded. In terms of the recently promulgated National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA), PetroSA is required to have a fully funded rehabilitation liability within the next 12 months from year-end. There are currently challenges with funding this gap from equity due to PetroSA's weakened financial position. The holding company the CEF SOC Limited (CEF) has committed to assist PetroSA, through various support and oversight mechanisms, to close the funding gap. In addition, PetroSA is working closely with the regulator (Petroleum Agency of South Africa) to ensure PetroSA discharges its responsibilities as required under NEMA. The company is also considering a variety of financial instruments to bridge this funding gap.

### Additional matters

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

### Unaudited supplementary schedules

15. The supplementary information set out on pages 159 to 165 does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

### Other reports required by the Companies Act

16. As part of my audit of the financial statements for the year ended 31 March 2015, I have read the directors' report, the audit committee's report and the company secretary's certificate for the purpose of determining whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports, I have not identified material inconsistencies between the reports and the audited financial statements. I have not audited these reports and accordingly do not express an opinion thereon

### Report on other legal and regulatory requirements

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

### Predetermined objectives

18. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the company for the year ended 31 March 2015:

    - Finance - To optimise profitability through revenue enhancement and/or cost reduction on pages 95 to 99.
    - Internal business processes - Sustainability, growth and to grow the upstream reserve base on pages 95 to 99.

19. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

20. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with

# REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE PETROLEUM OIL AND GAS CORPORATION OF SOUTH AFRICA SOC LIMITED (continued)

**Report on the consolidated and separate financial statements**

the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National· Treasury's Framework for managing programme performance information (FMPPI).

20. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

21. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

22. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following objectives:
    - Finance -To optimise profitability through revenue enhancement and/or cost reduction.
    - Internal business processes - Sustainability, growth and to grow the upstream reserve base

**Additional matter**

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

**Achievement of planned targets**

24. Refer to the annual performance report on pages 95 to 99 for information on the achievement of the planned targets for the year

**Compliance with legislation**

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

**Annual financial statements**

26. Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted consolidated and separate financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion. The consolidated and separate financial statements submitted for auditing were not fully compliant with IFRS, as required by section 55(1)(a) and (b) of the PFMA and section 29(1 )(a) of the Companies Act of South Africa.

**Strategic and performance management**

27. The key performance measures and indicators included in the shareholder's compact were not agreed upon by the executive authority of the Department of Energy, as required by treasury regulation 29.2.2.

**Expenditure management**

28. As disclosed in note 37 to the consolidated and separate financial statements, PetroSA incurred irregular, fruitless and wasteful expenditure as

contemplated in section 51 (1 )(b)(ii) of the PFMA and was in the process of resolving the matter. The accounting authority did not take effective steps to prevent irregular expenditure and fruitless and wasteful expenditure, as required by section 51 (1 )(b)(ii).

### Internal control

29. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

### Leadership

30. A number of material misstatements were noted during our audit and review of the financial statements which should have been detected and prevented by management. Management should identify and accept its oversight responsibilities in relation to established requirements and expectations in order to improve reporting requirements.

### Financial and performance management

31. Non-compliance with laws and regulations should be continuously monitored and steps should be taken to prevent processes from allowing such instances of non-compliance to occur. Management should periodically review its control activities to determine their continued relevance, and refresh them when necessary in order to establish a well-controlled environment that does not allow possible non-compliance with laws and regulation. Non-compliance could have been prevented had compliance been properly reviewed and monitored. Realignment of policies and procedures is needed to adequately address the control environment to ensure that preventative actions are taken to avoid non-compliance with key legislation.

32. Regular and adequate reporting on key financial management information was not prioritised during the year, resulting in major impairment adjustments and increases in abandonment provisions. This was mainly due to staff members not fully understanding the requirements of the financial reporting framework.

## OTHER REPORTS

### Audit-related services and special audits

33. As requested by the company, agreed-upon procedures engagements were conducted during the period under review concerning the accuracy of the illuminating paraffin (IP) tracer levy quarterly payments to CEF. The reports covered the period 1 April 2014 to 31 March 2015.

Auditor-General

Pretoria
31 July 2015

AUDITOR-GENERAL
SOUTH AFRICA
Auditing to build public confidence

# DIRECTORS' RESPONSIBILITIES AND APPROVAL

The directors are required to maintain adequate accounting records and are responsible for the content and integrity of the audited annual financial statements and related financial information included in this report. It is their responsibility to ensure that the audited 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 audited annual financial statements.

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

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the Board of Directors sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the group and all employees are required to maintain the highest ethical standards in ensuring the group's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the group is on identifying, assessing, managing and monitoring all known forms of risk across the group. While operating risk cannot be fully eliminated, the group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are 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 audited annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the group's cash flow forecast for the year to 31 March 2016 and, in light of this review and the current financial position, they are satisfied that the group has or has access to adequate resources to continue in operational existence for the foreseeable future. Nothing significant has come to the attention of the directors to indicate that any material breakdown has occurred in the functioning of these controls, procedures and systems during the year under review.

In the opinion of the directors, based on the information available to date, the annual financial statements fairly present the financial position of PetroSA and the group at 31 March 2015 and the results of its operations and cash flow information for the year then ended.

The external auditors are responsible for independently auditing and reporting on the group's audited annual financial statements in terms of the Companies Act No 71 of 2008. The audited annual financial statements have been examined by the group's external auditors and their report is presented on pages 90 to 93.

The audited annual financial statements set out on pages 100 to 158, which have been prepared on the going concern basis, were approved by the Board of Directors on 24 July 2015 and were signed on its behalf by:

| | |
|---|---|
| **Ms GN Jiyane** | NNokwe |
| *Interim Chairperson* | **Ms NN Nokwe** |
| | *Group CEO* |

**Ms GN Jiyane**
*Interim Chairperson*

Johannesburg
24 July 2015

# PERFORMANCE AGAINST OBJECTIVES

**A summary of the Petroleum Oil and Gas Corporation of South Africa SOC Limited Company business performance against objectives is contained in the table below:**

| Objective | Key performance indicator | Target | Actual | Performance results |
|---|---|---|---|---|
| | **To deliver on transformational initiatives** | | | |
| | 1.1 Women as a % of PetroSA's total population | 33% | 31% | Not achieved |
| | 1.2 Females promoted as % of total promotions | 40% | 34.4% | Not achieved |
| **1. TRANSFORMATION** | 1.3 People with disabilities as a % of PetroSA's total population | 2.5% | 2.2% | Not achieved |
| | 1.4 Preferential procurement | 50% of discretionary spend | 103.1% | Achieved |
| | 1.5 BEE sales | 350 Mℓ | 274 Mℓ | Not achieved |
| **Objective** | **Key performance indicator** | **Target** | **Actual** | **Performance results** |
| | **To optimise profitability through revenue enhancement and/or cost reduction** | | | |
| | 2.1 Gross margin percentage | 14% | 5.8% | Not achieved |
| **2. FINANCE** | 2.2 Return on assets managed (excluding interest) | 2% | (75.5%) | Not achieved |
| | 2.3 Net operating margin | 2% | (83%) | Not achieved |
| **Objective** | **Key performance indicator** | **Target** | **Actual** | **Performance results** |
| | **To obtain the appropriate stakeholder support** | | | |
| **3. STAKEHOLDERS** | 3.1 Approval rating from stakeholders | 75% – 85% | 77.3% | Achieved |
| **Objective** | **Key performance indicator** | **Target** | **Actual** | **Performance results** |
| | **4.1 SHEQ** | | | |
| | 4.1.1 Fatalities | 0 | 0 | Achieved |
| | 4.1.2 Disabling Injury Frequency Rate (DIFR) | <0.4 | 0.32 | Achieved |
| **4. INTERNAL BUSINESS PROCESSES** | 4.1.3 Environmental incidents | 12 | 7 | Achieved |
| | 4.1.4 Occupational hygiene survey | 80% | 87.1% | Achieved |
| | 4.1.5 Quality | Retain certification and 85% of internal quality audits completed | Retained certification; 94.5% of audits completed | Achieved |

# PERFORMANCE AGAINST OBJECTIVES (continued)

| Objective | Key performance indicator | Target | Actual | Performance results |
|---|---|---|---|---|
| | **4.2 Sustainability** | | | |
| | 4.2.1 Total indigenous GTL refinery production and F-O (7.2047) | 3.0597 MMbbls | 0.325 MMbbls | Not achieved |
| | | 4.145 MMbbls | 4.412 MMbbls | Achieved |
| | 4.2.2 Execute the LNG project – complete FEED in preferred location | 31 March 2015 | Feasibility study completed for a LNG onshore terminal in Saldanha. | Not achieved |
| | 4.2.3 Execute ADP Project – complete ADP feasibility for Thermal Cracker and select preferred ADP Option | 31 March 2015 | Feasibility study for Thermal cracker completed. Pre-feasibility study for the Liquid FEED and Gas to Wax options completed on schedule. | Achieved |
| | 4.2.4 Ikhwezi development executed on schedule according to approved development plan | 4.2.4.1 First Gas by end June 2014 | First gas from F-O10 in Dec 2014. | Not achieved |
| | | 4.2.4.2 Project costs within total projected project cost of USD1 295 million +/- 1% (includes contingencies) | USD1 285 million Costs exceeded on a per well basis | Not achieved |
| **4. INTERNAL BUSINESS PROCESSES (CONTINUED)** | **4.3 Growth initiatives** | | | |
| | 4.3.1 To enter the downstream market | 4.3.1.1 Execute Project Irene | | |
| | | – Implement share purchase agreement (SPA) by 31 March 2015 | SPA not executed/ signed due to lack of funding | Not achieved |
| | | – Conclude the memorandum of incorporation for the Lubricants Joint Venture (JV) by 31 December 2014 | MoI could not be executed as the project was cancelled due to lack of funding | Not achieved |
| | | – Develop the business integration strategy for Project Irene by 31 March 2015 | Target not met due to cancellation of project | Not achieved |
| | | 4.3.1.2 Project Mthombo | | |
| | | Secure funding partner and execute feasibility study according to schedule and agreed PEM deliverables by 31 March 2015 | Executive responsibility of project has been moved to the Department of Energy | Not achieved |
| | | 4.3.1.3 Improve operating margin for the trading business from 2% to 3% | 1.1% | Not achieved |
| | | 4.3.1.4 Implement commercial and industrial sales strategy, including LPG. Target Volumes: 100 Mℓ | 43.78 Mℓ | Not achieved |
| | **4.4 To grow the upstream resource base, reserves and production for long-term profitability** | | | |
| | To complete 100% of the 2014/15 milestones for work programme | 100% complete by 31 March 2015 | <80% of the 2014/15 Milestones for Work Programme completed. Refer to note 4.4 | Not achieved |

## 1. Transformation

### 1.1 Women empowerment

The target is to improve the total representation of women within the organisation to 33% by 31 March 2015. This target only includes fixed term contractors and permanent employees.

*Actual: For the period under review; women represented 31.1% of PetroSA's total population.*

### 1.2 Promotions

The aim is to promote PetroSA women to higher positions. This entails an upward movement to a job with greater responsibilities at a higher level or grade. The target is to achieve 40% by 31 March 2015. This will be measured by the number of promotions as a percentage of total promotions.

*Actual: As at 31 March 2015; the total number of female promotions constituted 34.4% of the total promotions (90 employees promoted and 31 out of this were women). This is against an annual target of 40%.*

### 1.3 Attraction of people living with disabilities

The target is to improve the total representation of people living with disabilities within the organisation to 2.5% by 31 March 2015.

*Actual: For the period under review; people living with disabilities represented 2.2% of PetroSA's total population.*

### 1.4 Preferential procurement

In terms of the B-BBEE codes of good practice, certain expenditure may be excluded from total procurement (i.e. procurement from other organs of state, imported goods and services that cannot be sourced locally, as well as specific branded sole source procurement). The target of 50% is the ratio between total BEE expenditure against total discretionary procurement for the period under review.

*Actual: The BEE procurement spend was 103.1% of the total discretionary procurement spend for the year.*

### 1.5 BEE sales

BEE sales comprise of both fuels (diesel, petrol and kerosene) and speciality grades (LPG, propane, HFO and the gases LIN/LOX/$CO_2$). The target for this financial year is 350 Mℓ.

*Actual: The year to date BEE sales volumes were 274 Mℓ against a target of 350 Mℓ.*

## 2. Finance

**Cost optimisation**

### 2.1 Gross margin percentage

The gross margin percentage is determined by the ratio of the gross margin (revenue-cost of sales) to revenue. The 14% target is in line with the corporate plan and budget and is for PetroSA's existing business (excludes the contribution from Project Irene, which is catered for elsewhere in the scorecard).

*Actual: The actual gross margin percentage of 5.8% is lower than the target of 14% due to reduced volumes which had a negative impact.*

### 2.2 Return on assets managed (ROAM)

The ROAM is defined as the net profit from operations/total assets. The target is to achieve 2%. Note that the calculation of ROAM excludes Interest income. The formula to calculate return on assets managed is:

$$\text{ROAM} = \frac{\text{NET PROFIT}}{\text{AVERAGE TOTAL ASSETS}}$$

*Actual: A return on assets managed ratio of (75.5%) was achieved in the period under review against a target of 2% lower than budget mainly due to impairment of GTL as well as updated abandonment provision.*

### 2.3 Net operating margin

The net operating margin is defined as the net profit from operations/total revenue. The target is to achieve 2% and this excludes interest income.

*Actual: A net operating margin of (83%) was achieved in the period under review against a budget of 2% lower than budget mainly due to impairment of GTL as well as updated abandonment provision.*

## 3. Managing stakeholders

**Approval rating from stakeholders**

### 3.1 Customer surveys

Customer surveys will be conducted for a variety of stakeholders, including trade customers, suppliers and the government. The target is to obtain a 75% – 85% approval rating from stakeholders by 31 March 2015.

*Actual: The organisation achieved an average rating of 77.3% on stakeholder management.*

# PERFORMANCE AGAINST OBJECTIVES (continued)

## 4. Internal business processes

### 4.1 SHEQ

#### 4.1.1 Fatalities

This refers to any employee's death resulting from PetroSA work-related exposure; in general, from an accident or illness caused by or related to a workplace hazard.

*Actual: No fatal incidents occurred during the period under review that were directly caused by work-related activities.*

#### 4.1.2 DIFR (Disabling Injury Frequency Rate)

A disabling injury is defined as a work-related injury including occupational illness arising out and in the course of duty giving rise to any related temporary or permanent disablement or death as determined by a medical practitioner. The DIFR is calculated on a 12-month moving frequency rate and is calculated as follows:

$$\text{DIFR} = \frac{\text{NUMBER OF INJURIES x 200 000 (hours)}}{\text{NUMBER OF HOURS WORKED (DURING PERIOD UNDER REVIEW)}}$$

The industry DIFR standard is 1, compared to PetroSA's benchmark of <0.4.

*Actual: Year-to-date DIFR is 0.32 against a target of <0.4*

#### 4.1.3 Environmental incidents

This refers to an event which has a localised effect, environmental damage beyond the fence boundary, substantiated community complaint, permit exceedance or non-compliance.

*Actual: The total number of environmental incidents is 7.*

#### 4.1.4 Occupational hygiene survey

In terms of the Health and Safety legislation PetroSA must conduct occupational hygiene surveys to determine the health hazards employees might be or are exposed to and put in place an annual medical surveillance programme. A medical or occupational health surveillance programme will be used as a measure for determining interventions or improvements in employee health. This KPI seeks to measure the percentage of employees who have undergone medical surveillance against the year-plan.

*Actual: The year-to-date performance is 87.1% completion (1 634 medicals conducted vs 1 877 medicals planned). This is against a target of 80%.*

#### 4.1.5 Quality

PetroSA's Quality Management System is currently certified under ISO 9001:2008. The target is to retain ISO 9001 certification and complete 85% of internal quality audits.

*Actual: Retained certificate, a total of 86 internal quality audits (94.5%) were completed against a total of 91 planned audits.*

### 4.2 Sustainability (GTL refinery operations)

#### 4.2.1 GTL Operations

Total indigenous GTL refinery production and F-O (7.2047 MMbbls), this excludes indigenous import feedstock and blendstock.

*Actual: Against a target of 3.0597 MMbbls with F-O, actual production was 0.325 MMbbls. Production from F-O10 started in January 2015 compared to target of June 2014, due to delays in the F-O tie-ins.*

*Against a target of 4.145 MMbbls without F-O, actual production was 4.412 MMbbls.*

#### 4.2.2 Execute LNG FEED

The liquefied natural gas (LNG) project aims to ensure the long-term sustainability of the GTL Refinery, while also supplying Eskom for power generation and helping to reduce the country's carbon footprint. The target was to complete FEED in a preferred location by 31 March 2015.

*Actual: The feasibility study was completed for an onshore LNG terminal in Saldanha.*

*This target was drafted in line with the 2012 EXCO resolution to complete a FEED study in Mossel Bay. As Mossel Bay was deemed not to be a feasible location option for the LNG importation terminal due to its met ocean conditions, PetroSA was not able to complete a FEED study in Mossel Bay. Project team did not have the required approvals to undertake EIA.*

#### 4.2.3 Execute Asset Development Planning (ADP) Project

In order to ensure sustainability of the Mossel Bay refinery the gas and liquid options asset development plan pre-feasibility studies will be pursued. The gas processing option considers production of high value chemicals and the liquid option considers the conversion of the GTL refinery to a 80 – 110 bbls per day crude refinery, while progressing the medium term strategic plan of enhanced condensate processing by 2017. The target date for completion was 31 March 2015.

*Actual: The feasibility study for the thermal cracker was completed. Pre-feasibility studies for the Liquid FEED & Gas to Wax options were completed on schedule.*

**4.2.4 Ikhwezi development executed on schedule according to approved development plan**

*Actual:*

*4.2.4.1 First gas was delayed to December 2014. First gas from F-O10 was provided in December 2014. The F-O9 well has been hooked up and commissioning is expected in April 2015.*

*4.2.4.2 The project cost forecast is USD1 285 million.*

**4.3 Growth initiatives**

**4.3.1 Downstream market entry**

***4.3.1.1 Acquire downstream asset (Project Irene)***

*Actual:*

*– The share purchase agreement and memorandum of incorporation was not executed due to lack of funding.*

*– Target not met due to cancellation of the project.*

***4.3.1.2 Project Mthombo***

Efforts will be made to secure a funding partner for the project. This will then facilitate the initiation of feasibility studies. Project Mthombo feasibility study has a duration of ±15 months from the start of agreed schedule (kick-off meeting), the schedule will cover the technical aspect of the study as well as non-technical work such as supply-demand studies and economic analyses, etc.

*Actual: Not achieved. Executive responsibility for Project Mthombo has been moved to the Department of Energy (DoE). PetroSA will provide technical support for the project to the DoE.*

***4.3.1.3 Improve operating margin for trading business***

The target is to improve the operating margin from 2% to 3%.

*Actual: The year-to-date purchased product gross margin was 1.14% against a target of positive 3%.*

***4.3.1.4 Implement commercial and industrial sales strategy, including LPG***

- Implementation of a wholesale strategy
- Access to/acquire inland infrastructure
- Develop contracts with resellers

*Actual: Actual sales volumes for the year were 43.78 Mℓ against an annual target of 100 Mℓ.*

**4.4 Grow production and reserve base for long-term profitability**

The target was to complete 100% of the 2014/15 milestones for the work programme

*Actual: Less than 80% of 2014/15 work programme milestones were completed by the end of the year under review.*

# DIRECTORS' REPORT

The directors present their report that forms part of the annual financial statements for the group for the year ended 31 March 2015.

## 1. Directors

The directors of the company from the approval of the previous report to the date of this report are as follows:

| Name | | Appointed | Resigned/Term expired |
|---|---|---|---|
| Mr S Mncwango | Non-executive | | 1 December 2014 |
| Ms NN Nokwe | Executive – Group CEO | | |
| Mr ACG Molusi | Non-executive | | 14 November 2014 |
| Ms FE Letlape | Non-executive | | 14 November 2014 |
| Mr MM Zwane | Non-executive | | 14 November 2014 |
| Mr V Sibiya | Non-executive | | 30 January 2015 |
| Mr GC Smith | Non-executive | | 28 August 2014 |
| Adv B Madumise | Non-executive | | 30 January 2015 |
| Mr S Mokoena | Non-executive | | |
| Mr D Hlatshwayo | Non-executive | | |
| Ms GN Jiyane | Non-executive (interim Chairperson) | 14 November 2014 | |
| Mr BW Ngubane | Non-executive | 14 November 2014 | |
| Mr W Steenkamp | Non-executive | 14 November 2014 | |
| Mr O Tobias | Non-executive | 14 November 2014 | |
| Ms J Ntwane | Non-executive | 14 November 2014 | |
| Mr S Mthethwa | Non-executive | 1 December 2014 | |
| Mr MW Mkhize | Non-executive | 30 January 2015 | |
| Ms LE Bakoro | Executive – Group CFO | | |

**Attendance at meetings:**

| | Board | Board Audit | Human Capital | Strategy and Growth | Business Performance | Social and Ethics |
|---|---|---|---|---|---|---|
| Mr S Mncwango | 11/17 | N/A | N/A | 2/5 | N/A | N/A |
| Ms NN Nokwe | 15/17 | 3/4* | 4/4* | 4/5* | 3/5* | 2/3* |
| Mr ACG Molusi | 7/17 | N/A | 3/4 | 3/5 | N/A | N/A |
| Ms FE Letlape | 13/17 | N/A | 3/4 | N/A | N/A | 2/3 |
| Mr MM Zwane | 12/17 | 3/5 | N/A | N/A | 4/5 | 2/3 |
| Mr V Sibiya | 12/17 | N/A | N/A | N/A | 3/5 | 1/3 |
| Mr GC Smith | 7/17 | N/A | N/A | 2/5 | 2/5 | N/A |
| Adv B Madumise | 12/17 | 2/5 | 3/4 | 3/5 | 4/5 | N/A |
| Mr S Mokoena | 17/17 | 2/4 | N/A | 5/5 | 5/5 | N/A |
| Mr D Hlatshwayo | 17/17 | 3/4 | N/A | N/A | N/A | 1/3 |
| Ms GN Jiyane[1] | 4/17 | N/A | N/A | N/A | 1/5 | N/A |
| Mr BW Ngubane[2] | 4/17 | 1/4 | N/A | N/A | N/A | N/A |
| Mr W Steenkamp[3] | 4/17 | 1/4 | 1/4 | N/A | 1/5 | N/A |
| Mr O Tobias[4] | 4/17 | N/A | N/A | 1/5 | N/A | N/A |
| Ms J Ntwane[5] | 4/17 | N/A | 1/4 | N/A | N/A | N/A |
| Mr S Mthethwa | 2/17 | N/A | N/A | 1/5 | 1/4 | N/A |
| Mr MW Mkhize | 1/17 | N/A | N/A | N/A | N/A | N/A |
| Ms L Bakoro | 16/17 | 4/4* | N/A | 5/5* | 3/5* | 2/3* |

N/A Not applicable
* Invitee
1 Chairperson of Board Committee
2 Chairperson of Board Audit Committee
3 Chairperson of Human Capital Committee and Business Performance and Monitoring Committee
4 Chairperson of Strategy and Growth Committee
5 Chairperson of Social and Ethics Committee

## 2. Secretary

It was resolved, at a PetroSA Board meeting held on 29 June 2015, to appoint Ms M Sebothoma as the acting secretary of the company, following the resignation of Ms K Kekana. Her business and postal addresses are as follows:

| Business address | Postal address |
|---|---|
| 151 Frans Conradie Drive | Private Bag X5 |
| Parow | Parow |
| 7500 | 7449 |

## 3. Nature of business

### Activities

The main areas of activity within the group during the year are as follows:

- To focus on projects aimed at sustaining the GTL refinery through the securing of long-term feedstock and cash flow maximisation;
- To ensure security of supply, growth of the group and increase its share of the local market;
- To deliver sustainable development of the economy and communities through the targeting of skills development, the implementation of Enterprise and Supplier Development programmes and the investment in social upliftment programmes of targeted groups through Corporate Social Investment programmes; and
- To ensure adherence to world-class environmental, safety, health and quality standards.

### Objectives

The key elements/objectives of PetroSA's core business strategy are as follows:

- ensure security of supply of liquid fuels for the country;
- be a competitive, commercially viable company on a sustained basis along the value chain for the petroleum, oil, gas and petrochemical sectors;
- to achieve transformation on a continuous basis through the implementation of Employment Equity and Broad-Based Black Economic Empowerment policies;
- operate PetroSA in line with best international practices with regard to safety, product quality, and protection of the environment and health of the people employed by the company; and
- actively contribute to macro-economic objectives related to the fuel price to the end user, security of supply and, reduction of exposure to foreign exchange requirements.

## 4. Holding company

The company's holding company is CEF SOC Limited incorporated in South Africa and the ultimate shareholder is the South African Government. All shares held by the Government in CEF are not transferable in terms of the Central Energy Fund Act No 37 of 1977.

## 5. Annual general meeting

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

## 6. Subsidiaries and associates

The PetroSA group structure has remained relatively stable and is mostly driven by the company's pursuit of exploration and production opportunities in Africa and elsewhere in line with the company's objectives. The companies within the group are subsidiaries whose existence is driven by business needs.

On 14 August 2014, the PetroSA Chairperson made a submission to the board of CEF to approve the intra-group transfer of the South African Gas and Development Company SOC Limited (iGas) held by CEF to PetroSA. The CEF board did not approve the submission made.

## 7. Accounting policies

With the promulgation of the new Companies Act of 2008, the South African Statements of GAAP were withdrawn with effect from 1 December 2012. The group requested permission from National Treasury to prepare the annual financial statements in accordance with International Financial Reporting Standards for the financial years commencing on or after 1 April 2014. On 10 October 2014, National Treasury approved PetroSA's request. Refer to note 2.

## 8. Group financial results and operating activities

The group experienced a challenging financial year, with production volumes as well as sales volumes not living up to the expectations of the corporate plan.

The group achieved an operating loss before impairment of property, plant and equipment of R0.1 billion (2014: R2.2 billion profit) in the current year. A net loss of R14.6 billion (2014: R1.66 billion loss) was recorded for the year on the back of a R14.5 billion impairment that was booked against overvalued property, plant and equipment.
The impairment was driven by the decrease in commodity price outlook and gas reserves due to:

- The shift in the end of plateau date from 2021 to 2017, resulting in a decrease in the reserves from FA and FA Satellites, EM and EM Satellites and SCG field as the tail gas from these fields can no longer be unlocked.

# DIRECTORS' REPORT (CONTINUED)

- The negative impact of the shift in the F-O field first gas date and decrease in recoverable volumes from the field. This is due to the drilling campaign being reduced from a five-well campaign to a three-well campaign as well as lower than expected production volumes.

Revenue decreased 15% from R21.2 billion to R18 billion. The negative revenue variance is attributable to the lower than expected volumes from all three key revenue streams; the GTL, purchased product and PetroSA Ghana, while the decrease in crude oil prices also contributed significantly.

Cost of sales amounted to R17 billion, R1.5 billion less than the prior year. This was due to lower feedstock cost at the GTL plant, lower than expected semi-fixed costs and distribution costs which is in line with lower sales volumes. Lower cost of sales in PetroSA Ghana has also contributed to this reduction. Other operating expenses were higher at R15.8 billion as a result of the impairment charge of R14.5 billion.

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

**9. Authorised and issued share capital**

Details of the share capital of the company are set out in note 14 to the annual financial statements.

**10. Subsequent events**

Subsequent to year-end, in May 2015 the Board resolved to suspend Project Ikhwezi. All related project costs and obligations have been accounted for.

**11. Dividends**

No dividends were declared to the shareholder during the year.

**12. Materiality and significant framework**

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

The late uplift of product incurred non-performance penalties of R1.3 million. Several items to the value of R0.1 million were misplaced and have not been recovered. It has been presumed that these items have been stolen. Unfair labour practice during the recruitment process resulted in a settlement claim of R0.14 million being paid to an unsuccessful candidate. Disciplinary action has been taken where appropriate. PetroSA Equatorial Guinea failed to deduct employees tax from severance packages paid to employees, which resulted in fruitless and wasteful expenditure of R0.291 million.

**13. Going concern**

The directors believe that the group will continue as a going concern in the year ahead. In spite of the diminished reserves outlook as reported in these financial statements, the company does not intend to liquidate or cease trading. There are long-term sustainability plans under development for the GTL plant and related offshore assets. The purchased product trading and PetroSA Ghana activities are unaffected and continue to expand.

**14. Funding of abandonment/rehabilitation provision**

At year-end the company had an obligation to rehabilitate and abandon its offshore and onshore liabilities valued at R9.3 billion, which are currently not fully funded. As per the approved corporate plan the gap would be funded over time in line with the expected maturity of the liability. However, in terms of the recently promulgated National Environmental Management Act (NEMA), PetroSA is required to have a fully funded rehabilitation liability within the next 12 months from year-end. There are current challenges with funding this gap (approximated at R4.6 billion at year-end) from equity due to PetroSA's weakened financial position which has emanated from depleting feedstock, the limited success of Project Ikhwezi and the significant decline in crude oil prices.emanated from depleting feedstock, the limited success of Project Ikhwezi and the significant decline in crude oi prices. The holding company (CEF) has committed to assist PetroSA through various support and oversight mechanisms, to close the funding gap. In addition, PetroSA is working closely with the regulator (Petroleum Agency of South Africa) to ensure PetroSA discharges its responsibilities as required under NEMA. The company is also considering a variety of financial instruments to bridge this funding gap.

**15. Appointment of the auditors**

PetroSA being a state-owned company must have its financial statements audited by the Auditor-General of South Africa (AG) in terms of the Constitution of the Republic of South Africa and the Public Audit Act of 2004, and that the AG must be re-appointed each year at the AGM of the company as required by the Companies Act No 71 of 2008.

NNokwe

Ms GN Jiyane | Ms NN Nokwe

Johannesburg
24 July 2015

# REPORT OF THE BOARD AUDIT COMMITTEE

The Board Audit Committee has formal terms of reference that are reviewed and approved by the Board on an annual basis. The committee has discharged its responsibilities in compliance with its terms of reference and as required in terms of the Companies Act 71 of 2008.

## 1. Responsibilities

The committee consists of four non-executive directors, elected by the shareholder at each annual general meeting (AGM). The Board appointed the Chairman of the committee, an non-executive director. The Group Chief Executive Officer, Group Chief Financial Officer, Chief Audit Executive, Chief Risk and Compliance Officer and External Auditors are permanent invitees to the committee meetings. Four meetings were held during the year; directors' attendances at these meetings are set out on page 100 of the annual financial statements. Three directors were appointed to the committee in January 2015; the performance of the newly appointed committee was therefore not assessed for the year under review. An evaluation of the committee's performance will be conducted during July 2015.

The committee performed the following duties during the year in accordance with section 94(7) of the Companies Act No 71 of 2008:

- concurred the quantum of fees to be paid to the auditors and the auditor's terms of engagement;
- determined the nature and extent of any non-audited services;
- prepared a report, to be included in the annual financial statements for the financial year;
- made submissions to the Board on matters concerning the company's accounting policies, financial control, records and reporting; and
- performed other oversight functions determined by the Board.

The committee is responsible for overseeing the external audit process and confirms that the external auditors are independent of the company and conducted its audit without influence from the company. The committee chairman meets with the external auditors independently of management.

The committee is responsible for overseeing the Internal Audit function, preserving its independence and ensuring that it has the necessary resources and authority to enable it to fulfil its duties. The Chief Audit Executive reports functionally to the committee and has quarterly meetings with the chairman of the committee independently of management. The committee annually reviews and approves the internal audit coverage plan and reviews the performance of the internal audit function on a quarterly basis.

The committee has reviewed the expertise, competence and experience of the Finance function. Based on the self-assessment performed, the committee is satisfied that the Group Chief Financial Officer and the finance management team have the appropriate expertise and experience.

The company had its Combined Assurance implemented as a work in progress during the year; management has prepared an implementation plan to successfully roll out combined assurance. The committee will track progress over the course of the year ahead.

The committee has reviewed the written assessment performed by Internal Audit on the design, implementation and effectiveness of internal financial controls and risk management of the company.

Based on the results of the review and after considering the results of external audit, critical financial controls were assessed as Satisfactory Low as serious weaknesses, which are not material, were identified. The critical financial controls were generally adequate and effective to mitigate the associated risks. Management has agreed to focus its attention on the critical financial control process in the year ahead. The Enterprise Wide Risk Management process was assessed as Satisfactory Low, more specifically at a departmental and/or process level.

# REPORT OF THE BOARD AUDIT COMMITTEE (continued)

The committee has reviewed the written assessment presented by the Chief Risk and Compliance Officer on the overall compliance environment of the company. Based on the results of the review, the committee is of the opinion that significant attention must be focused on enhancing the culture of the organisation so as to drive compliance. The overall compliance environment was assessed as partially adequate and effective.

The committee reviewed the assessment of the going concern premise of the group and concurs that the group will be a going concern for the foreseeable future.

Having reviewed and evaluated the annual financial statements of the group for the year ended 31 March 2015, the members of the Board Audit Committee are satisfied that the financial statements fairly present the state of affairs of the company, its business, financial results, performance against predetermined objectives and its financial position at the end of the financial year and conclude that they comply, in all material respects, with the requirements of the Companies Act No 71 of 2008 and the Public Finance Management Act.

**2. Legal and regulatory compliance**

The Board Audit Committee has recommended the adoption of the financial statements by the Board of Directors at their meeting on 14 July 2015.

**BW Ngubane**

*Chairperson*

24 July 2015

# STATEMENT OF THE COMPANY SECRETARY

In my capacity as acting company secretary, I hereby certify, in terms of section 88(2)(e) of the Companies Act of 2008, that the company has lodged with the Commissioner all such returns and notices as are required of a company in terms of the Companies Act, and that all such returns are, to the best of my knowledge, true, correct and up to date.

MSebothoma

**Ms M Sebothoma**

*Acting company secretary*

24 July 2015

# STATEMENTS OF FINANCIAL POSITION

**as at 31 March 2015**

| | | Group | | | Company | | |
|---|---|---|---|---|---|---|---|
| | Note(s) | **2015 R'000** | 2014 R'000 Restated | 2013 R'000 Restated | **2015 R'000** | 2014 R'000 Restated | 2013 R'000 Restated |
| **ASSETS** | | | | | | | |
| **Non-current assets** | | | | | | | |
| Property, plant and equipment | 3 | **7 620 145** | 18 016 748 | 15 509 169 | **3 413 198** | 11 574 003 | 10 797 212 |
| Intangible assets | 4 | **1 654 727** | 1 541 059 | 3 130 903 | **1 228 715** | 1 133 724 | 1 038 648 |
| Investments in subsidiaries | 6 | **–** | – | – | **3 214 194** | 3 883 782 | 3 883 782 |
| Joint arrangements | 7 | **–** | – | – | **29 625** | 29 625 | 29 625 |
| Other financial assets | 9 | **359 252** | 296 490 | 215 306 | **306 922** | 296 490 | 215 306 |
| Amounts held by holding company | 10 | **489 021** | 489 021 | 489 021 | **489 021** | 489 021 | 489 021 |
| Tax receivable | | **–** | – | 17 294 | **–** | – | 17 294 |
| | | **10 123 145** | 20 343 318 | 19 361 693 | **8 681 675** | 17 406 645 | 16 470 888 |
| **Current assets** | | | | | | | |
| Inventories | 11 | **2 203 655** | 2 973 773 | 2 798 836 | **2 180 978** | 2 965 375 | 2 789 834 |
| Other financial assets | 9 | **–** | 1 725 000 | 2 594 000 | **–** | 2 465 759 | 4 111 538 |
| Tax receivable | | **–** | – | 5 158 | **–** | – | 5 158 |
| Trade and other receivables | 12 | **3 122 408** | 3 525 596 | 3 526 804 | **3 044 267** | 3 415 574 | 3 433 879 |
| Cash and cash equivalents | 13 | **4 381 548** | 5 489 903 | 7 442 483 | **3 759 866** | 4 880 617 | 6 541 242 |
| | | **9 707 611** | 13 714 272 | 16 367 281 | **8 985 111** | 13 727 325 | 16 881 651 |
| **TOTAL ASSETS** | | **19 830 756** | 34 057 590 | 35 728 974 | **17 666 786** | 31 133 970 | 33 352 539 |
| **EQUITY AND LIABILITIES** | | | | | | | |
| **Equity** | | | | | | | |
| Share capital | 14 | **2 755 936** | 2 755 936 | 2 755 936 | **2 755 936** | 2 755 936 | 2 755 936 |
| Reserves | | **381 822** | 142 547 | – | **(435)** | (65) | – |
| Retained income | | **999 208** | 15 573 915 | 17 222 625 | **1 506 764** | 14 922 072 | 16 888 989 |
| | | **4 136 966** | 18 472 398 | 19 978 561 | **4 262 265** | 17 677 943 | 19 644 925 |
| **LIABILITIES** | | | | | | | |
| **Non-current liabilities** | | | | | | | |
| Other financial liabilities | 16 | **865 496** | – | – | **–** | – | – |
| Deferred tax | 5 | **953 137** | 1 791 557 | 1 728 498 | **–** | – | – |
| Provisions | 15 | **9 673 784** | 8 125 194 | 8 286 357 | **9 383 113** | 7 910 953 | 7 996 617 |
| | | **11 492 417** | 9 916 751 | 10 014 855 | **9 383 113** | 7 910 953 | 7 996 617 |
| **Current liabilities** | | | | | | | |
| Other financial liabilities | 16 | **–** | 1 591 050 | 2 037 200 | **–** | 1 591 050 | 2 037 200 |
| Current tax payable | | **4 349** | 4 767 | 5 388 | **–** | – | – |
| Trade and other payables | 17 | **3 862 165** | 3 498 157 | 3 438 703 | **3 686 549** | 3 380 068 | 3 420 010 |
| Provisions | 15 | **48 098** | 216 812 | 254 267 | **48 098** | 216 301 | 253 787 |
| Bank overdraft | 13 | **286 761** | 357 655 | – | **286 761** | 357 655 | – |
| | | **4 201 373** | 5 668 441 | 5 735 558 | **4 021 408** | 5 545 074 | 5 710 997 |
| **Total liabilities** | | **15 693 790** | 15 585 192 | 15 750 413 | **13 404 521** | 13 456 027 | 13 707 614 |
| **TOTAL EQUITY AND LIABILITIES** | | **19 830 756** | 34 057 590 | 35 728 974 | **17 666 786** | 31 133 970 | 33 352 539 |

# STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2015** | 2014 | **2015** | 2014 |
| | Note(s) | **R'000** | R'000 Restated | **R'000** | R'000 Restated |
| Revenue | 18 | **18 048 631** | 21 199 294 | **17 212 076** | 20 191 919 |
| Cost of sales | | **(17 005 368)** | (18 524 594) | **(16 260 711)** | (18 035 358) |
| Gross profit | | **1 043 263** | 2 674 700 | **951 365** | 2 156 561 |
| Other income | | **160 281** | 1 157 748 | **160 489** | 1 159 862 |
| Operating expenses | | **(15 754 940)** | (5 070 809) | **(13 917 201)** | (5 119 184) |
| Operating loss | 19 | **(14 551 396)** | (1 238 361) | **(12 805 347)** | (1 802 761) |
| Investment revenue | 20 | **408 925** | 439 273 | **688 509** | 618 939 |
| Finance costs | 21 | **(1 305 744)** | (804 080) | **(1 297 546)** | (797 682) |
| Loss before taxation | | **(15 448 215)** | (1 603 168) | **(13 414 384)** | (1 981 504) |
| Taxation | 22 | **874 432** | (60 129) | **–** | – |
| Loss for the year | | **(14 573 783)** | (1 663 297) | **(13 414 384)** | (1 981 504) |
| Other comprehensive income: | | | | | |
| Items that will not be reclassified to profit or loss: | | | | | |
| Remeasurements on net defined benefit liability/asset | | **(924)** | 14 587 | **(924)** | 14 587 |
| **Items that may be reclassified to profit or loss:** | | | | | |
| Exchange differences on translating foreign operations | | **239 275** | 142 547 | **(370)** | (65) |
| **Other comprehensive income/(loss) for the year net of taxation** | | **238 351** | 157 134 | **(1 294)** | 14 522 |
| **Total comprehensive loss for the year** | | **(14 335 432)** | (1 506 163) | **(13 415 678)** | (1 966 982) |

# STATEMENTS OF CHANGES IN EQUITY

| | Share capital R'000 | Share premium R'000 | Total share capital R'000 | Foreign currency translation reserve R'000 | Retained income R'000 | Total equity R'000 |
|---|---|---|---|---|---|---|
| **GROUP** | | | | | | |
| **Balance at 1 April 2013** | 2 | 2 755 934 | 2 755 936 | – | 17 222 625 | 19 978 561 |
| Changes in equity | | | | | | |
| Loss for the year | – | – | – | – | (1 663 297) | (1 663 297) |
| Other comprehensive income | – | – | – | 142 547 | 14 587 | 157 134 |
| **Balance at 1 April 2014** | 2 | 2 755 934 | 2 755 936 | 142 547 | 15 573 915 | 18 472 398 |
| Changes in equity | | | | | | |
| Loss for the year | – | – | – | – | (14 573 783) | (14 573 783) |
| Other comprehensive income/(loss) | – | – | – | 239 275 | (924) | 238 351 |
| **Balance at 31 March 2015** | **2** | **2 755 934** | **2 755 936** | **381 822** | **999 208** | **4 136 966** |
| Note(s) | 14 | | 14 | | 2 | |
| **COMPANY** | | | | | | |
| **Balance at 1 April 2013** | 2 | 2 755 934 | 2 755 936 | – | 16 888 989 | 19 644 925 |
| Changes in equity | | | | | | |
| Loss for the year | – | – | – | – | (1 981 504) | (1 981 504) |
| Other comprehensive income | – | – | – | (65) | 14 587 | 14 522 |
| **Balance at 1 April 2014** | 2 | 2 755 934 | 2 755 936 | (65) | 14 922 072 | 17 677 943 |
| Changes in equity | | | | | | |
| Loss for the year | – | – | – | – | (13 414 384) | (13 414 384) |
| Other comprehensive loss | – | – | – | (370) | (924) | (1 294) |
| **Balance at 31 March 2015** | **2** | **2 755 934** | **2 755 936** | **(435)** | **1 506 764** | **4 262 265** |
| Note(s) | 14 | | 14 | | 2 | |

# STATEMENTS OF CASH FLOWS

| | Note(s) | Group 2015 R'000 | Group 2014 R'000 Restated | Company 2015 R'000 | Company 2014 R'000 Restated |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash generated by operations | 24 | **3 470 966** | 2 170 891 | **2 746 419** | 1 378 791 |
| Interest income | | **408 925** | 439 273 | **624 074** | 618 939 |
| Dividends received | | **–** | – | **64 435** | – |
| Finance costs | | **(15 349)** | (19 664) | **(15 116)** | (19 169) |
| Tax refunded | 25 | **35 594** | 24 761 | **–** | 22 452 |
| **Net cash from operating activities** | | **3 900 136** | 2 615 261 | **3 419 812** | 2 001 013 |
| **Cash flows from investing activities** | | | | | |
| Purchase of property, plant and equipment | 3 | **(5 782 255)** | (5 281 435) | **(4 964 464)** | (4 865 466) |
| Sale of property, plant and equipment | 3 | **19 249** | 1 061 | **19 248** | 1 057 |
| Purchase of intangible assets | 4 | **(120 114)** | (151 073) | **(105 449)** | (102 999) |
| Sale of intangible assets | 4 | **(108)** | 6 882 | **–** | – |
| Sale of financial assets | | **1 662 238** | 787 816 | **2 230 190** | 1 366 964 |
| **Net cash from investing activities** | | **(4 220 990)** | (4 636 749) | **(2 820 474)** | (3 600 444) |
| **Cash flows from financing activities** | | | | | |
| Repayment of other financial liabilities | | **(725 554)** | (446 150) | **(1 591 050)** | (446 150) |
| **Net cash from financing activities** | | **(725 554)** | (446 150) | **(1 591 050)** | (446 150) |
| **Cash and cash equivalents movement for the year** | | **(1 046 408)** | (2 467 638) | **(991 712)** | (2 045 581) |
| Cash and cash equivalents at the beginning of the year | | **5 132 248** | 7 442 483 | **4 522 962** | 6 541 242 |
| Effect of exchange rate movement on cash balances | | **8 947** | 157 403 | **(58 145)** | 27 301 |
| **Cash and cash equivalents at end of the year** | 13 | **4 094 787** | 5 132 248 | **3 473 105** | 4 522 962 |

# ACCOUNTING POLICIES

## 1. Presentation of annual financial statements

For all periods up to and including the year ended 31 March 2014, the group prepared its financial statements in accordance with South African Statements of Generally Accepted Accounting Practices (GAAP). These financial statements for the year ended 31 March 2015 are the first the group has prepared in accordance with International Financial Reporting Standards (IFRS). Refer to note 2 for information on how the group has adopted IFRS. The following are the principal accounting policies used by the group.

### 1.1 Basis of preparation

The consolidated financial statements are prepared under the historical cost basis, except where otherwise specified. The group annual financial statements are prepared in accordance with IFRS and the Companies Act of 2008.

These annual financial statements are presented in South African rands. Rounding is to the nearest rand in thousands. The consolidated financial statements are prepared on the going concern basis.

Assets and liabilities or income and expenditure will not be offset, unless it is required or permitted by a standard.

### 1.2 Basis of consolidation

The consolidated financial statements incorporate the annual financial statements of the entity and enterprises controlled by the entity at 31 March each year.

Control is achieved where the entity:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement in the investee; and
- has the ability to use its power to affect its returns.

The group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

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

Where necessary, adjustments are made to the annual financial statements of subsidiaries to bring the accounting policies used in line with the group accounting policies.

All significant inter-entity transactions, unrealised profit and losses and balances between group enterprises are eliminated on consolidation.

The most recent audited annual financial statements of associates, joint ventures and subsidiaries are used where available, which are all within three months of the year-end of the group. Adjustments are made to the financial results for material transactions and events in the intervening period.

**Consolidated financial statements**

***Business combinations***

Business combinations are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair values (at the date of acquisition) of assets given, liabilities incurred or assumed and equity instruments issued by the group in exchange for control of the acquiree. Acquisition related costs are expensed as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3: Business Combinations are recognised at their fair values at the acquisition date.

The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interests in the acquiree over the acquisition-date fair values of net identifiable assets. If, after reassessment, the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceed the cost of the business combination, the excess is recognised immediately in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

The group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

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

**Joint arrangements**

***Joint ventures***

The results and assets and liabilities of joint ventures are incorporated in the financial statements by using the equity method of accounting. The aggregate of the group's share of profit or loss of a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

Under the equity method, investments in joint ventures are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the group's share of the net assets of the joint venture, less any impairment in the value of individual investments. Losses of a joint venture in excess of the group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the group's net investment in joint ventures) are recognised only to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the entity.

Any excess of the cost of acquisition over the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the joint venture recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

After application of the equity method, the group determines whether it is necessary to recognise an impairment loss on its investment in its joint venture. At each reporting date, the group determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognises the loss as "share of profit of a joint venture" in the statement of profit or loss.

If the ownership interest is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Upon loss of joint control over the joint venture, the group measures and recognises any retained investment at its fair value.

# ACCOUNTING POLICIES (continued)

Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

**Joint operations**

When the group undertakes its activities under a joint operation, the group as joint operator recognises in relation to its interest in the 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 of 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.

The group accounts for assets, liabilities, revenues and expenses relating to its interest in joint operations in accordance with applicable IFRS.

## 1.3 Translation of foreign currencies

***Transactions***

Foreign currency transactions are recognised, initially in rand by applying the foreign currency amount to the exchange rate between the rand and the foreign currency at the date of the transaction, and is restated at each reporting date by using the ruling exchange rate at that date.

***Statement of financial position***

At each reporting date:

- foreign currency monetary items are measured using the closing rate;
- non-monetary items, which are carried in terms of historical cost denominated in a foreign currency, are reported using the exchange rate at the date of the transaction; and
- non-monetary items which are carried at fair value denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.

***Exchange differences***

Exchange differences arising on the settlement of monetary items or on reporting a company's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous annual financial statements, are recognised as income or expenses in the period in which they arise. Exchange differences that relate to borrowing and cash and cash equivalents are presented in the statement of profit or loss finance costs and investment income.

***Foreign entities***

In translating the financial statements of a foreign entity for incorporation in the group financial statements, the following is applied:

(a) The assets and liabilities, both monetary and non-monetary, of the foreign entity are translated at the closing exchange rate at the financial year-end date.

(b) Income and expense items of the foreign entity are translated at the weighted average rates of exchange for the year.

(c) All resulting exchange differences are taken directly to the foreign currency translation reserve which is classified as a non-distributable reserve. On disposal the related amount in this reserve will be recognised in profit or loss.

## 1.4 Comparative figures

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

## 1.5 Property, plant and equipment

Property, plant and equipment represent tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one period.

***Carrying amounts***

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

***Cost***

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

Finance costs directly associated with the construction or acquisition of major assets that necessarily take a substantial period of time to get ready for their intended use, are capitalised at interest rates relating to loans specifically raised for that purpose, or at the average borrowing rate where the general pool of borrowings is utilised.

Expenditure on major maintenance refits, inspections or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset, or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the group, the expenditure is capitalised. Where part of the asset replaced was not separately considered as a component and therefore not depreciated separately, the replacement value is used to estimate the carrying amount of the replaced asset(s) and is immediately written off. Inspection costs associated with major maintenance programmes are capitalised and amortised over the period to the next inspection. All other day-to-day repairs and maintenance costs are expensed as incurred.

***Derecognition***

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use.

Gains or losses on disposal of property, plant and equipment are determined by reference to their carrying amount. The gain or losses arising from derecognition of an item of property, plant and equipment is included in operating profit or loss.

***Depreciation***

Depreciation is charged so as to write off the depreciable amount of the assets, other than land, over their estimated useful lives to estimated residual values, using the straight line method or other acceptable 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.

Where significant parts of an item have different useful lives to the item itself, these parts are depreciated over their estimated useful lives.

The following methods and rates are used during the year to depreciate property, plant and equipment to estimated residual values:

| ***Item*** | ***Average useful life*** |
|---|---|
| Land | Not depreciated |
| Buildings | 40 years |
| Furniture, fittings and communication equipment | 3 – 15 years |
| Motor vehicles | 10 – 12 years |
| Computer equipment | 3 – 5 years |
| Shutdown costs | 3 – 5 years |
| Restoration costs | Units of production |

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

The methods of depreciation, useful lives and residual values are reviewed annually.

***Production assets (oil and gas fields)***

Oil and gas production assets are the aggregated exploration and evaluation tangible assets, and development expenditure associated with the production of proved reserves.

Subsequent expenditure which enhances or extends the performance of oil and gas production assets beyond their original specifications is recognised as capital expenditure and added to the original cost of the asset.

Production assets are depreciated over their expected useful lives. This applies from the date production commences, on a unit of production basis, which is the ratio of oil and gas production in the period to the estimated quantities of proved and probable reserves at the end of the period plus the production in the period, on a field-by-field basis. Costs used in the unit of production calculation comprise the net book value of capitalised costs plus the estimated future field development costs required to recover the commercial reserves remaining. Unit of production rates are based on the proved and probable developed reserves, which

# ACCOUNTING POLICIES (continued)

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 net book 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 the statement of comprehensive income. where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the statement of comprehensive income, net of any depreciation that would have been charged since the impairment.

***Restoration costs***

Cost of property, plant and equipment also includes the estimated costs of dismantling and removing the assets and site rehabilitation costs.

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

The amount recognised is the estimated cost of restoration, discounted to its net present value, and is reassessed each year in accordance with local conditions and requirements. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the restoration provision is included as a finance cost.

**1.6 Exploration, evaluation and development of 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.

***Pre-licensing cost***

These are costs incurred prior to the acquisition of a legal right to explore for oil and gas. They may include speculative seismic data and subsequent geological and geophysical analysis of this data, but may not be exclusive to such costs. These costs are expensed in the year they are incurred.

***Exploration and evaluation costs***

All costs relating to the acquisition of 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.

These costs are not depreciated but written off as exploration costs in the statement of comprehensive income 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 potentially commercial reserves are capitalised pending a decision to further develop or a firm plan to develop has been approved. These are continuously assessed for impairment. If no such plan or development exists or information is obtained that raises doubt about the economic or operating viability then an impairment is recognised. If a plan or intention to further develop these wells or fields exists, the costs are transferred to development costs.

### *Commercial reserves*

Commercial reserves are proven and probable oil and gas reserves, which are defined as the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50% 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 unit of production method calculated using the estimated proved and probable reserves.

### *Dry wells*

Geological and geophysical costs, as well as all other costs relating to dry exploratory wells costs are recognised in profit or loss in the year they are incurred.

## 1.7 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

Intangible assets are initially recognised at cost less accumulated amortisation and accumulated impairment, if acquired separately or internally generated or at fair value if acquired as part of a business combination. If assessed as having a finite useful life, it is amortised over its useful life using a straight-line basis and tested for impairment if there is an indication that it may be impaired.

Research costs are recognised in profit or loss when incurred.

Development costs are capitalised only if they result in an asset that can be identified, it is probable that the asset will generate future economic benefits and the development cost can be reliably measured. Otherwise it is recognised in profit or loss.

Purchased software and the direct costs associated with the customisation and installation thereof are capitalised. The following rates are used during the year to amortise intangible assets to estimated residual values:

| *Item* | *Useful life* |
|---|---|
| Patents | Validity period of the patent |
| Software | 3 – 5 years |

## 1.8 Impairment of financial assets

### *Non-derivative financial assets*

A financial asset is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the group on terms that the group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. Significant

# ACCOUNTING POLICIES (continued)

financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired.

***Financial assets measured at amortised cost***

The group considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held to maturity investment securities. Interest on the impaired asset continues to be recognised.

When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

## 1.9 Impairment of non-financial assets

At each reporting date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount for an individual asset, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Value in use is estimated taking into account future cash flows, forecast market conditions and the expected lives of the assets discounted by the pre-tax weighted average cost of capital.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, its carrying amount is reduced to the higher of its recoverable amount and zero. Impairment losses are recognised in profit or loss. Subsequent to the recognition of the impairment loss, the depreciation or amortisation charge for the asset is adjusted to allocate its remaining carrying value, less any residual value, over its remaining useful life.

If an impairment loss is subsequently reversed, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount but limited to the carrying amount that would have been determined had an impairment loss not been recognised in prior years. A reversal of an impairment loss is recognised in profit or loss.

## 1.10 Leases

Rentals payable under operating leases are recognised in profit or loss on a straight-line basis over the term of the relevant lease where significant or another basis if more representative of the time pattern of the user's benefit.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

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

## 1.11 Inventories

***Trading inventory***

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.

***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 in arriving at the net realisable value. Any inventories which meet the definition of property, plant and equipment are reclassified accordingly.

## 1.12 Financial instruments

***Recognition***

Financial assets and financial liabilities are recognised on the group and company's statement of financial position when the group and company becomes a party to the contractual provisions of the instrument.

Financial instruments recognised on the statement of financial position include cash and cash equivalents, trade and other receivables, foreign exchange contracts, trade and other payables and borrowings.

***Measurement***

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets and financial liabilities, as appropriate, on initial recognition. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities at fair value through profit or loss are immediately recognised in profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the group commits to purchase or sell the asset.

***Subsequent measurement***

For purposes of subsequent measurement financial assets are classified in four categories: Financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments and available for sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

***Financial assets***

The group financial assets have been classified as follows:

*(a) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented in operating costs in the statement of profit or loss. The group's forward exchange contracts are classified as at fair value through profit or loss.

*(b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest over the relevant period. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest method. Loans and receivables are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These

# ACCOUNTING POLICIES (continued)

are classified as non-current assets. This category applies to loans (note 9), trade and other receivables (note 12) and cash and cash equivalents (note 13).

The group does not have any financial assets classified as held to maturity and available for sale.

***Cash and cash equivalents***

Cash and cash equivalents comprise cash at bank and on hand and instruments which are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Cash and cash equivalents are stated at amortised cost which is deemed to be the fair value.

***Financial liabilities***

Financial liabilities are subsequently measured at fair value through profit or loss if held for trading. This category also includes derivative financial instruments entered into by the group.

***Trade and other payables***

Trade and other payables are initially measured at fair value and subsequently measured at amortised cost.

***Borrowings***

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings. For more information refer Note 16.

***Derecognition***

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the group has transferred its rights to receive cash flows from the asset; or
- the group has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the group has transferred substantially all the risks and rewards of the asset, or (b) the group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the group has transferred its rights to receive cash flows from an asset, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the group continues to recognise the transferred asset to the extent of the group's continuing involvement. In that case, the group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the group could be required to repay.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

*Fair value considerations*

For financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to their fair value measurement in its entirety, are described as follows:

(a) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the group can access at measurement date;

(b) Level 2 inputs are inputs, other than quoted prices included in level 1, that are observable for the asset or liability, either directly or indirectly; and

(c) Level 3 inputs are unobservable for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. 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.

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

*Offsetting*

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

### 1.13 Post-employment benefit costs

*Defined contribution costs*

The group operates a defined contribution plan, the assets of which are held in a separate trustee administered fund. The plan is funded by payments from the group, and takes into account the recommendations of independent qualified actuaries.

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

*Defined benefit costs*

Post-employment healthcare benefits are provided to certain retirees. The entitlement to post retirement health care benefits is based on the eligible employees remaining in service up to retirement age. These benefits are funded. The cost of providing 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 of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through 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.

# ACCOUNTING POLICIES (continued)

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The group recognises the following changes in the net defined benefit obligation in the statement of profit or loss:

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

### 1.14 Provisions

Provisions represent liabilities of uncertain timing or amount.

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

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

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

### 1.15 Share capital and equity

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

### 1.16 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents the amount receivable for goods supplied, net of discounts, returns and VAT. Revenue from the sale of oil and petroleum products is recognised when the significant risks and rewards of ownership have been transferred, which is considered to occur when title passes to the customer. This generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism.

### 1.17 Cost of sales

When inventories are sold, the carrying amount is recognised as part of cost of sales. Any write-down of inventories to net realisable value and all losses of inventories or reversals of previous write-downs or losses are recognised in cost of sales in the period the write-down, loss or reversal occurs.

### 1.18 Income from investments

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

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

### 1.19 Taxation

***Current tax assets and liabilities***

The tax expense for the period comprises current and deferred tax.

Tax is recognised in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively. The charge for current tax is based on the results for the year as adjusted for income that is exempt and expenses that are not deductible using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date at the tax rates that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the group expects to recover or settle the carrying amount of its assets and liabilities.

***Deferred tax assets***

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

***Deferred tax liability***

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

### 1.20 Finance costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until the assets are substantially ready for their intended use or sale. Qualifying assets are assets that necessarily take a substantial period to get ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the cost of those assets.

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

### 1.21 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

### 1.22 Subsequent events

Recognised amounts in the annual financial statements are adjusted to reflect events arising after the reporting date that provide evidence of conditions that existed at the reporting date. Events after the reporting date that are indicative of conditions that arose after the reporting date are dealt with by way of a note.

### 1.23 Irregular and fruitless and wasteful expenditure

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including the PFMA.

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

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

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

All irregular, fruitless and wasteful expenditure is charged against profit or loss in the period in which it is incurred and disclosed as a note to the annual financial statements of the company and group.

### 1.24 Adoption of International Financial Reporting Standards

***The following standards and amendments to existing standards have been published and are not yet effective and the group has not adopted them early.***

1) IFRS 9, “Financial Instruments”, issued in November 2009 (effective 1 January 2018). In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and

# ACCOUNTING POLICIES (continued)

measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The group is in the process of assessing the potential impact of IFRS 9 on its financial position and performance.

2) IFRS 15, “Revenue from Contracts with Customer”, (effective 1 January 2017). IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 “Revenue” and IAS 11 “Construction contracts” and related interpretations. The group is assessing the impact of IFRS 15.

## 1.25 Key assumptions made by management in applying accounting policies

***Critical accounting estimates and judgements***

In preparing the 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 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 judgements are based on historical experience, current and expected future economic conditions and other factors, including expectations of the future events that are believed to be reasonable under the circumstances.

***Environmental and decommissioning provision***

Provision is made for environmental and decommissioning costs where either a legal or constructive obligation is recognised as a result of past events. Estimates are made in determining the present obligation of environmental and decommissioning provisions, which include the actual estimate, the discount rate used and the expected date of closure of mining activities in determining the present value of environmental and decommissioning provisions. Estimates are based upon costs that are regularly reviewed, by internal and external experts, and adjusted as appropriate for new circumstances.

***Other provisions***

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

***Recoverability of assets***

PetroSA assesses its cash-generating units (CGUs) at each reporting period to determine whether any indication of impairment exists. Impairment tests are performed when there is an indication of impairment of assets or a reversal of previous impairments of assets. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs of disposal (FVLCD) and value in use (VIU). Management therefore has implemented certain impairment indicators and these include movements in exchange rates, commodity prices and the economic environment its businesses operate in. Estimates are made in determining the recoverable amount of assets which include the estimation of cash flows and discount rates used. In estimating the cash flows, management base cash flow projections on reasonable and supportable assumptions that represent managements’ best estimate of the range of economic conditions that will exist over the remaining useful life of the assets, based on publicly available information.
The discount rates used are pre-tax rates that reflect the current market assessment

of the time value of money and the risks specific to the assets for which the future cash flow estimates have not been adjusted. These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of CGUs.

***Impairments and impairment reversals***

Impairment tests are performed when there is an indication of impairment of assets or a reversal of previous impairments of assets. Management therefore has implemented certain impairment indicators and these include movements in exchange rates, commodity prices and the economic environment its businesses operate in. Estimates are made in determining the recoverable amount of assets which include the estimation of cash flows and discount rates used. In estimating the cash flows, management base cash flow projections on reasonable and supportable assumptions that represent managements' best estimate of the range of economic conditions that will exist over the remaining useful life of the assets, based on publicly available information. The discount rates used are 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.

***Contingent liabilities***

Management considers the existence of possible obligations which may arise from legal action as well as the possible non-compliance of the requirements of completion guarantees and other guarantees provided. The estimation of the amount disclosed is based on the expected possible outflow of economic benefits should there be a present obligation.

***Hydrocarbon reserve and resource estimates***

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

Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. The carrying amount of oil development and production assets at 31 March 2015 is shown in Note 3.

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:

1) The carrying value of exploration and evaluation assets and production assets may be affected due to changes in estimated future cash flows.
2) Depreciation and amortisation charges in the statement of profit or loss and other comprehensive income may change where such charges are determined using the Units of Production method.
3) Provisions for decommissioning may change, where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities.
4) The recognition and carrying value of deferred tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets.

***Evaluation of the useful life of assets***

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

# ACCOUNTING POLICIES (continued)

***Carrying value of intangible exploration and evaluation assets***

The amount of intangible exploration and evaluation assets represent active exploration assets. These amounts will be written off to the statement of profit or loss and comprehensive income as exploration costs unless commercial reserves are established or the determination process is not completed and there are no indicators of impairment.

The key areas in which management have applied judgement are as follows: group's intention to proceed with a 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.

***Units of production (UOP) depreciation of oil and gas assets***

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

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

**2. Adoption of International Financial Reporting Standards**

The group adopted IFRS for the first time in the year under review. For periods up to and including the year ended 31 March 2014, the group prepared its financial statements in accordance with South African Generally Accepted Accounting Practice (SA GAAP).

Accordingly, the group has prepared financial statements, together with comparatives, which comply with IFRS applicable for periods ending on or after 31 March 2015, together with the comparative period data as at and for the year ended 31 March 2014, as described in the summary of significant accounting policies. In preparing these financial statements, the group's opening statement of financial position was prepared as at 1 April 2013, the group's date of transition to IFRS. This note explains the principal adjustments made by the group in restating its SA GAAP financial statements, including the statement of financial position as at 1 April 2013 and the financial statements for the year ended 31 March 2014.

The effect of the transition was as follows:

| | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | As previously reported R'000 | Adjustment R'000 | Restated R'000 | As previously reported R'000 | Adjustment R'000 | Restated R'000 |
| **1 April 2013** | | | | | | |
| **Statement of financial position** | | | | | | |
| Foreign currency translation reserve (a) | 95 205 | (95 205) | – | 1 655 | (1 655) | – |
| Retained income | 17 127 420 | 95 205 | 17 222 625 | 16 887 334 | 1 655 | 16 888 989 |
| **31 March 2014** | | | | | | |
| **Statement of financial position** | | | | | | |
| Foreign currency translation reserve (a) | 237 752 | (95 205) | 142 547 | 1 590 | (1 655) | (65) |
| Retained income | 15 478 710 | 95 205 | 15 573 915 | 14 920 417 | 1 655 | 14 922 072 |
| **Statement of comprehensive income** | | | | | | |
| Operating expenses (b) | (5 056 222) | (14 587) | (5 070 809) | (5 104 597) | (14 587) | (5 119 184) |
| Loss for the period | (1 648 710) | (14 587) | (1 663 297) | (1 966 917) | (14 587) | (1 981 504) |
| **Other comprehensive income items not subsequently reclassified to profit or loss** | | | | | | |
| Actuarial gains/(loss) (b) | – | 14 587 | 14 587 | – | 14 587 | 14 587 |
| **Total other comprehensive income** | 142 547 | 14 587 | 157 134 | (65) | 14 587 | 14 522 |

### Exceptions from full retrospective application

The group has applied the following mandatory exceptions from retrospective application.

### Estimates exception

Estimates under IFRS 1 at 1 April 2013, are consistent with estimates made for the same date under SA GAAP.

All other mandatory exceptions in IFRS 1 were not applicable because there were no significant differences between IFRS and SA GAAP in these areas.

### Exemptions from full retrospective application

### Business combination exemption

The company has applied the business combination exemption in IFRS 1 and has not restated business combinations that took place prior to the 1 April 2013 transition date.

### Foreign currency translation reserve exemption

The group has elected to set the previously accumulated foreign currency translation reserve to zero at 1 April 2013. This exemption has been applied to all subsidiaries in accordance with IFRS 1.

The remaining optional exemptions are not applicable to the group.

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

**2. Adoption of International Financial Reporting Standards (continued)**

**Explanation of the effect of the transition to IFRS**

The following explains the material adjustments to the annual financial statements:

(a) Foreign currency translation reserve adjustment – As allowed by IFRS, the group has reset its cumulative foreign translation reserve account to zero at 1 April 2013. The value of the reset amounts R95 million.

(b) Employee benefit adjustment – Actuarial gains/losses totalling R14.5 million recorded in retained earnings were recognised in other comprehensive income.

**3. Property, plant and equipment**

| Group | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Cost R'000 | Accumulated depreciation R'000 | Carrying value R'000 | Cost R'000 | Accumulated depreciation R'000 | Carrying value R'000 |
| Land | 45 135 | – | 45 135 | 45 135 | – | 45 135 |
| Buildings | 211 897 | (38 677) | 173 220 | 212 105 | (38 676) | 173 429 |
| Production assets | 37 883 592 | (31 641 866) | 6 241 726 | 28 220 317 | (19 289 359) | 8 930 958 |
| Furniture, fittings and office equipment | 653 059 | (546 489) | 106 570 | 598 909 | (495 106) | 103 803 |
| Motor vehicles | 73 459 | (42 256) | 31 203 | 55 984 | (44 208) | 11 776 |
| Restoration costs | 2 810 009 | (2 460 577) | 349 432 | 2 629 754 | (1 292 534) | 1 337 220 |
| Shutdown costs capitalised | 637 837 | (586 091) | 51 746 | 635 928 | (219 430) | 416 498 |
| Assets under development | 3 312 398 | (2 691 285) | 621 113 | 9 143 797 | (2 145 868) | 6 997 929 |
| **Total** | **45 627 386** | **(38 007 241)** | **7 620 145** | 41 541 929 | (23 525 181) | 18 016 748 |

| Company | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Cost R'000 | Accumulated depreciation R'000 | Carrying value R'000 | Cost R'000 | Accumulated depreciation R'000 | Carrying value R'000 |
| Land | 45 135 | – | 45 135 | 45 135 | – | 45 135 |
| Buildings | 211 897 | (38 677) | 173 220 | 212 105 | (38 676) | 173 429 |
| Production assets | 29 511 834 | (27 331 211) | 2 180 623 | 20 969 029 | (18 379 569) | 2 589 460 |
| Furniture, fittings and office equipment | 652 937 | (546 382) | 106 555 | 597 543 | (494 140) | 103 403 |
| Motor vehicles | 73 459 | (42 256) | 31 203 | 54 213 | (42 995) | 11 218 |
| Restoration costs | 2 615 464 | (2 411 861) | 203 603 | 2 497 505 | (1 260 574) | 1 236 931 |
| Shutdown costs capitalised | 637 837 | (586 091) | 51 746 | 635 928 | (219 430) | 416 498 |
| Assets under development | 3 312 398 | (2 691 285) | 621 113 | 9 143 797 | (2 145 868) | 6 997 929 |
| **Total** | **37 060 961** | **(33 647 763)** | **3 413 198** | 34 155 255 | (22 581 252) | 11 574 003 |

**Reconciliation of property, plant and equipment – Group – 2015**

| | Opening balance R'000 | Additions R'000 | Disposals R'000 | Transfer/ Reclassi-fication R'000 | Foreign exchange move-ments R'000 | Change in estimate R'000 | Deprecia-tion R'000 | Impair-ment loss R'000 | Closing balance R'000 |
|---|---|---|---|---|---|---|---|---|---|
| Land | 45 135 | – | – | – | – | – | – | – | 45 135 |
| Buildings | 173 429 | – | (209) | – | – | – | – | – | 173 220 |
| Production assets | 8 930 958 | 773 672 | (18 442) | 8 577 001 | 249 164 | – | (1 847 642) | (10 422 985 ) | 6 241 726 |
| Furniture, fittings and office equipment | 103 803 | 21 403 | (905) | 45 172 | (2) | – | (44 891) | (107 792) | 106 570 |
| Motor vehicles | 11 776 | 20 262 | (499) | – | – | – | (336) | – | 31 203 |
| Restoration costs | 1 337 220 | 44 633 | – | – | 14 140 | 317 337 | (341 028) | (1 022 870) | 349 432 |
| Shutdown costs capitalised | 416 498 | 1 909 | – | – | – | – | (161 854) | (204 807) | 51 746 |
| Assets under development | 6 997 929 | 4 920 376 | – | (8 605 907) | – | – | – | (2 691 285) | 621 113 |
| | 18 016 748 | 5 782 255 | (20 055) | 16 266 | 263 302 | 317 337 | (2 305 969) | (14 449 739) | 7 620 145 |

**Reconciliation of property, plant and equipment – Group – 2014 Restated**

| | Opening balance R'000 | Additions R'000 | Disposals R'000 | Written back during the year R'000 | Transfers/ Reclassi-fication R'000 | Foreign exchange movements R'000 | Change in estimate R'000 | Deprecia-tion R'000 | Impairment loss R'000 | Closing balance R'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Land | 47 434 | – | (630) | – | (1 669) | – | – | – | – | 45 135 |
| Buildings | 175 566 | 1 020 | – | – | 1 669 | – | – | (4 826) | – | 173 429 |
| Production assets | 8 103 999 | 405 314 | – | – | 1 884 228 | 163 113 | – | (720 816) | (728 282) | 8 930 958 |
| Furniture, fittings and office equipment | 109 046 | 20 592 | (153) | – | 15 704 | 7 | – | (41 393) | – | 103 803 |
| Motor vehicles | 10 814 | 2 732 | – | – | – | – | – | (1 770) | – | 11 776 |
| Restoration costs | 2 144 912 | 15 614 | – | (14 915) | 57 278 | 17 066 | (363 114) | (130 325) | (389 296) | 1 337 220 |
| Shutdown costs capitalised | – | – | – | – | 635 928 | – | – | (88 323) | (131 107) | 416 498 |
| Assets under development | 5 092 966 | 4 837 183 | (394) | – | (785 958) | – | – | – | (2 145 868) | 6 997 929 |
| | 15 509 169 | 5 281 435 | (1 177) | (14 915) | 1 807 180 | 180 186 | (363 114) | (987 453) | (3 394 563) | 18 016 748 |

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

## 3. Property, plant and equipment (continued)

**Reconciliation of property, plant and equipment – Company – 2015**

| | **Opening balance R'000** | **Additions R'000** | **Disposals R'000** | **Transfers/ Reclassi-fication R'000** | **Change in estimate R'000** | **Deprecia-tion R'000** | **Impair-ment loss R'000** | **Closing balance R'000** |
|---|---|---|---|---|---|---|---|---|
| Land | **45 135** | **–** | **–** | **–** | **–** | **–** | **–** | **45 135** |
| Buildings | **173 429** | **–** | **(209)** | **–** | **–** | **–** | **–** | **173 220** |
| Production assets | **2 589 460** | **514** | **(18 442)** | **8 560 735** | **–** | **(1 235 884)** | **(7 715 760)** | **2 180 623** |
| Furniture, fittings and office equipment | **103 403** | **21 403** | **(584)** | **45 172** | **–** | **(44 953)** | **(107 792)** | **106 555** |
| Motor vehicles | **11 218** | **20 262** | **(13)** | **–** | **–** | **(264)** | **–** | **31 203** |
| Restoration costs | **1 236 931** | **–** | **–** | **–** | **319 651** | **(330 109)** | **(1 022 870)** | **203 603** |
| Shutdown costs capitalised | **416 498** | **1 909** | **–** | **–** | **–** | **(161 854)** | **(204 807)** | **51 746** |
| Assets under development | **6 997 929** | **4 920 376** | **–** | **(8 605 907)** | **–** | **–** | **(2 691 285)** | **621 113** |
| | **11 574 003** | **4 964 464** | **(19 248)** | **–** | **319 651** | **(1 683 158)** | **(11 742 514)** | **3 413 198** |

**Reconciliation of property, plant and equipment – Company – 2014 Restated**

| | Opening balance R'000 | Additions R'000 | Disposals R'000 | Written back during year R'000 | Transfers/ Reclassi-fication R'000 | Change in estimate R'000 | Deprecia-tion R'000 | Impairment loss R'000 | Closing balance R'000 |
|---|---|---|---|---|---|---|---|---|---|
| Land | 47 434 | – | (630) | – | (1 669) | – | – | – | 45 135 |
| Buildings | 175 566 | 1 020 | – | – | 1 669 | – | (4 826) | – | 173 429 |
| Production assets | 3 331 853 | 3 939 | – | – | 310 846 | – | (328 886) | (728 292) | 2 589 460 |
| Furniture, fittings and office equipment | 108 416 | 20 592 | (33) | – | 15 704 | – | (41 276) | – | 103 403 |
| Motor vehicles | 10 148 | 2 732 | – | – | – | – | (1 662) | – | 11 218 |
| Restoration costs | 2 030 829 | – | – | (4) | – | (276 571) | (128 027) | (389 296) | 1 236 931 |
| Shutdown costs capitalised | – | – | – | – | 635 928 | – | (88 323) | (131 107) | 416 498 |
| Assets under development | 5 092 966 | 4 837 183 | (394) | – | (785 958) | – | – | (2 145 868) | 6 997 929 |
| | 10 797 212 | 4 865 466 | (1 057) | (4) | 176 520 | (276 571) | (593 000) | (3 394 563) | 11 574 003 |

* The depreciation charge for furniture, fittings and office equipment for the current financial year includes an adjustment of R84.6 million to the correct an overstatement of accumulated depreciation emanating from the prior year. Due to immateriality, no prior year adjustment was deemed necessary.

Restoration expenditure relates to the abandonment provision (note 15) and is amortised on a unit of production basis. The unit of production method is also used in calculating depreciation on producing assets. Due to the nature of the business, the gas and oil reserves at the end of each financial year differ from the previous year. This necessitates a change in the estimated remaining useful lives of these assets at the end of each financial year. The effect on the current year is a decrease of R123 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.

### Impairment – GTL Refinery

Oil and gas reserves are used in assessing oil and gas producing properties for impairment. A significant reduction in the oil and gas price and a downgrade of proved and probable reserves triggered an impairment review. When such indicators are identified, management must exercise further judgement in making an estimate of the recoverable amount (value in use) of the asset against which to compare the carrying value. The outcome of the review necessitated an impairment of R11.7 billion (2014: R3.4 billion) based on a recoverable amount of R3.2 billion (2014: R16.5 billion). This was determined by comparing the CGU's carrying value at year-end against the expected present value of the free cash flows (net present value) from this CGU, based on a five-year business plan approved by the Board of Directors. These cash flows are management's best estimate taking into account past experience and future economic assumptions, such as forward curves for crude oil, product prices and exchange rates and discounted using the company WACC of 14% (2014: 12.5%). The impairment loss was recorded as part of operating expenses.

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

### Impairment – Jubilee and TEN development

The impairment charge of R2.7 billion for 2015, based on a recoverable amount of R3.7 billion, includes a review of carrying values of all PP&E assets in light of current commodity prices and changes in discount rates from 10% – 11%. A sensitivity analysis indicates that a $1 increase in the brent crude oil price will decrease the impairment charge by R85 million.

### 3. Property, plant and equipment (continued)

**Macroeconomic assumptions**

The macroeconomic assumptions used in the net present value computation include brent crude oil prices at USD61.49 (2016: USD77, 2017: USD81, 2018: USD86, 2019: USD91), a Rand/US Dollar exchange rate of R12.21 (2014: 10.61), Rand-based WACC of 14% (2014: 12.5%) and US dollar-based WACC of 11% (2014: 10%). PetroSA will continue to review the recoverable amounts of the CGUs in the event of future changes in reserves and relevant macroeconomic indicators.

### 4. Intangible assets

**Group**

| | 2015 Cost R'000 | 2015 Accumulated amortisation R'000 | 2015 Carrying value R'000 | 2014 Cost R'000 | 2014 Accumulated amortisation R'000 | 2014 Carrying value R'000 |
|---|---|---|---|---|---|---|
| Patents | **6 934** | **(2 197)** | **4 737** | 7 211 | (2 197) | 5 014 |
| Exploration and evaluation assets | **1 610 370** | **–** | **1 610 370** | 1 496 276 | (934) | 1 495 342 |
| Software | **48 847** | **(28 858)** | **19 989** | 38 730 | (18 678) | 20 052 |
| Restoration costs | **19 631** | **–** | **19 631** | 20 651 | – | 20 651 |
| **Total** | **1 685 782** | **(31 055)** | **1 654 727** | 1 562 868 | (21 809) | 1 541 059 |

**Company**

| | 2015 Cost R'000 | 2015 Accumulated amortisation R'000 | 2015 Carrying value R'000 | 2014 Cost R'000 | 2014 Accumulated amortisation R'000 | 2014 Carrying value R'000 |
|---|---|---|---|---|---|---|
| Patents | **6 934** | **(2 197)** | **4 737** | 7 211 | (2 197) | 5 014 |
| Exploration and evaluation assets | **1 203 989** | **–** | **1 203 989** | 1 109 592 | (934) | 1 108 658 |
| Software | **48 847** | **(28 858)** | **19 989** | 38 730 | (18 678) | 20 052 |
| **Total** | **1 259 770** | **(31 055)** | **1 228 715** | 1 155 533 | (21 809) | 1 133 724 |

**Reconciliation of intangible assets – Group – 2015**

| | Opening balance R'000 | Additions R'000 | Disposals R'000 | Written back R'000 | Transfers R'000 | Foreign exchange move-ments R'000 | Change in estimate R'000 | Amortisa-tion R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|---|---|
| Patents | **5 014** | **–** | **–** | **–** | **–** | **–** | **–** | **(277)** | **4 737** |
| Exploration and evaluation assets | **1 495 342** | **109 956** | **(231)** | **(136)** | **(16 266)** | **21 705** | **–** | **–** | **1 610 370** |
| Software | **20 052** | **10 118** | **–** | **–** | **–** | **–** | **–** | **(10 181)** | **19 989** |
| Restoration costs | **20 651** | **40** | **–** | **–** | **–** | **3 120** | **(4 180)** | **–** | **19 631** |
| | **1 541 059** | **120 114** | **(231)** | **(136)** | **(16 266)** | **24 825** | **(4 180)** | **(10 458)** | **1 654 727** |

**Reconciliation of intangible assets – Group – 2014 Restated**

| | Opening balance R'000 | Additions R'000 | Disposals R'000 | Written back R'000 | Transfers R'000 | Foreign exchange movements R'000 | Change in estimate R'000 | Amortisa-tion R'000 | Impair-ment loss R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Patents | 5 291 | – | – | – | – | – | – | (277) | – | 5 014 |
| Exploration and evaluation assets | 3 010 739 | 133 475 | (145 243) | 136 | (1 573 382) | 70 551 | – | – | (934) | 1 495 342 |
| Software | 16 124 | 10 640 | – | – | – | – | – | (6 712) | – | 20 052 |
| Restoration costs | 98 749 | 6 958 | – | (36 170) | (57 278) | 14 364 | (5 972) | – | – | 20 651 |
| | 3 130 903 | 151 073 | (145 243) | (36 034) | (1 630 660) | 84 915 | (5 972) | (6 989) | (934) | 1 541 059 |

**Reconciliation of intangible assets – Company – 2015**

| | Opening balance R'000 | Additions R'000 | Amortisation R'000 | Total R'000 |
|---|---|---|---|---|
| Patents | **5 014** | **–** | **(277)** | **4 737** |
| Exploration and evaluation assets | **1 108 658** | **95 331** | **–** | **1 203 989** |
| Software | **20 052** | **10 118** | **(10 181)** | **19 989** |
| | **1 133 724** | **105 449** | **(10 458)** | **1 228 715** |

**Reconciliation of intangible assets – Company – 2014 Restated**

| | Opening balance R'000 | Additions R'000 | Amortisation R'000 | Impairment loss R'000 | Total R'000 |
|---|---|---|---|---|---|
| Patents | 5 291 | – | (277) | – | 5 014 |
| Exploration and evaluation assets | 1 017 233 | 92 359 | – | (934) | 1 108 658 |
| Software | 16 124 | 10 640 | (6 712) | – | 20 052 |
| | 1 038 648 | 102 999 | (6 989) | (934) | 1 133 724 |

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

## 5. Deferred tax

| | Group | | Company | |
|---|---|---|---|---|
| | **2015 R'000** | 2014 R'000 | **2015 R'000** | 2014 R'000 |
| **Deferred tax liability** | | | | |
| Property, plant and equipment | **(1 129 877)** | (1 992 006) | **–** | – |
| Tax losses available for set off against future taxable income | **146 238** | 179 718 | **–** | – |
| Provisions | **30 502** | 20 731 | **–** | – |
| | **(953 137)** | (1 791 557) | **–** | – |
| The deferred tax assets and the deferred tax liability relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the statement of financial position as follows: | | | | |
| Deferred tax liability | **(1 129 877)** | (1 992 006) | **–** | – |
| Deferred tax asset | **176 740** | 200 449 | **–** | – |
| **Total net deferred tax liability** | **(953 137)** | (1 791 557) | **–** | – |
| **Reconciliation of deferred tax liability** | | | | |
| At beginning of the year | **(1 791 557)** | (1 728 498) | **–** | – |
| Originating/(reversing) temporary difference on assets | **(727 981)** | (360 592) | **–** | – |
| Increase (decrease) in tax losses available for set off against future taxable income | **(23 709)** | 179 718 | **–** | – |
| Reversing temporary difference on provision | **–** | 20 731 | **–** | – |
| Reversing temporary difference on fair value adjustment | **134 148** | 97 084 | **–** | – |
| **Balance at end of year** | **(953 137)** | (1 791 557) | **–** | – |

### 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.

PetroSA continued with its development programme of the F-O field, known as project Ikhwezi. Project Ikhwezi will contribute toward further increasing PetroSA's assessed loss position. As it is unlikely that the assessed loss will be utilised in the foreseeable future, no deferred tax asset has been recognised. The current tax value of the unrecognised estimated tax loss/assessed loss is R5.4 billion (2014: R3.4 billion).

The unused estimated/assessed tax loss at year-end is R19.1 billion (2014: R12.2 billion).

## 6. Investments in subsidiaries

| | Group | | Company | |
|---|---|---|---|---|
| | **2015 R'000** | 2014 R'000 | **2015 R'000** | 2014 R'000 |
| The carrying amounts of subsidiaries are shown net of impairment losses. | | | | |
| **PetroSA Synfuel International SOC Limited (100%) Shares:** | | | | |
| Balance at the beginning of the year | **–** | – | **501** | 501 |
| Provision for impairment | **–** | – | **(501)** | (501) |
| **Carrying amount of investment** | **–** | – | **–** | – |
| **PetroSA Sudan SOC Limited (100%) Loans:** | | | | |
| Balance at the beginning of the year | **–** | – | **(0.12)** | (0.12) |
| Shares: | | | | |
| Balance at the beginning of the year | **–** | – | **0.12** | 0.12 |
| Loans | **–** | – | **(0.12)** | (0.12) |
| Shares | **–** | – | **0.12** | 0.12 |
| **Carrying amount of investment** | **–** | – | **–** | – |

## 6. Investments in subsidiaries (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **R'000** | R'000 | **R'000** | R'000 |
| **Petroleum Oil and Gas Corporation of South Africa (Namibia) SOC Limited (100%)** | | | | |
| **Loans:** | | | | |
| Balance at the beginning of the year | **–** | – | **(0.12)** | (0.12) |
| **Shares:** | | | | |
| Balance at the beginning of the year | **–** | – | **0.12** | 0.12 |
| Loans | **–** | – | **(0.12)** | (0.12) |
| Shares | **–** | – | **0.12** | 0.12 |
| **Carrying amount of investment** | **–** | – | **–** | – |
| **PetroSA Egypt SOC Limited (100%)** | | | | |
| **Loans:** | | | | |
| Balance at the beginning of the year | **–** | – | **(0.10)** | (0.10) |
| **Shares:** | | | | |
| Balance at the beginning of the year | **–** | – | **0.10** | 0.10 |
| Loans | **–** | – | **(0.10)** | (0.10) |
| Shares | **–** | – | **0.10** | 0.10 |
| **Carrying amount of investment** | **–** | – | **–** | – |
| **PetroSA Europe BV (100%)** | | | | |
| **Shares:** | | | | |
| Balance at the beginning of the year | **–** | – | **166** | 166 |
| **Share premium:** | | | | |
| Balance at the beginning of the year | **–** | – | **2 965** | 2 965 |
| Shares | **–** | – | **166** | 166 |
| Share premium | **–** | – | **2 965** | 2 965 |
| **Carrying amount of investment** | **–** | – | **3 131** | 3 131 |
| **PetroSA Brass SOC Limited (100%)** | | | | |
| **Loans:** | | | | |
| Balance at the beginning of the year | **–** | – | **(0.06)** | (0.06) |
| **Shares:** | | | | |
| Balance at the beginning of the year | **–** | – | **0.06** | 0.06 |
| **Loans** | **–** | – | **(0.06)** | (0.06) |
| Shares | **–** | – | **0.06** | 0.06 |
| **Carrying amount of investment** | **–** | – | **–** | – |
| **PetroSA Gryphon Marin Permit SOC Limited (100%)** | | | | |
| **Loans:** | | | | |
| Balance at the beginning of the year | **–** | – | **(0.06)** | (0.06) |
| **Shares:** | | | | |
| Balance at the beginning of the year | **–** | – | **0.06** | 0.06 |
| Loans | **–** | – | **(0.06)** | (0.06) |
| Shares | **–** | – | **0.06** | 0.06 |
| **Carrying amount of investment** | **–** | – | **–** | – |

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

## 6. Investments in subsidiaries (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **R'000** | R'000 | **R'000** | R'000 |
| **PetroSA Iris SOC Limited (100%)** | | | | |
| **Loans:** | | | | |
| Balance at the beginning of the year | **–** | – | **(0.06)** | (0.06) |
| **Shares:** | | | | |
| Balance at the beginning of the year | **–** | – | **0.06** | 0.06 |
| Loans | **–** | – | **(0.06)** | (0.06) |
| Shares | **–** | – | **0.06** | 0.06 |
| **Carrying amount of investment** | **–** | – | **–** | – |
| **PetroSA Themis SOC Limited (100%)** | | | | |
| **Loans:** | | | | |
| Balance at the beginning of the year | **–** | – | **(0.12)** | (0.12) |
| **Shares:** | | | | |
| Balance at the beginning of the year | **–** | – | **0.12** | 0.12 |
| Loans | **–** | – | **(0.12)** | (0.12) |
| Shares | **–** | – | **0.12** | 0.12 |
| **Carrying amount of investment** | **–** | – | **–** | – |
| **PetroSA Equatorial Guinea SOC Limited (100%)** | | | | |
| **Loans:** | | | | |
| Balance at the beginning of the year | **–** | – | **(0.06)** | (0.06) |
| **Shares:** | | | | |
| Balance at the beginning of the year | **–** | – | **0.06** | 0.06 |
| Loans | **–** | – | **(0.06)** | (0.06) |
| Shares | **–** | – | **0.06** | 0.06 |
| **Carrying amount of investment** | **–** | – | **–** | – |
| **PetroSA Ghana Limited (100%)** | | | | |
| **Shares:** | | | | |
| Balance at the beginning of the year | **–** | – | **3 880 651** | 3 880 651 |
| Provision for impairment | **–** | – | **(669 588)** | – |
| **Balance at the end of the year** | **–** | – | **3 211 063** | 3 880 651 |
| Carrying amount of investment | **–** | – | **3 211 063** | 3 880 651 |

PetroSA has provided its shares in PetroSA Ghana as security to the lenders for the Reserve Based Lending facility. Refer to note 18.

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| **Total** | | | | |
| Loans | **–** | – | **(1)** | (1) |
| Shares | **–** | – | **3 211 731** | 3 881 319 |
| Share premium | **–** | – | **2 965** | 2 965 |
| Provision for impairment | **–** | – | **(501)** | (501) |
| **Carrying amount of investments** | **–** | – | **3 214 194** | 3 883 782 |

## 7. Joint arrangements

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

**Group**

| Name of company | Held by | % ownership interest 2015 | % ownership interest 2014 | Carrying amount 2015 R'000 | Carrying amount 2014 R'000 |
|---|---|---|---|---|---|
| GTL.F1 AG | PetroSA | **50.00** | 50.00 | **–** | – |

**Company**

| Name of company | Held by | % ownership interest 2015 | % ownership interest 2014 | Carrying amount 2015 | Carrying amount 2014 |
|---|---|---|---|---|---|
| GTL.F1 AG | PetroSA | **50.00** | 50.00 | **29 625** | 29 625 |

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

**Summarised statement of profit or loss and other comprehensive income**

| | GTL.F1 AG 2015 R'000 | GTL.F1 AG 2014 R'000 |
|---|---|---|
| Revenue | **20 610** | 11 095 |
| Depreciation and amortisation | **(10 805)** | (8 378) |
| Interest income | **9** | 24 |
| Other income and expenses | **(68 773)** | (39 220) |
| Interest expense | **(3 557)** | (2 289) |
| Loss before tax | **(62 516)** | (38 768) |
| Taxation | **621** | 110 |
| Loss from continuing operations | **(61 895)** | (38 658) |
| **Total comprehensive loss** | **(61 895)** | (38 658) |

**Summarised statement of financial position**

| | GTL.F1 AG 2015 R'000 | GTL.F1 AG 2014 R'000 |
|---|---|---|
| **Assets** | | |
| **Non-current assets** | **131 501** | 118 243 |
| **Current** | | |
| Cash and cash equivalents | **71 950** | 60 143 |
| Other current assets | **9 409** | 412 |
| **Total current assets** | **81 359** | 60 555 |
| | | |
| **Liabilities** | | |
| Non-current financial liabilities | **363 231** | 265 484 |
| **Total non-current liabilities** | **363 231** | 265 484 |
| **Current** | | |
| Other current liabilities | **29 945** | 23 218 |
| **Total current liabilities** | **29 945** | 23 218 |
| **Total net liabilities** | **(180 316)** | (109 904) |

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

## 7. Joint arrangements (continued)

### Reporting period

The reporting date of the joint venture is not the same as that of the group. GTL.F1 AG's year-end is 31 December 2014.

### Unrecognised losses

The group has discontinued recognising its share of the losses of GTL.F1 AG, as the investment at a group level is held at Rnil and the group has no obligation for any losses of the joint venture. The total unrecognised losses for the current period amount to R30.8 million (2014: R19.3 million). The accumulated unrecognised losses to date amount to R94.9 million (2014: R78.9 million).

## 8. Interests in unconsolidated structured entities

### PetroSA Development Trust

The PetroSA Development Trust was established to facilitate the development and transformation of the lives of people from historically disadvantaged and impoverished communities and the enhancement of the education and literacy levels in these communities, in particular those within which PetroSA operates such as the Mossel Bay region and other deserving communities.

### Gannet Trust

The Gannet Trust group of companies was created to underwrite insurance risks for PetroSA and other companies with similar risk profiles. Gannet Trust enables PetroSA to access the re-insurance markets that would not otherwise be available to it. Gannet Trust is also available to accept risks that are either uninsured, uninsurable or that bridge the gap between the underwriter's imposed risk retentions and PetroSA's preferred risk retentions.

## 9. Other financial assets

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **R'000** | R'000 | **R'000** | R'000 |
| **Cash at bank** | | | | |
| Restricted cash | **–** | 1 725 000 | **–** | 1 725 000 |
| Restricted cash is interest bearing and its use is restricted as a reserve for the servicing of debt (paid on 27 February 2015) under the group's financing agreements in relation to the PetroSA Ghana Limited investment. | | | | |
| **Loans and receivables** | | | | |
| **Ghana National Petroleum Corporation (GNPC)** | **52 330** | – | **–** | – |
| The loan bears interest at LIBOR plus a margin percentage of 1.5%. Interest is compounded monthly. The loan will be repaid with 40% of GNPC's receivables per each lifting of TEN production until the liability is fully discharged. TEN production is scheduled to commence in August 2016. | | | | |
| **GTL.F1 AG** | **153 190** | 126 839 | **153 190** | 126 839 |
| The loan accrues interest at EURIBOR + 0.75%. This loan is repayable by 31 December 2016. Should settlement not be possible at this date, a new instalment plan may be agreed on the same day. | | | | |
| **Lurgi** | **153 732** | 169 651 | **153 732** | 169 651 |
| The amount owing by Lurgi is in respect of a purchase of 12.5% share in the GTL.F1 AG Joint Venture. The loan accrues interest at EURIBOR + 0.75%. The loan is repayable based on dividends receivable by Lurgi from the GTL.F1 AG technology company. | | | | |
| **PetroSA Equatorial Guinea** | **–** | – | **–** | 1 795 917 |
| The loan has no fixed repayment terms and interest accrues at prime + 2%. | | | | |
| **PetroSA Ghana Limited** | **–** | – | **–** | 740 759 |
| The loan is unsecured. The loan accrues interest at USD LIBOR plus a percentage ranging between 0.585% and 1.025%. Interest is compounded quarterly. The loan repayment period was extended from 13 September 2013 to 30 June 2014. | | | | |
| **Subtotal** | **359 252** | 296 490 | **306 922** | 2 833 166 |
| **Loans and receivables (impairments)** | **–** | – | **–** | (1 795 917) |
| | **359 252** | 296 490 | **306 922** | 1 037 249 |
| Non-current assets | **359 252** | 296 490 | **306 922** | 296 490 |
| Current assets | **–** | 1 725 000 | **–** | 2 465 759 |
| **Total other financial assets** | **359 252** | 2 021 490 | **306 922** | 2 762 249 |

In 2014, a decision was taken to impair PetroSA's loans to PetroSA Equatorial Guinea due to their irrecoverability. At 31 March 2015, PetroSA waived its claim of R2 billion (2014: R1.7 billion) against PetroSA Equatorial Guinea and the loan was written off.

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2015** | 2014 | **2015** | 2014 |
| | | **R'000** | R'000 | **R'000** | R'000 |
| **10.** | **Amounts held by holding company** | | | | |
| | This deposit is held by CEF SOC Limited as security for guarantees issued by itself to third parties on behalf of PetroSA. These funds are not available for the general purposes of the group. | | | | |
| | CEF SOC Limited | **489 021** | 489 021 | **489 021** | 489 021 |
| **11.** | **Inventories** | | | | |
| | **The amounts attributable to the different categories are as follows:** | | | | |
| | Petroleum fuels | **1 895 820** | 2 647 819 | **1 895 820** | 2 647 819 |
| | Crude oil | **31 199** | 11 156 | **8 522** | 8 909 |
| | Consumable stores, spares and catalysts | **276 636** | 314 798 | **276 636** | 308 647 |
| | | **2 203 655** | 2 973 773 | **2 180 978** | 2 965 375 |
| **12.** | **Trade and other receivables** | | | | |
| | Trade receivables | **2 189 916** | 2 841 987 | **2 129 973** | 2 737 507 |
| | Prepayments | **342 592** | 174 211 | **341 801** | 173 760 |
| | Deposits | **421** | 235 | **–** | – |
| | VAT | **329 742** | 269 138 | **325 855** | 268 214 |
| | Underlift | **17 697** | – | **–** | – |
| | Statutory receivables | **160 010** | 62 148 | **159 950** | 62 148 |
| | Provision for doubtful debts | **(28 875)** | (31 976) | **(28 875)** | (31 976) |
| | Sundry receivables | **110 905** | 209 853 | **115 563** | 205 921 |
| | | **3 122 408** | 3 525 596 | **3 044 267** | 3 415 574 |
| | An amount of R12.4 million relating to royalty payments has been reclassified from trade receivables to trade payables in the prior period to correctly reflect the substance of the underlying transaction. | | | | |
| | **Fair value of trade and other receivables** | | | | |
| | **Trade receivables past due but not impaired** | | | | |
| | Trade receivables which are less than three months past due are not considered to be impaired. At 31 March 2015, R11 million (2014: R39.7 million) were past due but not impaired. | | | | |
| | The ageing of amounts past due but not impaired is as follows: | | | | |
| | 1 month past due | **390** | 28 735 | **390** | 28 735 |
| | 2 months past due | **110** | 5 045 | **110** | 5 045 |
| | 3 months past due | **10 503** | 5 914 | **10 503** | 5 914 |
| | **Reconciliation of provision for impairment of trade receivables** | | | | |
| | Opening balance | **31 976** | 31 680 | **31 976** | 31 680 |
| | Impairment losses recognised on receivables | **–** | 4 307 | **–** | 4 307 |
| | Written off | **–** | (2 761) | **–** | (2 761) |
| | Amounts recovered during the year | **(3 101)** | (1 250) | **(3 101)** | (1 250) |
| | | **28 875** | 31 976 | **28 875** | 31 976 |

The provision for doubtful debts consists of a number of customer account balances. The balance of R28.9 million (2014: R32 million) is aged at over 120 days.

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **R'000** | R'000 | **R'000** | R'000 |
| **13. Cash and cash equivalents** | | | | |
| Cash and cash equivalents consist of cash on hand and balances with banks and investments in money market instruments. Cash and cash equivalents included in the statement of financial position comprise the following: | | | | |
| Short-term investments in money market and cash on hand | **3 741 684** | 4 813 588 | **3 741 119** | 4 813 002 |
| Bank balances | **607 369** | 645 642 | **18 747** | 67 615 |
| Term deposits | **32 495** | 30 673 | **–** | – |
| Bank overdraft | **(286 761)** | (357 655) | **(286 761)** | (357 655) |
| | **4 094 787** | 5 132 248 | **3 473 105** | 4 522 962 |
| Current assets | **4 381 548** | 5 489 903 | **3 759 866** | 4 880 617 |
| Current liabilities | **(286 761)** | (357 655) | **(286 761)** | (357 655) |
| | **4 094 787** | 5 132 248 | **3 473 105** | 4 522 962 |

A term deposit of R32.5 million (2014: R30.7 million) is held in the company PetroSA Rehabilitation (NPC), and is committed solely for the abandonment expenditure for the Oribi/Oryx field. R1 402 million has been set aside for the abandonment funding and these funds are not available for the general purposes of the group.

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **R'000** | R'000 | **R'000** | R'000 |
| **14. Share capital** | | | | |
| **Authorised** | | | | |
| 5 000 ordinary par value shares of R1 each | **5** | 5 | **5** | 5 |
| **Issued** | | | | |
| 1 914 ordinary par value shares of R1 each | **2** | 2 | **2** | 2 |
| Share premium | **2 755 934** | 2 755 934 | **2 755 934** | 2 755 934 |
| | **2 755 936** | 2 755 936 | **2 755 936** | 2 755 936 |

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

## 15. Provisions

### Reconciliation of provisions – Group – 2015

| | Opening balance R'000 | Additions R'000 | Utilised during the year R'000 | Interest expense R'000 | Change in estimate R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| Abandonment/Environmental | **8 079 203** | **74 051** | **–** | **1 155 179** | **313 156** | **9 621 589** |
| Post-retirement medical aid benefits | **45 991** | **10 524** | **(1 593)** | **(2 727)** | **–** | **52 195** |
| Rehabilitation | **13 837** | **–** | **(463)** | **–** | **–** | **13 374** |
| Social investment | **36 863** | **–** | **(2 710)** | **–** | **–** | **34 153** |
| Bonus | **166 112** | **–** | **(159 972)** | **–** | **(5 569)** | **571** |
| | **8 342 006** | **84 575** | **(164 738)** | **1 152 452** | **307 587** | **9 721 882** |

### Reconciliation of provisions – Group – 2014

| | Opening balance R'000 | Additions R'000 | Utilised during the year R'000 | expense R'000 | Change in estimate R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| Abandonment/Environmental | 7 904 598 | 61 914 | (51 081) | 532 858 | (369 086) | 8 079 203 |
| Post-retirement medical aid benefits | 60 465 | 5 566 | (33 114) | 13 074 | – | 45 991 |
| Rehabilitation | 7 477 | 7 551 | (1 191) | – | – | 13 837 |
| Social investment | 40 622 | – | (3 759) | – | – | 36 863 |
| Bonus | 206 168 | 166 111 | (202 253) | – | (3 914) | 166 112 |
| Contingent consideration | 321 294 | (170 067) | (151 227) | – | – | – |
| | 8 540 624 | 71 075 | (442 625) | 545 932 | (373 000) | 8 342 006 |

### Reconciliation of provisions – Company – 2015

| | Opening balance R'000 | Additions R'000 | Utilised during the year R'000 | Interest expense R'000 | Change in estimate R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| Abandonment/Environmental | **7 864 962** | **–** | **–** | **1 146 306** | **319 650** | **9 330 918** |
| Post-retirement medical aid benefits | **45 991** | **10 524** | **(1 593)** | **(2 727)** | **–** | **52 195** |
| Rehabilitation | **13 837** | **–** | **(463)** | **–** | **–** | **13 374** |
| Social investment | **36 863** | **–** | **(2 710)** | **–** | **–** | **34 153** |
| Bonus | **165 601** | **–** | **(159 461)** | **–** | **(5 569)** | **571** |
| | **8 127 254** | **10 524** | **(164 227)** | **1 143 579** | **314 081** | **9 431 211** |

### Reconciliation of provisions – Company – 2014

| | Opening balance R'000 | Additions R'000 | Utilised during the year R'000 | Interest expense R'000 | Change in estimate R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| Abandonment/Environmental | 7 614 858 | – | – | 526 675 | (276 571) | 7 864 962 |
| Post-retirement medical aid benefits | 60 465 | 5 566 | (33 114) | 13 074 | – | 45 991 |
| Rehabilitation | 7 477 | 7 551 | (1 191) | – | – | 13 837 |
| Social investment | 40 622 | – | (3 759) | – | – | 36 863 |
| Bonus | 205 688 | 165 600 | (201 773) | – | (3 914) | 165 601 |
| Contingent consideration | 321 294 | (170 067) | (151 227) | – | – | – |
| | 8 250 404 | 8 650 | (391 064) | 539 749 | (280 485) | 8 127 254 |

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **R'000** | R'000 | **R'000** | R'000 |
| Non-current liabilities | **9 673 784** | 8 125 194 | **9 383 113** | 7 910 953 |
| Current liabilities | **48 098** | 216 812 | **48 098** | 216 301 |
| | **9 721 882** | 8 342 006 | **9 431 211** | 8 127 254 |

## 15. Provisions (continued)

### Post-retirement medical aid benefits

PetroSA contributes to a medical aid scheme for retired and medically unfit employees. Refer to note 27 for more information.

### Rehabilitation

This amount is for the rehabilitation of the land at the Voorbaai terminal.

### Social investment

This provision is for commitments to community investment projects as a pre-condition for the issuing of exploration licences.

### Bonus

The provision is for incentives for PetroSA employees who qualify in terms of their performance during the financial year.

### Abandonment/Environmental

The abandonment provision represents the present value of abandonment costs relating to oil and gas interests, the majority of which are expected to be incurred up to 2020. 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 regularly to take into account any material changes to the assumptions. However, actual abandonment costs will ultimately depend upon future market prices for the necessary abandonment works required which will reflect market conditions at the relevant time. Furthermore, the timing of abandonment is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

Major assumptions included in the calculation of provisions is that the South African inflation decreased from 6.9% to 4% and US inflation decreased from 1.3% to 0.4%. A sensitivity analysis indicates that a R1 weakening of the Rand against the US Dollar translates into R493 million increase in the provision and a USD1 decrease in the brent crude oil price translates into a decrease in the provision by R19 million.

The total cost of future restoration is estimated at R9 622 million. This cost includes the net expenditure to abandon and to rehabilitate both the onshore and offshore facilities as well as other related closure costs. The costs are expected to be incurred as follows:

| **Financial year** | **R million** |
|---|---|
| – Three years and beyond | 9 622 |

PetroSA has commissioned an external expert to assess the quantum and scope of the group abandonment provision. This assessment occurs every 5 years. The current year assessment includes additional research into the requirements to fully close or decommission redundant exploration wells. For these wells, no reliable estimate of the cost can be made at present. Therefore no amounts have been provided for these items.

### Funding of abandonment/environmental rehabilitation

At year-end the company had an obligation to rehabilitate and abandon its offshore and onshore liabilities valued at R9.3 billion, which are currently not fully funded. As per the approved corporate plan the gap would be funded over time in line with the expected maturity of the liability. However, in terms of the recently promulgated National Environmental Management Act (NEMA), PetroSA is required to have a fully funded rehabilitation liability within the next 12 months from year-end. There are current challenges with funding this gap (approximated at R4.6 billion at year-end) from equity due to PetroSA's weakened financial position which has emanated from depleting feedstock, the limited success of Project Ikhwezi and the significant decline in crude oil prices. The holding company (CEF) has committed to assist PetroSA, through various support and oversight mechanisms, to close the funding gap. In addition, PetroSA is working closely with the regulator (Petroleum Agency of South Africa) to ensure PetroSA discharges its responsibilities as required under NEMA. The company is also considering a variety of financial instruments to bridge this funding gap.

| | **R million** | |
|---|---|---|
| | **2015** | 2014 |
| Portion of cash deposit with CEF SOC Limited (Holding company) (refer to note 10) | **477** | 477 |
| Cash in escrow account | **31** | 31 |
| Financial guarantee (refer to note 29) | **180** | 180 |
| | **688** | 688 |

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2015 R'000** | 2014 R'000 | **2015 R'000** | 2014 R'000 |
| **16.** | **Other financial liabilities** | | | | |
| | **Bank loan** | **–** | 1 591 050 | **–** | 1 591 050 |
| | The US dollar denominated loan balance outstanding is secured by a cash collateral of R1 725 million. The loan accrues interest at LIBOR plus a margin percentage. This margin percentage amounted to 0.585% throughout the financial year. All interest payable accrues from day to day at the relevant rate of interest, is calculated on the basis of the actual number of days elapsed and a 360-day year and is compounded quarterly. The loan was repaid on 27 February 2015. | | | | |
| | **Reserve Based Lending Facility** | **918 362** | – | **–** | – |
| | The facility is a revolving credit facility secured against the producing asset of PetroSA Ghana. The loan accrues interest at LIBOR plus a margin percentage, varying between 3.25% and 4.50% over the period of the loan. The loan is due to mature in February 2022. All interest payable accrues from day to day at the relevant rate of interest, is calculated on the basis of the actual number of days elapsed and a 360-day year. | | | | |
| | **Transaction costs incurred** | **(52 866)** | | | |
| | These costs were incurred as a result of the Reserve-Based Lending Facility mentioned above. | | | | |
| | | **865 496** | 1 591 050 | **–** | 1 591 050 |
| **17.** | **Trade and other payables** | | | | |
| | Trade payables | **1 714 277** | 1 984 785 | **1 721 408** | 1 991 396 |
| | Statutory payables | **761 025** | 716 591 | **761 025** | 716 591 |
| | Accrued leave pay | **82 492** | 84 964 | **82 017** | 83 118 |
| | Accrued expenses | **1 297 011** | 669 885 | **1 114 739** | 547 157 |
| | Deposits received | **23** | 23 | **23** | 23 |
| | Other payables | **7 337** | 41 909 | **7 337** | 41 783 |
| | | **3 862 165** | 3 498 157 | **3 686 549** | 3 380 068 |
| | An amount of R1.7 million relating to withholding tax has been reclassified from trade payables to trade receivables in the prior period to correctly reflect the substance of the underlying transaction. | | | | |
| **18.** | **Revenue** | | | | |
| | Gross revenue represents the invoiced value of crude oil, fuel sales and other goods and services supplied, excluding value added tax. | | | | |
| | **Major classes of revenue comprise:** | | | | |
| | Fuel production sales | **17 212 076** | 19 989 357 | **17 212 076** | 19 989 357 |
| | Crude oil sales | **836 555** | 1 209 937 | **–** | 202 562 |
| | | **18 048 631** | 21 199 294 | **17 212 076** | 20 191 919 |

| | Group 2015 R'000 | Group 2014 R'000 | Company 2015 R'000 | Company 2014 R'000 |
|---|---|---|---|---|
| **19. Operating loss** | | | | |
| Operating loss for the year is stated after accounting for the following: | | | | |
| **Income from administration and management activities** | | | | |
| Administration and management fees | **9 629** | 1 773 | **11 639** | 3 887 |
| **Operating lease charges** | | | | |
| Premises | | | | |
| Contractual amounts | **6 388** | 3 486 | **4 666** | 1 691 |
| Loss on sale of property, plant and equipment | **806** | 116 | **–** | – |
| Loss on sale of intangible assets | **339** | 138 361 | **–** | – |
| Bad debts recovered | **(3 101)** | (1 250) | **(3 101)** | (1 250) |
| Stock provision | **(12 010)** | 22 316 | **(18 161)** | 22 316 |
| (Loss)/profit on foreign exchange | **327** | (593 113) | **327** | (593 113) |
| Impairment of trade receivables | **–** | 4 307 | **–** | 4 307 |
| Impairment of property, plant and equipment | **14 449 739** | 3 394 563 | **11 742 514** | 3 394 563 |
| Impairment of intangible assets | **–** | 934 | **–** | 934 |
| Impairment of investment subsidiaries | **–** | – | **669 588** | – |
| Impairment/write-off of loans to group companies | **–** | – | **225 137** | 197 631 |
| Amortisation of intangible assets | **10 458** | 6 989 | **10 458** | 6 989 |
| Depreciation of property, plant and equipment | **2 305 969** | 987 453 | **1 683 158** | 593 000 |
| Research and development | **25 376** | 22 591 | **25 376** | 22 591 |
| Exploration and evaluation costs | **72 138** | 80 012 | **72 138** | 55 600 |
| Salaries and wages | **1 003 286** | 996 114 | **995 594** | 979 240 |
| Pension and medical costs | **186 137** | 176 584 | **186 137** | 176 584 |
| **20. Investment income** | | | | |
| **Dividend revenue** | | | | |
| Subsidiaries – Foreign | **–** | – | **64 435** | – |
| **Interest income** | | | | |
| Short-term investments in money market | **408 925** | 439 273 | **624 074** | 618 939 |
| | **408 925** | 439 273 | **688 509** | 618 939 |
| **21. Finance costs** | | | | |
| Non-current borrowings | **12 631** | 18 348 | **12 543** | 18 301 |
| Bank | **2 573** | 868 | **2 573** | 868 |
| Current borrowings | **145** | 448 | **–** | – |
| Interest on abandonment provision | **1 154 270** | 532 578 | **1 146 305** | 526 675 |
| Foreign exchange difference on revaluation of foreign loans | **136 125** | 251 838 | **136 125** | 251 838 |
| | **1 305 744** | 804 080 | **1 297 546** | 797 682 |
| Borrowing costs capitalised | **9 772** | 1 106 | **–** | – |
| Capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation | **0.82%** | 0.88% | **–** | – |
| **22. Taxation** | | | | |
| **Major components of the tax (income)/expense** | | | | |
| **Current** | | | | |
| Foreign income tax or withholding tax – current period | **8 830** | 4 515 | **–** | – |
| **Deferred** | | | | |
| Originating and reversing temporary differences | **(938 184)** | (32 014) | **–** | – |
| Arising from previously unrecognised tax loss/tax credit/temporary difference | **–** | (85 830) | **–** | – |
| Benefit of unrecognised tax loss | **54 922** | 173 458 | **–** | – |
| | **(883 262)** | 55 614 | **–** | – |
| | **(874 432)** | 60 129 | **–** | – |

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **R'000** | R'000 | **R'000** | R'000 |
| **22. Taxation (continued)** | | | | |
| **Reconciliation of the tax expense** | | | | |
| Applicable tax rate | **28.00%** | 28.00% | **28.00 %** | 28.00% |
| Non-deductible expenses | **(0.23)%** | (0.06)% | **(0.28)%** | (0.05)% |
| Unrecognised deferred tax asset | **(34.58)%** | (23.53)% | **(27.72)%** | (27.95)% |
| Effect of different tax rates operating in different jurisdictions | **1.15 %** | (0.66)% | **– %** | – % |
| | **(5.66)%** | 3.75% | **– %** | – % |
| **23. Auditors' remuneration** | | | | |
| Audit fee | **8 014** | 7 674 | **6 890** | 6 605 |
| Expenses | **293** | 283 | **293** | 283 |
| | **8 307** | 7 957 | **7 183** | 6 888 |
| **24. Cash generated from operations** | | | | |
| Loss before taxation | **(15 448 215)** | (1 603 168) | **(13 414 384)** | (1 981 504) |
| **Adjustments for:** | | | | |
| Depreciation and amortisation | **2 316 427** | 994 443 | **1 693 616** | 599 990 |
| Loss on sale of assets | **1 145** | 138 477 | **–** | – |
| Dividends received | **–** | – | **(64 435)** | – |
| Interest received | **(408 925)** | (439 273) | **(624 074)** | (618 939) |
| Finance costs | **1 169 619** | 552 242 | **1 161 421** | 545 844 |
| Impairment loss | **14 449 739** | 3 398 347 | **12 637 239** | 3 593 128 |
| Movements in retirement benefit assets and liabilities | **(924)** | 14 587 | **(924)** | 14 587 |
| Movements in provisions | **(88 460)** | (362 390) | **(162 000)** | (373 249) |
| Foreign exchange gain | **(56 890)** | (279 676) | **57 775** | (27 366) |
| Intangible assets written back | **136** | 50 949 | **–** | – |
| **Changes in working capital:** | | | | |
| (Increase)/decrease in inventories | **770 118** | (354 309) | **784 397** | (352 063) |
| Decrease in trade and other receivables | **403 188** | 15 274 | **371 307** | 19 981 |
| (Decrease)/increase in trade and other payables | **364 008** | 45 389 | **306 481** | (41 617) |
| | **3 470 966** | 2 170 891 | **2 746 419** | 1 378 791 |
| **25. Tax refunded** | | | | |
| Charge to profit or loss | **874 432** | (60 129) | **–** | – |
| Movement in deferred taxation | **(838 420)** | 63 059 | **–** | – |
| Movement in taxation balance | **(418)** | 21 831 | **–** | 22 452 |
| **Amounts refunded** | **35 594** | 24 761 | **–** | 22 452 |

## 26. Government grants

PetroSA receives a government grant for training on projects. In terms of the signed agreement, PetroSA will receive a refund based on the cost incurred in order to provide specialised training on the project.

| | Group 2015 R'000 | Group 2014 R'000 | Company 2015 R'000 | Company 2014 R'000 |
|---|---|---|---|---|
| Grants received | **2 073** | 6 906 | **2 073** | 6 906 |

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **R'000** | R'000 | **R'000** | R'000 |
| **27. Business combinations** | | | | |
| PetroSA Ghana Limited | | | | |
| On 14 September 2012 the group acquired 100% of the voting equity interest of PetroSA Ghana Limited which resulted in the group obtaining control over PetroSA Ghana Limited for a purchase price of USD500 million. This was partly financed by a back-to-back bank loan facility of USD220 million. PetroSA Ghana Limited is principally involved in the oil and gas industry with minority interests in assets offshore Ghana. As a result of the acquisition, the group is expecting to increase its share in those markets. It is also expecting to reduce costs through economies of scale. | | | | |
| Acquisition-related costs of R6 million were charged to administrative expenses in the consolidated statement of comprehensive income. Under the contingent consideration arrangement, the group was required to pay USD15 million should the Enyenra/Tweneboa development plan be approved and additional amounts should each of the following production targets be met for 75 consecutive days before 30 June 2014: USD10 million if production exceeds 90 000 barrels per day, USD15 million if production exceeds 100 000 barrels per day and USD20 million if production exceeds 110 000 barrels per day. The fair value of the contingent consideration arrangement of R321.3 million was estimated by using a present value calculation. The fair value estimates are based on a discount rate of 11% and assumed production targets and approvals that would be reached based on the most reliable information available. As at 31 March 2014, it was assessed that the final production target would not be met and the provision was reversed. | | | | |
| The reporting date of the company is 31 December which is not the same as that of the group. The group results include the performance of PetroSA Ghana Limited for the intervening period until 31 March. | | | | |
| **Net cash outflow on acquisition** | | | | |
| Cash consideration paid | **–** | (151 227) | **–** | – |

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

## 28. Employee benefits

It is the policy of the group to provide retirement benefits for all its eligible permanent employees. All eligible permanent employees are members of the PetroSA Retirement Fund, a defined contribution fund, subject to the Pension Funds Act, 1956.

### Pensions and Retirement Funds

***Defined contribution pension plan***

*PetroSA Retirement Fund*

The company operates a defined contribution retirement plan for the benefit of employees. All employees who commenced employment after 1 April 1996 qualify for membership of this fund. The amount recognised as an expense during the year under review was R122.2 million (2014: R107.9 million) for the retirement fund.

### Medical benefits

***Post-employment medical benefits***

The group has provided for an amount of R155.6 million of which R103.4 million was funded (2014: R147.9 million of which R101.9 million was funded). This is the funding of post-retirement medical scheme costs for all employees and pensioners. The commitment is actuarially valued annually, with the most recent valuation performed as at 31 March 2015.

The post-employment medical arrangement provides health benefits to retired employees and certain dependants. The benefit was applicable and on offer only to employees in the service of PetroSA before 1 May 2012.

During the 2013 financial year, PetroSA funded a portion of the post-retirement medical liability through the purchase of a company-funded annuity policy. As this annuity policy is CPI linked, the company is exposed to revaluation risks if medical inflation is higher than the CPI increases granted. The current value of the annuity policy is R103.4 million.

The net defined benefit obligation in respect of promised post-retirement medical scheme costs as at 31 March 2015 is R52.2 million (2014: R46 million). The obligation is partially funded and was valued using the "projected unit credit method". A discount rate of 8.5% and a health care cost inflation of 6.75% 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).

A sensitivity analysis was performed on key assumptions. A 1% or one-year-downward rating change in assumptions will increase or decrease the net obligation as follows:

Discount rate – R20.7 million and R16.9 million respectively (2014: R20.2 million and R16.4 million respectively)

Mortality rate – R4.6 million and R4.5 million respectively (2014: R50.3 million and R41.7 million respectively)

Healthcare cost inflation – R20.3 million and R16.9 million respectively (2014: R65.9 million and R29.5 million respectively).

A 1% or one-year-downward rating change in assumptions will increase or decrease combined interest and service cost as follows:

Discount rate – R15.7 million and R14.8 million respectively (2014: R18.7 million and R16.7 million respectively)

Mortality rate – R15.7 million and R14.8 million respectively (2014: R17 million and R15.6 million respectively)

Healthcare cost inflation – R17.4 million and R13.5 million respectively (2014: R18.7 million and R14.3 million respectively).

| | Group | | Company | |
|---|---|---|---|---|
| | **2015 R'000** | 2014 R'000 | **2015 R'000** | 2014 R'000 |
| **Post-employment medical defined benefit** | | | | |
| Present value of funded obligations | **155 650** | 147 861 | **155 650** | 147 861 |
| Fair value of plan assets | **(103 456)** | (101 869) | **(103 456)** | (101 869) |
| **Liability in the statement of financial position** | **52 194** | 45 992 | **52 194** | 45 992 |

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **R'000** | R'000 | **R'000** | R'000 |
| **28. Employee benefits (continued)** | | | | |
| **The movement in the defined benefit obligation was as follows:** | | | | |
| Defined benefit obligation at beginning of year | **147 861** | 167 458 | **147 861** | 167 458 |
| Current service cost | **3 349** | 4 239 | **3 349** | 4 239 |
| Interest cost | **12 927** | 13 074 | **12 927** | 13 074 |
| Benefit payments | **(8 449)** | (8 058) | **(8 449)** | (8 058) |
| Actuarial (gain)/loss | **(38)** | (28 852) | **(38)** | (28 852) |
| **Defined benefit obligation at end of year** | **155 650** | 147 861 | **155 650** | 147 861 |
| **The movement in plan assets was as follows:** | | | | |
| Market value of assets at beginning of year | **101 869** | 106 993 | **101 869** | 106 993 |
| Return on plan assets | **9 883** | 8 447 | **9 883** | 8 447 |
| Actuarial gain/(loss) | **(1 321)** | (8 592) | **(1 321)** | (8 592) |
| Contributions paid by employer | **–** | 3 052 | **–** | 3 052 |
| Benefit payments | **(6 975)** | (6 599) | **(6 975)** | (6 599) |
| Refunds received | **–** | (1 432) | **–** | (1 432) |
| **Market value of assets at end of year** | **103 456** | 101 869 | **103 456** | 101 869 |
| **Assumptions used:** | | | | |
| Discount rate (%) | **8.50** | 9.00 | **8.50** | 9.00 |
| Healthcare cost inflation (%) | **6.75** | 7.25 | **6.75** | 7.25 |
| Mortality rate | **PA(90)-2** | PA(90)-2 | **PA(90)-2** | PA(90)-2 |

The plan asset is unquoted. It is a policy of insurance. Therefore the split of the underlying investments is not readily available, and is most likely to be predominantly invested in CPI-linked bonds.

### Defined benefit pension plan

The company operated a defined benefit pension plan, the Mossgas Pension Fund, for the benefit of employees. The plan was governed by the Pension Funds Act No 24 of 1956. The assets of the plan were administered by trustees in a fund independent of the company.

The fund was closed to new entrants during 1996. With effect from 1 October 2007 all in-service members were transferred out of the fund to the PetroSA Retirement Fund, and future accrual of benefits under the Pension Fund ceased. Application was made to the Registrar to transfer the accrued benefits of in-service members to the PetroSA Retirement Fund, and to transfer the pensioner liabilities to individual annuity policies with Old Mutual. The Registrar's approval was granted and all liabilities have been fully transferred.

The trustees have appointed a liquidator, the Registrar approved of this appointment and the fund was placed into liquidation in October 2010. Approval for the liquidation of the Mossgas Pension Fund was granted by the Registrar of Pension Funds on 25 September 2014 and amounts due were paid to the beneficiaries.

The last actuarial valuation was performed as at 31 January 2010 and the independent actuary was of the opinion that the fund was financially sound. As the fund has been placed into liquidation, the actuarial present value of promised retirement benefits as at 31 January 2010 was zero.

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **R'000** | R'000 | **R'000** | R'000 |
| **29. Contingencies** | | | | |
| **Guarantees** | | | | |
| 1. The group has issued guarantees for the rehabilitation of land disturbed by mining on the Sable field. | **180 000** | 180 000 | **180 000** | 180 000 |
| 2. The group has issued a manufacture and excisable bond in favour of the South African Revenue Service. | **5 000** | 5 000 | **5 000** | 5 000 |
| 3. The group has issued an evergreen VAT guarantee in favour of the Dutch VAT Authorities (€0.5 million) | **6 546** | 7 290 | **6 546** | 7 290 |
| 4. The group has issued a guarantee in lieu of a lease in the Netherlands (Eur0.016 million) | **209** | 233 | **209** | 233 |
| | **191 755** | 192 523 | **191 755** | 192 523 |
| **Claims** | | | | |
| PetroSA is considering settling a claim made by a former employee | **4 000** | 4 000 | **4 000** | 4 000 |
| PetroSA is considering settling claims made in terms of contracts | **81 834** | 119 801 | **81 834** | 119 801 |
| | **85 834** | 123 801 | **85 834** | 123 801 |

**Mbizana Integrated Energy Centre**

PetroSA may be liable for any soil contamination resulting from the dispensing of fuel at the Mbizana Integrated Energy Centre. The estimated financial impact is R1 million.

**Restructuring**

PetroSA had notified employees in terms of section 189 of the Labour Relations Act No 66 of 1995 of possible headcount reduction based on operational requirements, on 24 February 2015. It is not possible, at this time, to measure reliably the obligations arising from this notice, nor is it practicable to estimate their magnitude or possible timing of payment. Therefore, no amounts have been provided for these obligations as at 31 March 2015.

**PetroSA Ghana Limited Corporate Tax**

On 14 September 2012 PetroSA Ghana's place of effective management changed to South Africa and the company became a tax resident in South Africa. The South African Income Tax legislation does not expressly deal with the tax treatment of the opening balances of capital expenditure on property, plant and equipment (and intangible assets) prior to commencing to be tax resident. Clarity in this regard is being sought from the South African Revenue Service and National Treasury. In the event that no deduction is allowed in respect of capital expenditure prior to 14 September 2012, the aggregate estimated normal tax liability for the 2012 to 2014 years would be in the region of R269 million (USD22 million).

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **R'000** | R'000 | **R'000** | R'000 |
| **30. Commitments** | | | | |
| **Authorised capital expenditure** | | | | |
| **Approved by the directors** | | | | |
| Contracted for | **1 613 778** | 4 609 642 | **247 850** | 3 829 920 |
| Not contracted for | **1 347 137** | 1 386 782 | **1 347 137** | 1 386 782 |
| | **2 960 915** | 5 996 424 | **1 594 987** | 5 216 702 |
| **Operating lease commitments** | | | | |
| **PetroSA** | | | | |
| – within one year | **1 663** | 1 526 | **1 663** | 1 526 |
| – in second to fifth year inclusive | **867** | 2 531 | **867** | 2 531 |
| | **2 530** | 4 057 | **2 530** | 4 057 |
| Office space is leased at 1 Protea Place in Sandton, Johannesburg, effective from 1 October 2011. The lease payment is fixed at R102 420 per month with a 9% escalation per annum. The lease period is five years and ends on 30 September 2016. | | | | |
| **PetroSA – George airport space** | | | | |
| – within one year | **600** | 551 | **600** | 551 |
| – in second to fifth year inclusive | **996** | 1 596 | **996** | 1 596 |
| | **1 596** | 2 147 | **1 596** | 2 147 |

| | Group 2015 R'000 | Group 2014 R'000 | Company 2015 R'000 | Company 2014 R'000 |
|---|---|---|---|---|
| Office space is leased at the general aviation area of the George Airport effective from 1 October 2012. The lease payment is fixed at R40 291 per month with a 9% escalation per annum. The lease period is five years and ends on 30 September 2017. | | | | |
| **PetroSA – Mozambican office space** | | | | |
| – within one year | **25** | 68 | **55** | 68 |
| PetroSA leases furnished office space in Mozambique at a monthly rental fee of 48 000 Mtn. The lease term is for one year starting on 1 July 2012 and has been extended annually. The lease agreement was terminated on 30 April 2015. | | | | |
| **PetroSA – TNPA** | | | | |
| – within one year | **4 055** | 3 721 | **4 055** | 3 721 |
| – in second to fifth year inclusive | **20 215** | 18 546 | **20 215** | 18 546 |
| – later than five years | **13 041** | 18 766 | **13 041** | 18 766 |
| | **37 311** | 41 033 | **37 311** | 41 033 |
| PetroSA leases premises and other properties from Transnet National Ports Authority at a monthly fee of R260 964 escalating at 9%. The lease term of 10 years commenced on 1 April 2012. | | | | |
| PetroSA Europe BV – Office space | | | | |
| – within one year | **429** | 528 | **–** | – |
| – in second to fifth year inclusive | **715** | – | **–** | – |
| | **1 144** | 528 | **–** | – |

Office space is leased at 3011XB Willemswerf, 13th Floor, Boomjes, effective 1 December 2004. The current lease payment is Euro 30 702 per annum, with an inflationary escalation per annum. The period of the lease agreement was initially for five years and was extended for a further three year period ending on 30 November 2017, at which time PetroSA Europe BV has the option to renew the lease.

## 31. Financial instruments

### Introduction

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. Approved policies exist for managing these risks.

### Risk profile

In the course of the group's business operations it is exposed to liquidity, credit, foreign exchange, interest rate and crude oil price risk. The risk management policy of the group relating to each of these risks is discussed below.

### Risk management objectives and policies

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.

### Foreign currency management

The group is exposed to foreign currency fluctuations as it raises funding on the offshore financial markets, imports raw material and spares and furthermore exports finished product and crude oil. All local sales of finished products are sold on a foreign currency denominated basis.

The group takes cover on foreign exchange transactions where there is a future currency exposure. The group also makes use of a natural hedge situation to manage foreign currency exposure.

A sensitivity analysis was done for the net effect on revenue and expenses, and the weakening or strengthening of the rand/dollar exchange rate by R1 based on actual revenue and cost will increase or decrease profit by R454 million (2014: R593 million) respectively.

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

## 31. Financial instruments (continued)

### Foreign currency instruments

The group is mainly exposed to fluctuations in the EURO, GBP and USD. 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.

### Financial assets

As at 31 March 2015 a 10% strengthening in ZAR against the relevant currencies would have resulted in a decrease in foreign currency denominated assets of R55 million (2014: R122 million) and a 10% weakening in ZAR against the relevant currencies would have resulted in an increase in foreign currency denominated assets of R55 million (2014: R122 million).

### Financial liabilities

As at 31 March 2015 a 10% strengthening in ZAR against the relevant currencies would have resulted in a decrease in foreign currency denominated liabilities of R133 million (2014: R261 million) and a 10% weakening in ZAR against the US dollar would have resulted in an increase in foreign currency denominated liabilities of R133 million (2014: R261 million).

### Currency risk

The company has entered into certain forward exchange contracts which do not relate to specific items appearing on the statement of financial position but which were entered into to cover foreign commitments not yet due and proceeds not yet received. The contracts will be utilised for purposes of trade.

### Exchange rates used for conversion of foreign currency items were:

| **Closing rate:** | **2015** | 2014 |
|---|---|---|
| USD | **12.2093** | 10.6070 |
| Euro | **13.0932** | 14.5792 |
| GBP | **18.0245** | 17.6490 |
| **Average:** | | |
| USD | **11.0602** | 10.1139 |
| Euro | **13.9828** | 13.5570 |
| GBP | **18.8107** | 16.0607 |

**Forward foreign exchange contracts**
**2015**

| **Total foreign currency** | **Average forward exchange rate** | **Maturity date** |
|---|---|---|
| **Liabilities** | | |
| USD104 390 069 | **12.2753** | **Less than 3 months** |
| GBP315 242 | **18.0485** | **Less than 3 months** |
| GBP52 540 | **18.4643** | **Longer than 3 months but less than 6 months** |

**2014**

| **Total foreign currency** | **Average forward exchange rate** | **Maturity date** |
|---|---|---|
| **Assets** | | |
| USD8 000 000 | 10.6752 | Less than 3 months |
| **Liabilities** | | |
| USD103 217 782 | 10.6477 | Less than 3 months |
| USD41 769 110 | 10.8477 | Longer than 3 months but less than 6 months |
| USD53 392 625 | 11.0256 | Longer than 6 months but less than 9 months |
| USD5 594 258 | 11.1573 | Longer than 9 months but less than 12 months |
| GBP3 320 133 | 17.6698 | Less than 3 months |

As at 31 March 2015, a 10% relative change in the USD to the ZAR would have impacted profit or loss for the year by R128.1 million (2014: R220 million).

As at 31 March 2015, a 10% relative change in the GBP to the ZAR would have impacted profit or loss for the year by R0.7 million (2014: R6 million).

| | Fair value | | Estimated fair value gain | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **R'000** | R'000 | **R'000** | R'000 |
| Forward exchange contracts – assets | **–** | 85 401 | **–** | (4 341) |
| Forward exchange contracts – liabilities | **(1 287 989)** | (2 261 861) | **72 260** | (2 627) |
| | **(1 287 989)** | (2 176 460) | **72 260** | (6 968) |

These amounts are included in other receivables and payables.

### Credit risk

Financial assets, which potentially subject the group to concentrations of credit risk, pertain principally to trade receivables and investments in the South African money market. Trade receivables of R2.2 billion (2014: R2.9 billion) are presented net of the allowance for doubtful debts.

The exposure to credit risk with respect to trade receivables is not concentrated due to a large customer base.

The group manages counter-party exposures arising from money market and derivative financial instruments by only dealing with well-established financial institutions of a high credit rating. Losses are not expected as a result of non-performance by these counter parties.

Credit limits with financial institutions are revised and approved by the Board annually.

### Maturity profile

The maturity profiles of financial assets and liabilities at the reporting date are as follows:

**Group**

**At 31 March 2015**

| | **Less than 1 year R'000** | **Between 1 and 5 years R'000** | **Over 5 years R'000** | **Non-interest-bearing R'000** | **Total R'000** |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash | **4 381 548** | **–** | **–** | **–** | **4 381 548** |
| Other financial assets | **–** | **205 520** | **153 732** | **–** | **359 252** |
| Trade and other receivables | **2 542 699** | **–** | **–** | **–** | **2 542 699** |
| Forward exchange contracts | **72 260** | **–** | **–** | **–** | **72 260** |
| Loans receivable | **–** | **489 021** | **–** | **–** | **489 021** |
| **Total financial assets** | **6 996 507** | **694 541** | **153 732** | **–** | **7 884 780** |
| **Liabilities** | | | | | |
| Trade and other payables | **3 100 790** | **–** | **–** | **–** | **3 100 790** |
| Other financial liabilities | **865 496** | **–** | **–** | **–** | **865 496** |
| Bank overdrafts | **286 761** | **–** | **–** | **–** | **286 761** |
| **Total financial liabilities** | **4 253 047** | **–** | **–** | **–** | **4 253 047** |

**At 31 March 2014**

| | Less than 1 year R'000 | Between 1 and 5 years R'000 | Over 5 years R'000 | Non-interest-bearing R'000 | Total R'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash | 5 489 903 | – | – | – | 5 489 903 |
| Other financial assets | 1 725 000 | 126 839 | 169 651 | – | 2 021 490 |
| Trade and other receivables | 3 170 927 | – | – | – | 3 170 927 |
| Forward exchange contracts | 23 383 | – | – | – | 23 383 |
| Loans receivable | – | 489 021 | – | – | 489 021 |
| **Total financial assets** | 10 409 213 | 615 860 | 169 651 | – | 11 194 724 |
| **Liabilities** | | | | | |
| Trade and other payables | 2 751 155 | – | – | – | 2 751 155 |
| Forward exchange contracts | 30 351 | – | – | – | 30 351 |
| Bank overdrafts | 357 655 | – | – | – | 357 655 |
| Other financial liabilities | 1 591 050 | – | – | – | 1 591 050 |
| **Total financial liabilities** | 4 730 211 | – | – | – | 4 730 211 |

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

## 31. Financial instruments (continued)

**Company**

**At 31 March 2015**

| | Less than 1 year R'000 | Between 1 and 5 years R'000 | Over 5 years R'000 | Non-interest-bearing R'000 | Total R'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash | **3 759 866** | **–** | **–** | **–** | **3 759 866** |
| Other financial assets | **–** | **153 190** | **153 732** | **–** | **306 922** |
| Trade and other receivables | **2 486 202** | **–** | **–** | **–** | **2 486 202** |
| Forward exchange contracts | **72 260** | **–** | **–** | **–** | **72 260** |
| Loans receivable | **–** | **489 021** | **–** | **–** | **489 021** |
| **Total financial assets** | **6 498 483** | **642 211** | **153 732** | **–** | **7 114 271** |
| Liabilities | | | | | |
| Trade and other payables | **2 925 525** | **–** | **–** | **–** | **2 925 525** |
| Bank overdrafts | **286 761** | **–** | **–** | **–** | **286 761** |
| **Total financial liabilities** | **3 212 286** | **–** | **–** | **–** | **3 212 286** |

**At 31 March 2014**

| | Less than 1 year R'000 | Between 1 and 5 years R'000 | Over 5 years R'000 | Non-interest-bearing R'000 | Total R'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash | 4 880 617 | – | – | – | 4 880 617 |
| Other financial assets | 1 725 000 | 126 839 | 910 410 | – | 2 762 249 |
| Trade and other receivables | 3 061 829 | – | – | – | 3 061 829 |
| Forward exchange contracts | 23 383 | – | – | – | 23 383 |
| Loans receivable | – | 489 021 | – | – | 489 021 |
| **Total financial assets** | 9 690 829 | 615 860 | 910 410 | – | 11 217 099 |
| **Liabilities** | | | | | |
| Trade and other payables | 1 633 126 | – | – | – | 1 633 126 |
| Forward exchange contracts | 30 351 | – | – | – | 30 351 |
| Bank overdrafts | 357 655 | – | – | – | 357 655 |
| Other financial liabilities | 1 591 050 | – | – | – | 1 591 050 |
| **Total financial liabilities** | 3 612 182 | – | – | – | 3 612 182 |

### Liquidity risk

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate cash resources are available to meet cash commitments.

### Price risk

External sales and purchases are subject to price and basis risks associated with volume and timing differences.

A sensitivity analysis was performed for revenue and every USD1 increase or decrease in the Brent crude oil price will increase or decrease profit by R60.2 million (2014: R53.8 million) respectively, based on the 2014/15 financial results.

31. **Financial instruments (continued)**

### Interest rate risk

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

The following table sets out the carrying amount, by maturity, of the group's financial instruments that are exposed to interest rate risk and the effective interest rates applicable:

**At 31 March 2015**

| **Fixed rate** | **Less than 1 year R'000** | **Between 1 and 5 years R'000** | **Over 5 years R'000** | **Total R'000** |
|---|---|---|---|---|
| Cash and cash equivalents (6.25%) | **2 402 069** | **–** | **–** | **2 402 069** |
| Cash on deposit (5.98%) | **–** | **489 021** | **–** | **489 021** |
| **Floating rate** | | | | |
| Cash and cash equivalents (5.87%) | **1 357 797** | **–** | **–** | **1 357 797** |
| Bank overdraft (3.58%) | **(286 761)** | **–** | **–** | **(286 761)** |
| Lurgi (0.77%) | **–** | **–** | **153 732** | **153 732** |
| GTL.F1 AG (1.07%) | **–** | **153 190** | **–** | **153 190** |

**At 31 March 2014**

| **Fixed rate** | Less than 1 year R'000 | Between 1 and 5 years R'000 | Over 5 years R'000 | Total R'000 |
|---|---|---|---|---|
| Cash and cash equivalents (5.51%) | 1 559 663 | – | – | 1 559 663 |
| Restricted cash (5.51%) | 1 725 000 | – | – | 1 725 000 |
| Cash on deposit (5.53%) | 489 021 | – | – | 489 021 |
| **Floating rate** | | | | |
| Cash and cash equivalents (5.68%) | 3 320 954 | – | – | 3 320 954 |
| Bank overdraft (1.29%) | (357 655) | – | – | (357 655) |
| Lurgi (4.24%) | – | – | 169 651 | 169 651 |
| GTL.F1 AG (1.305%) | – | 126 839 | – | 126 839 |
| PetroSA Ghana Limited (0.8186%) | 740 759 | – | – | 740 759 |

### Interest rate instruments

As at 31 March 2015, a 10% relative change in the:

- ZAR interest rate would have impacted profit or loss for the year by R25.9 million (2014: R70.8 million)
- EURIBOR interest rate would have impacted profit or loss for the year by R0.3 million (2014: R0.2 million)
- USD LIBOR interest rate would have impacted profit or loss for the year by R0 million (2014: R0.3 million)

### Market risk

The group's activities expose it primarily to the financial risks of changes in commodity prices and foreign currency exchange rates. Refer to note 31 for foreign currency risk management and price risk management.

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | **2015 R'000** | 2014 R'000 | **2015 R'000** | 2014 R'000 |
| **32. Fair value information** | | | | |
| **Fair value hierarchy** | | | | |
| The table below analyses assets and liabilities carried at fair value. | | | | |
| **Levels of fair value measurements** | | | | |
| **Level 2** | | | | |
| **Financial assets and liabilities at fair value through profit or loss** | | | | |
| Foreign exchange contracts – asset | **72 260** | 23 383 | **72 260** | 23 383 |
| Foreign exchange contracts – liability | **–** | (30 351) | **–** | (30 351) |
| **Total** | **72 260** | (6 968) | **72 260** | (6 968) |

PetroSA 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.

## 33. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

Group – 2015

| | **Loans and receivables R'000** | **Total R'000** |
|---|---|---|
| Other financial assets | **359 252** | **359 252** |
| Loans receivable | **489 021** | **489 021** |
| Trade and other receivables | **2 542 699** | **2 542 699** |
| Forward exchange contracts | **72 260** | **72 260** |
| Cash and cash equivalents | **4 381 548** | **4 381 548** |
| | **7 884 780** | **7 884 780** |

**Group – 2014**

| | Loans and receivables R'000 | Total R'000 |
|---|---|---|
| Other financial assets | 2 021 490 | 2 021 490 |
| Loans receivable | 489 021 | 489 021 |
| Trade and other receivables | 3 170 927 | 3 170 927 |
| Forward exchange contracts | 23 383 | 23 383 |
| Cash and cash equivalents | 5 489 903 | 5 489 903 |
| | 11 194 724 | 11 194 724 |

**Company – 2015**

| | **Loans and receivables R'000** | **Total R'000** |
|---|---|---|
| Other financial assets | **306 922** | **306 922** |
| Loans receivable | **489 021** | **489 021** |
| Trade and other receivables | **2 486 202** | **2 486 202** |
| Forward exchange contracts | **72 260** | **72 260** |
| Cash and cash equivalents | **3 759 866** | **3 759 866** |
| | **7 114 271** | **7 114 271** |

**Company – 2014**

| | Loans and receivables R'000 | Total R'000 |
|---|---|---|
| Other financial assets | 2 762 249 | 2 762 249 |
| Loans receivable | 489 021 | 489 021 |
| Trade and other receivables | 3 061 829 | 3 061 829 |
| Forward exchange contracts | 23 383 | 23 383 |
| Cash and cash equivalents | 4 880 617 | 4 880 617 |
| | 11 217 099 | 11 217 099 |

## 34. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

**Group – 2015**

| | **Financial liabilities at amortised cost R'000** | **Total R'000** |
|---|---|---|
| Other financial liabilities | **865 496** | **865 496** |
| Trade and other payables | **3 100 790** | **3 100 790** |
| Bank overdraft | **286 761** | **286 761** |
| | **4 253 047** | **4 253 047** |

**Group – 2014**

| | Financial liabilities at amortised cost R'000 | Fair value through profit or loss – designated R'000 | Total R'000 |
|---|---|---|---|
| Other financial liabilities | 1 591 050 | – | 1 591 050 |
| Trade and other payables | 2 751 155 | – | 2 751 155 |
| Forward exchange contracts | – | 30 351 | 30 351 |
| Bank overdraft | 357 655 | – | 357 655 |
| | 4 699 860 | 30 351 | 4 730 211 |

**Company – 2015**

| | **Financial liabilities at amortised cost R'000** | **Total R'000** |
|---|---|---|
| Trade and other payables | **2 925 525** | **2 925 525** |
| Bank overdraft | **286 761** | **286 761** |
| | **3 212 286** | **3 212 286** |

**Company – 2014**

| | Financial liabilities at amortised cost R'000 | Fair value through profit or loss – designated R'000 | Total R'000 |
|---|---|---|---|
| Other financial liabilities | 1 591 050 | – | 1 591 050 |
| Trade and other payables | 1 633 126 | – | 1 633 126 |
| Forward exchange contracts | – | 30 351 | 30 351 |
| Bank overdraft | 357 655 | – | 357 655 |
| | 3 581 831 | 30 351 | 3 612 182 |

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

## 35. Directors' emoluments

**Year ended 31 March 2015**

| | Salary/Fee R'000 | Bonuses and performance payments R'000 | Pension contributions R'000 | Other contributions R'000 | Expenses R'000 | Acting allowance R'000 | Other R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | | | |
| NN Nokwe | 3 694 | – | 424 | 151 | – | – | – | 4 269 |
| LE Bakoro | 2 780 | – | 464 | 114 | – | – | – | 3 358 |
| Total | 6 474 | – | 888 | 265 | – | – | – | 7 627 |

| | Salary/Fee R'000 | Bonuses and performance payments R'000 | Pension contributions R'000 | Other contributions R'000 | Expenses R'000 | Compensation for loss of office R'000 | Other R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|---|
| **Non-executive directors** | | | | | | | | |
| S Mncwango | – | – | – | – | 51 | – | – | 51 |
| ACG Molusi | 376 | – | – | – | 5 | – | – | 381 |
| FE Letlape | 529 | – | – | – | 64 | – | – | 593 |
| MM Zwane | 467 | – | – | – | 20 | – | – | 487 |
| V Sibiya | – | – | – | – | 37 | – | – | 37 |
| GC Smith | 272 | – | – | – | 37 | – | – | 309 |
| B Madumise | 710 | – | – | – | 58 | – | – | 768 |
| S Mokoena | 825 | – | – | – | 93 | – | – | 918 |
| S Hlatshwayo | 679 | – | – | – | 66 | – | – | 745 |
| GN Jiyane | 287 | – | – | – | 28 | – | – | 315 |
| W Ngubane | 186 | – | – | – | 21 | – | – | 207 |
| W Steenkamp | 229 | – | – | – | 72 | – | – | 301 |
| O Tobias | 159 | – | – | – | 9 | – | – | 168 |
| J Ntwane | 200 | – | – | – | 45 | – | – | 245 |
| S Mthethwa | – | – | – | – | 5 | – | – | 5 |
| MW Mkhize | – | – | – | – | 6 | – | – | 6 |
| Total | 4 919 | – | – | – | 617 | – | – | 5 536 |

| | Salary/Fee R'000 | Bonuses and performance payments R'000 | Pension contributions R'000 | Other contributions R'000 | Acting allowance R'000 | Leave pay R'000 | Expatriate allowance R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|---|
| **Executive management** | | | | | | | | |
| JEP Falbe | 2 827 | – | 138 | 161 | – | – | 1 359 | 4 485 |
| D Arendse [1] | – | 439 | – | – | – | – | – | 439 |
| T Kgogo [2] | 391 | – | 26 | 18 | – | 90 | – | 525 |
| B Zwane [3] | 1 226 | 299 | 228 | 202 | 354 | – | – | 2 309 |
| G Griessel [2] | 553 | (921) | 78 | 24 | – | – | – | (266) |
| X Hewu [3] | 716 | – | 80 | 14 | 62 | – | – | 872 |
| P Luthuli | 1 558 | – | 181 | 160 | – | – | – | 1 899 |
| M Modipa | 1 167 | – | 117 | 70 | – | – | – | 1 354 |
| K Zono [3] | 1 269 | 68 | 152 | 115 | 128 | – | – | 1 732 |
| A Dippenaar [3] | 1 691 | 414 | 250 | 149 | 166 | – | – | 2 670 |
| Total | 11 398 | 299 | 1 250 | 913 | 710 | 90 | 1 359 | 16 019 |

[1] – *Contract expired*
[2] – *Resigned*
[3] – *Acting Vice Presidents*

**Year ended 31 March 2014**

| | Salary/Fee R'000 | Bonuses and performance payments R'000 | Pension contributions R'000 | Other contributions R'000 | Expenses R'000 | Acting allowance R'000 | Other R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | | | |
| NN Nokwe | 3 658 | 1 165 | 420 | 152 | – | – | – | 5 395 |
| LE Bakoro | 1 048 | – | 187 | 48 | – | – | – | 1 283 |
| Total | 4 706 | 1 165 | 607 | 200 | – | – | – | 6 678 |

| | Salary/Fee R'000 | Bonuses and performance payments R'000 | Pension contributions R'000 | Other contributions R'000 | Expenses R'000 | Compensa-tion for loss of office R'000 | Other R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|---|
| **Non-executive directors** | | | | | | | | |
| S Mncwango | – | – | – | – | 39 | – | – | 39 |
| ACG Molusi | 1 003 | – | – | – | 157 | – | – | 1 160 |
| FE Letlape | 993 | – | – | – | 136 | – | – | 1 129 |
| MM Zwane | 718 | – | – | – | 110 | – | – | 828 |
| V Sibiya | – | – | – | – | 101 | – | – | 101 |
| GC Smith | 903 | – | – | – | 170 | – | – | 1 073 |
| B Madumise | 1 099 | – | – | – | 116 | – | – | 1 215 |
| S Mokoena | 1 196 | – | – | – | 203 | – | – | 1 399 |
| S Hlatshwayo | 1 001 | – | – | – | 140 | – | – | 1 141 |
| A Mokaba | 114 | – | – | – | – | – | – | 114 |
| A Rhoda | 21 | – | – | – | – | – | – | 21 |
| Total | 7 048 | – | – | – | 1 172 | – | – | 8 220 |

| | Salary/Fee R'000 | Bonuses and performance payments R'000 | Pension contributions R'000 | Other contributions R'000 | Acting allowance R'000 | Long service/ Relocation allowance R'000 | Expatriate allowance R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|---|
| **Executive management** | | | | | | | | |
| E September[1] | 1 764 | 541 | 299 | 144 | – | 2 | – | 2 750 |
| G Sweto[1] | 1 953 | 767 | 144 | 147 | – | – | – | 3 011 |
| JEP Falbe | 2 639 | 878 | 176 | 158 | – | – | 735 | 4 586 |
| D Arendse | 1 515 | 607 | 204 | 74 | – | 1 | – | 2 401 |
| T Kgogo | 2 324 | 894 | 153 | 105 | – | – | – | 3 476 |
| B Zwane[3] | 1 178 | 425 | 214 | 159 | 354 | – | – | 2 330 |
| G Griessel | 3 293 | 1 000 | 463 | 141 | – | 267 | – | 5 164 |
| X Hewu[3] | 117 | – | 13 | 3 | 5 | – | – | 138 |
| P Luthuli | 922 | – | 112 | 69 | – | – | – | 1 103 |
| Total | 15 705 | 5 112 | 1 778 | 1 000 | 359 | 270 | 735 | 24 959 |

*[1] – Contract expired*
*[2] – Resigned*
*[3] – Acting Vice Presidents*

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

## 36. Related parties

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **R'000** | R'000 | **R'000** | R'000 |
| **Related party transactions** | | | | |
| **CEF SOC Limited** | | | | |
| Cash on call | **489 021** | 489 021 | **489 021** | 489 021 |
| Accrued interest | **2 485** | 2 285 | **2 485** | 2 285 |
| Services received | **100** | 65 | **100** | 65 |
| Interest received | **28 699** | 25 648 | **28 699** | 25 648 |
| Recoveries | **771** | 500 | **771** | 500 |
| Trade receivables | **101** | 96 | **101** | 96 |
| Trade payables | **148** | 43 | **148** | 43 |
| **PASA** | | | | |
| Services received | **20** | 51 | **20** | 51 |
| Royalties paid | **3** | 4 660 | **3** | 4 660 |
| Trade payables | **15** | 4 115 | **15** | 4 115 |
| **SFF** | | | | |
| Trade receivables | **–** | 3 638 | **–** | 3 638 |
| Training | **124** | 3 | **124** | 3 |
| Product | **–** | 3 192 | **–** | 3 192 |
| Recoveries | **854** | – | **854** | – |
| Rental | **–** | 5 908 | **–** | 5 908 |
| **Subsidiaries** | | | | |
| Loan to | **–** | – | **–** | 3 678 757 |
| Loan impairment | **–** | – | **–** | 1 795 917 |
| Loan forgiveness | **–** | – | **2 021 054** | 1 142 081 |
| Loans owing | **–** | – | **1** | 1 |
| Management fee | **–** | – | **5 821** | 2 114 |
| Recoveries | **–** | – | **7 069** | 9 525 |
| Interest received | **–** | – | **218 132** | 189 467 |
| Commission paid | **–** | – | **31 859** | 32 141 |
| Dividends | **–** | – | **64 435** | – |
| Trade receivables | **–** | – | **6 266** | 4 628 |
| Trade payables | **–** | – | **7 020** | 6 781 |

The above transactions were carried out on commercial terms and conditions. All outstanding balances are payable in cash.

## 37. Public Finance Management Act

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **R'000** | R'000 | **R'000** | R'000 |
| **Fruitless and wasteful expenditure** | | | | |
| Items individually < R50 000 | **55** | 66 | **55** | 66 |
| Non-performance penalties | **1 302** | – | **1 302** | – |
| Misplaced/stolen items | **110** | – | **110** | – |
| Fraudulent transactions written off | **–** | 338 | **–** | 338 |
| Contract cancellation fee | **135** | – | **135** | – |
| Interest loss due to early or over-payments | **–** | 155 | **–** | 155 |
| Additional costs from contract not cancelled timeously | **–** | 107 | **–** | 107 |
| Depot stock losses | **–** | 3 052 | **–** | 3 052 |
| Penalties | **–** | 2 295 | **–** | – |
| Overpayment of retrenchment package | **291** | – | **–** | – |
| | **1 893** | 6 013 | **1 602** | 3 718 |

Refer to the Directors' Report, note 12 for further details. The appropriate corrective and/or disciplinary actions have been taken (where necessary).

The late uplift of product incurred non-performance penalties of R1.3 million. This amount has been written off.

During the year, several items to the value of R0.1 million were misplaced and have not been recovered. It has been presumed that these items have been stolen. These amounts have been written off.

Unfair labour practice during the recruitment process resulted in a settlement claim of R0.14 million being paid to an unsuccessful candidate. Disciplinary action was taken and the employee involved received a written warning. This amount has been written off.

PetroSA Equatorial Guinea failed to deduct employees' tax from severance packages paid to employees which resulted in fruitless and wasteful expenditure of R0.291 million.

| | Group | | Company | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **R'000** | R'000 | **R'000** | R'000 |
| **Fruitless and wasteful expenditure movement** | | | | |
| Incurred during the year | **1 893** | 6 013 | **1 602** | 3 718 |
| Recognised as expense during the year | **(1 893)** | (6 013) | **(1 602)** | (3 718) |
| **Closing balance** | **–** | – | **–** | – |
| | | | | |
| **Irregular transactions** | | | | |
| Contravention of company policy | **16 937** | 5 060 | **16 937** | 5 060 |
| Contravention of legislation | **–** | 1 584 058 | **–** | 1 584 058 |
| | **16 937** | 1 589 118 | **16 937** | 1 589 118 |
| | | | | |
| **Contravention of company policy** | | | | |
| The use of suppliers at R16.937 million was not in terms of the procurement procedure. Disciplinary proceedings were initiated to prevent further irregular expenditure incurred in contravention of company policy. | | | | |
| **Contravention on legislation** | | | | |
| The Minister of Finance granted PetroSA exemption from the Preferential Procurement Policy Framework Act (PPPFA) on 4 June 2014 in respect of the procurement of hydrocarbons for resale, which will not be regarded as irregular expenditure from this date. | | | | |
| **Irregular expenditure movement** | | | | |
| Opening balance | **2 453 690** | 865 930 | **2 453 690** | 865 930 |
| Incurred during the year | **16 937** | 1 589 118 | **16 937** | 1 589 118 |
| Condoned during the year | **(16 926)** | (1 358) | **(16 926)** | (1 358) |
| **Closing balance** | **2 453 701** | 2 453 690 | **2 453 701** | 2 453 690 |

# NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS (continued)

## 38. Interest in joint operating agreements

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

| | Percentage holding/Tracts | | | | |
|---|---|---|---|---|---|
| | **24%** | **35%** | **50%** | **20%** | **40%** |
| **2015** | **Block 2A** | **Block 2C** | **Block 3A/4A** | **Block 5/6/7** | **Block 1** |
| Partners: | **Sunbird 76%** | **Anadarko 65%** | **Sasol 50%** | **Anadarko 80%** | **Cairn 60%** |
| Nature of project: | **Exploration** | **Exploration** | **Exploration** | **Exploration** | **Exploration** |

| | Percentage holding/Tracts | | | | | |
|---|---|---|---|---|---|---|
| | 24% | 35% | 10% | 50% | 20% | 40% |
| **2014** | Block 2A | Block 2C | Namibia 1 711 | Block 3A/4A | Block 5/6/7 | Block 1 |
| Partners: | Sunbird 76% | Anadarko 65% | Nakor 70% | Sasol 50% | Anadarko 80% | Cairn 60% |
| | | | Energulf 10% | | | |
| | | | Namcor 7% | | | |
| | | | Kunene Energy 3% | | | |
| Nature of project: | Exploration | Exploration | Exploration | Exploration | Exploration | Exploration |

As at 31 March 2014, PetroSA along with the other current joint venture partners, namely Forest Oil and Anschutz, had withdrawn from Block 2C. A simultaneous application for a new exploration right over Block 2C was made, with Anadarko as operator, with an equity split of 35% for PetroSA and 65% for Anadarko.

# FIELDS IN PRODUCTION AND UNDER DEVELOPMENT

## 1. Movement in net remaining proved and probable reserves

| | Crude oil/ Condensate MMbbl 2015 | Gas Bscf 2015 | Crude oil/ Condensate MMbbl 2014 | Gas Bscf 2014 |
|---|---|---|---|---|
| At beginning of year | **26.40** | **392.30** | 11.30 | 288.20 |
| Revisions of previous estimates | **(4.95)** | **(256.10)** | 3.50 | 124.60 |
| Production | **(1.90)** | **(38.60)** | (1.70) | (32.50) |
| Additions | **(1.45)** | **–** | 13.30 | 12.00 |
| **At end of year** | **18.10** | **97.60** | 26.40 | 392.30 |
| **2. Proved and probable reserves by type of field** | | | | |
| Fields in production | **8.90** | **56.85** | 16.90 | 177.60 |
| Fields under development | **9.20** | **40.75** | 9.50 | 214.70 |
| | **18.10** | **97.60** | 26.40 | 392.30 |
| **3. Reserves by category** | | | | |
| Proved | **11.20** | **39.60** | 4.00 | 171.20 |
| Proved and probable | **18.10** | **97.60** | 26.40 | 392.30 |
| **Total proved and probable reserves at end of year** | **18.10** | **97.60** | 26.40 | 392.30 |

### Oil

Fields in production and under development comprise the Jubilee (2.73%), Oribi (100%) and Oryx (100%) oil fields.

### Gas

Fields in production and under development comprise the F-A and F-A Satellite, E-M and E-M Satellite and F-O gas fields respectively.

Fields under appraisal comprise discoveries. The reserves shown are either all oil or all gas, excluding gas liquids. Oil includes condensate and LPG.

Reserves and production are shown on a working interest basis (100%). Reserves were generated using a reservoir simulator that incorporated PetroSA's production philosophy. Oil and gas reserves cannot be measured exactly since the estimation of reserves involves subjective judgement and arbitrary determinations and therefore all estimations are subject to revision. The gas and oil reserves reflected above have been determined by independent reservoir engineers.

### Revisions of previous estimates

The decrease in gas reserves can be ascribed to the following events:

- The shift in the end of plateau date from 2021 to 2017, resulted in a decrease in the reserves from F-A and F-A Satellites, E-M and E-M Satellites and SCG field as the tail gas from these fields can no longer be unlocked.
- The negative impact of the shift in the F-O field first gas date and decrease in recoverable volumes from the field. This is due to the drilling campaign being reduced from a 5-well campaign to a 3-well campaign as well as lower than expected production volumes.

# DEFINITIONS OF FINANCIAL TERMS

Below is a list of definitions of financial terms used in the annual report of PetroSA SOC Limited and the 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 uncollectibility.

**Asset**

A resource controlled by the entity as a result of a past event from which future economic benefits are expected to flow.

**Assets under construction**

A non-current asset which includes expenditure capitalised for work in progress in respect of activities to develop, expand or enhance items of property, plant and equipment, intangible assets and exploration assets.

**Borrowing costs**

Interest and other costs incurred in connection with the borrowing of funds.

**Business**

An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.

**Business combination**

A transaction or other event in which an acquirer obtains control of one or more businesses.

**Carrying amount**

The amount at which an asset is recognised after deducting any accumulated depreciation or amortisation and accumulated impairment losses.

**Cash and cash equivalents**

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

**Cash-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 new information or new developments.

**Consolidated annual financial statements**

The annual financial statements of a group 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 consideration**

Usually, an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquiree as part of the exchange for control of the acquiree if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of a previously transferred consideration if specified conditions are met.



The supplementary information presented does not form part of the audited annual financial statements and is unaudited

**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.

**Credit risk**

The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

**Currency risk**

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

**Date of transaction**

The date on which the transaction first qualifies for recognition in accordance with International Financial Reporting Standards.

**Deferred tax assets**

The amounts of income taxes recoverable in future periods in respect of deductible temporary differences, the carry forward of unused tax losses and the carry forward of unused tax credits.

**Deferred tax liabilities**

The amounts of income taxes payable in future periods in respect of taxable temporary differences.

**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.

**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 of the investee.

**Events after the reporting period (Subsequent events)**

Those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

(a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and

(b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

**Exchange difference**

The difference resulting from translating a given number of units of one currency into another currency at different exchange rates

**Expenses**

The decreases in economic benefits in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

# DEFINITIONS OF FINANCIAL TERMS (continued)

**Fair value**

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**Financial asset Any asset that is:**

(a) cash;

(b) an equity instrument of another entity;

(c) a contractual right (i) to receive cash or another financial asset from another entity; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or

(d) a contract that will or may be settled in the entity's own equity instruments and is (i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include puttable financial instruments classified as equity instruments in accordance with paragraphs 16A and 16B of IAS 32, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 16C and 16D of IAS 32, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.

Financial asset or liability at fair value through profit or loss

A financial asset or financial liability that is classified as held for trading or is designated as such on initial recognition other than investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

**Financial instrument**

A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**Financial liability**

Any liability that is:

(a) a contractual obligation (i) to deliver cash or another financial asset to another entity or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

(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

**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.

**Foreign operation**

An entity that is a subsidiary, associate, joint venture 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.

**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.

**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.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**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.

**Joint arrangement**

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

**Joint operation**

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

**Joint venture**

A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

**Key management personnel**

Those persons having authority and responsibility for planning, directing and controlling the activities of the entity. i.e. the members of the Board of Directors of PetroSA and within the individual companies, the Board of Directors and Executive Management committees.

**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.

**Loans and receivables**

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

**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.

**Minimum lease payments**

Payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor including in the case of a lessee, any amounts guaranteed by the lessee or by a party related to the lessee or in the case of a lessor, any residual value guaranteed to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

**Net assets**

Net operating assets plus cash and cash equivalents.

**Net realisable value**

The estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Net realisable value refers to the net amount that an entity expects to realise from the sale of inventory in the ordinary course of business. Fair value reflects the amount for which the same inventory could be exchanged between knowledgeable and willing buyers and sellers in the marketplace. The former is an entity specific value; the latter is not. Net realisable value for inventories may not equal fair value less costs to sell.

**Operating lease**

A lease where the lessor retains substantially all the risks and rewards incidental to ownership of an asset.

**Other comprehensive income**

Comprises items of income and expense (including reclassification adjustments) that are not 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.

# DEFINITIONS OF FINANCIAL TERMS (continued)

### 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.

### Post-employment benefit plans

Formal or informal arrangements under which an entity provides post-employment benefits to employees. Defined contribution benefit plans are where there are no legal or constructive obligations 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. Defined benefit plans are post-employment benefit plans other than defined contribution plans.

### 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 of, reliable information that was available when annual financial statements for those periods were authorised for issue and could reasonably be expected to have been obtained and taken into account in the preparation of those annual financial statements.

### Prospective application

Applying a new accounting policy to transactions, other events and conditions occurring after the date the policy changed or recognising the effect of the change in an accounting estimate in the current and future periods.

### Proved reserves

- Quantities of petroleum anticipated to be commercially recoverable from known accumulations from a given date forward under the following conditions: Discovered, recoverable, commercial and remaining.
- Means the amount of petroleum which geophysical, geological and engineering data indicate to be commercially recoverable to a high degree of certainty. For the purposes of this definition, there is a 90% chance that the actual quantity will be more than the amount estimated as proved and a 10% chance that it will be less.

### Proved and probable reserves

- Proved and probable reserves are quantities of petroleum anticipated to be commercially recoverable from known accumulations from a given date forward under the following conditions: Discovered, recoverable, commercial and remaining.
- Means proved reserves plus the amount of petroleum which geophysical, geological and engineering data indicate to be commercially recoverable but with a greater element of risk than in the case of proved. For the purposes of this definition, there is a 50% chance that the actual quantity will be more than the amount estimated as proved and probable and a 50% chance that it will be less.

### Recoverable amount

The amount that reflects the greater of the fair value less costs to sell and the value in use that can be attributed to an asset or cash generating unit as a result of its ongoing use by the entity. In determining the value in use, expected future cash flows to be derived from the asset or cash generating unit are discounted to their present values using an appropriate discount rate.

### Related party

A person or entity that is related to the entity that is preparing its financial statements.

(a) A person or a close member of that person's family is related to a reporting entity if that person:
    - has control or joint control over the reporting entity;
    - has significant influence over the reporting entity; or
    - is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:
    - The entity and the reporting entity are members of the same group.
    - One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
    - Both entities are joint ventures of the same third party.
    - One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
    - The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
    - The entity is controlled or jointly controlled by a person identified in (a).
    - A person identified in (a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

**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.

**Retrospective application**

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.

# NOTES

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