PetroSA

INTEGRATED ANNUAL REPORT 2020

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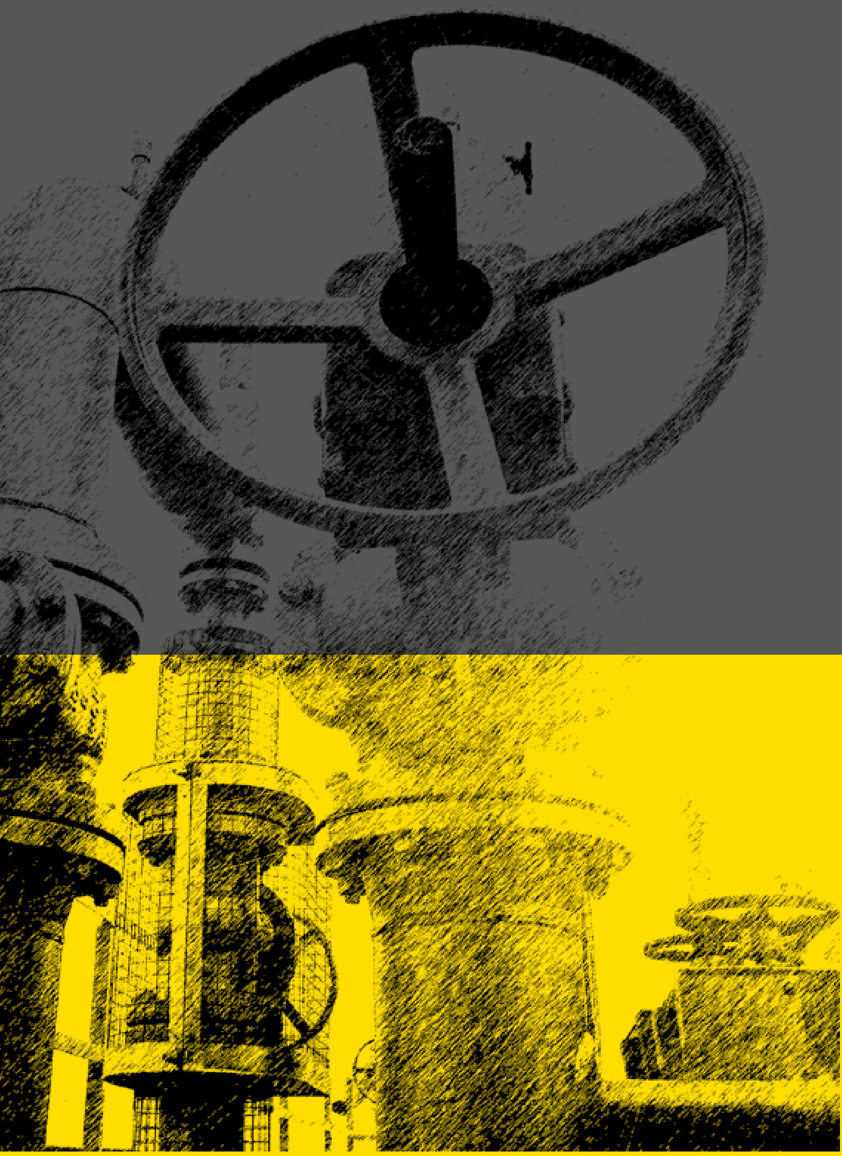


ABBREVIATIONS AND ACRONYMS

AGM	Annual General Meeting
AGSA	Auditor-General of South Africa
AOE	Additional Oil Entitlement
API	American Petroleum Institute
AU	African Union
BAC	Board Audit Committee
B-BBEE	broad-based black economic empowerment
bbl	barrel
BCM	business continuity management
BCP	business continuity plan
BEE	black economic empowerment
bpd	barrels per day
Bscf	billion standard cubic feet
BSCI	Business Social Compliance Initiative
CAE	Chief Audit Executive
CALM	Catenary Anchor Leg Mooring
CAP	Competency Action Plan
CCC	cash conversion cycle
CEF	CEF SOC Limited
CEO	Chief Executive Officer
CEPPWAWU	Chemical, Energy, Paper, Printing, Wood and Allied Workers' Union
CF	Clean Fuels
CFO	Chief Financial Officer
CGU	cash-generating unit
CHIETA	Chemical Industries Education and Training Authority
COD	conversion of olefins to distillate
CODESA	Convention for a Democratic South Africa
CoE	Centre of Excellence
COIDA	Compensation for Occupational Injuries and Diseases Act
COO	Chief Operating Officer
CRCO	Chief Risk and Compliance Officer
CRO	Chief Risk Officer
CSI	corporate social investment
CTAPD	Cape Town Association for the Physically Disabled
CTICC	Cape Town International Convention Centre
DBSA	Development Bank of South Africa
DIP	de-isopentaniser
DME	Department of Minerals and Energy
DMRE	Department of Mineral Resources and Energy
DWT	Deepwater TANO
EAP	economically active population
EBITDA	earnings before interest, tax, depreciation
ECL	expected credit loss
ECP	enhanced condensate processing
EDC	equivalent distillation capacity
EE	employment equity
EIA	Energy Information Administration
EIR	effective interest rate
EME	exempted micro-enterprise

Our mandate includes making a significant contribution to economic growth, job creation and industry transformation

EPV	Employee Volunteering Programme
ER	exploration right
ERM	enterprise risk management
ESD	enterprise and supplier development
ESS	Employee Self Service
EVP	Employee Value Proposition
EXCO	Executive Committee
FATF	Financial Action Task Force
FEED	front-end engineering and design
FICA	Financial Intelligence Centre Act
FID	Final Investment Decision
FPSO	floating production storage and offloading
FVLCD	fair value less costs of disposal
FVTPL	fair value through profit or loss
FY	financial year
FYE	financial year-end
GCEO	Group Chief Executive Officer
GCFO	Group Chief Financial Officer
GCOO	Group Chief Operating Officer
GiT	Graduates-in-Training
GM	gross margin
GNPC	Ghana National Petroleum Corporation
GRA	Ghana Revenue Authority
GRI	Global Reporting Initiative
GTL	gas-to-liquid
HC	human capital
HIRA	hazard identification and risk assessment
HR	human resources/human resource
HSE	health, safety and the environment
HSEQ	health, safety, the environment and quality
IASB	International Accounting Standards Board
IeC	Integrated Energy Centre
IFRS	International Financial Reporting Standards
IMO	International Maritime Organisation
IMOrg	Incident Management Organisation
IOD	injury on duty
IPP	Independent Power Producer
JV	joint venture
kbbls/d	kilobarrels per day
KPA	key performance area
KPI	key performance indicator
LC	letter of credit
LNG	liquefied natural gas
LOF	life of field
LPG	liquid petroleum gas
LRA	Labour Relations Act
LTFI	low-temperature Fischer-Tropsch
LTI	lost-time injury
LTIFR	lost-time injury frequency rate
MAL	Management Attestation Letter (MAL)
MMbbls	million barrels
MMscf	million standard cubic feet
MMscf/d	million standard cubic feet per day
MOC	Memorandum of Cooperation
MOU	Memorandum of Understanding
MPRDA	Mineral and Petroleum Resources Development Act
NBCCI	National Bargaining Council for the Chemical Industry
ND	national diploma
NEMA	National Environmental Management Act
NERSA	National Energy Regulator of South Africa
NGO	non-governmental organisation
NOC	national oil company
NPC	National Petroleum Company
NPC	non-profit company
NPO	non-profit organisation
NUM	National Union of Mineworkers
NUMSA	National Union of Metalworkers of South Africa
OECD	Organisation for Economic Co-operation and Development
OMP	Occupational Medical Practitioner
OPASA	Offshore Petroleum Association of South Africa
PACCA	Prevention and Combating of Corrupt Activities Act
PASA	Petroleum Agency SA
PetroSA	Petroleum Oil and Gas Corporation of South Africa SOC Limited
PFMA	Public Finance Management Act
PGS	PGS Exploration (UK) Ltd
PLFCC	Petroleum Liquid Fuels Charter Code
PSFIC	PetroSA Synthetic Fuels Innovation Centre
Q4	Quarter Four
QMS	quality management system
QSE	qualifying small enterprise
R&D	research and development
RBIDZ	Richards Bay Industrial Development Zone
RBL	reserve-based lending
ROA	return on assets
SABBTA	South African Black Bulk Transporters Association
SABS	South African Bureau of Standards
SADC	Southern African Development Community
SAFDA	South African Farmers Development Association
SAIPA	South African Institute of Professional Accountants
SAOGA	South African Oil and Gas Alliance
SAPIA	South African Petroleum Industry Association
SAPS	South African Police Service
SARS	South African Revenue Service
SCG	South Coast Gas
SEDA	Small Enterprise Development Agency
SFF	Strategic Fuel Fund
SHEQ	safety, health, environment, quality
SME	small and medium-sized enterprise
SOC	state-owned company
SOE	state-owned enterprise
SPM	Single-Point Mooring
STEM	science, technology, engineering and mathematics
STIP	Short-Term Insurance Policy
TSL	trading, supply and logistics
UN	United Nations
UNCAC	United Nations Convention against Corruption
UNOC	Uganda National Oil Company
UOP	units of production
USA	United States of America
USD	United States dollar
UWC	University of the Western Cape
VIU	value-in-use
VP	Vice-President
VP: HC	Vice-President: Human Capital
WACC	weighted average cost of capital
WCTP	West Cape Three Points
WHO	World Health Organization
WOGAM	Women in Oil, Gas and Marine
YTD	year-to-date

ABOUT THIS REPORT

The 2020 PetroSA Integrated Annual Report (or "Integrated Report") offers a comprehensive review of our Company's performance, challenges and opportunities during the 2019/2020 financial year (FY19/20). The Integrated Report provides our stakeholders with insights into our recent financial, operational, social and environmental performance as well as our 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 79), combined with the consolidated annual financial statements (pages 80 to 155), provides all information relevant to our Stakeholders and is required to comply with the reporting standards to which we subscribe.

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, our business. The responsibility for determining such materiality lies ultimately with the PetroSA Board. The process is informed by:

- comprehensive collaboration and input involving relevant 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, Executive Management provides assurance that it has implemented, monitored and managed all relevant requirements pertaining to control, compliance, governance and reporting. This ensures the reliability and integrity of the information presented in the report. External assurance of the Company's financial statements is provided by the Auditor-General of South Africa (AGSA), whose audit opinion appears on pages 84 to 88 of this Integrated Report.

Reporting structure and frameworks

Every effort has been made to align with the integrated reporting requirements of the King IV Report on Corporate Governance. The Integrated Report also conforms to the standards and requirements of the South African Companies Act 71 of 2008.

OUR BUSINESS

The spirit of *Batho Pele*, which means 'People First', underpins the PetroSA values

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 (CEF), PetroSA's Shareholder. PetroSA is registered as a commercial entity under South African law. CEF is wholly owned by the Government of South Africa and reports to the Department of Mineral Resources and Energy (DMRE).

What we do

01 Exploration for, 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.

02 Participation in, and acquisition of, local as well as international upstream petroleum ventures.

03 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. We produce key commodities, including unleaded petrol, diesel, kerosene, fuel oil, propane, liquid petroleum gas (LPG), export distillates and alcohols.

04 Development of domestic refining capacity, liquid fuels logistical infrastructure and technology.

05 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 vision

To be the leading African energy company.

Our mission

PetroSA will be the leading provider of hydrocarbons and related quality products by leveraging its proven technologies and harnessing its human capital for the benefit of its stakeholders.

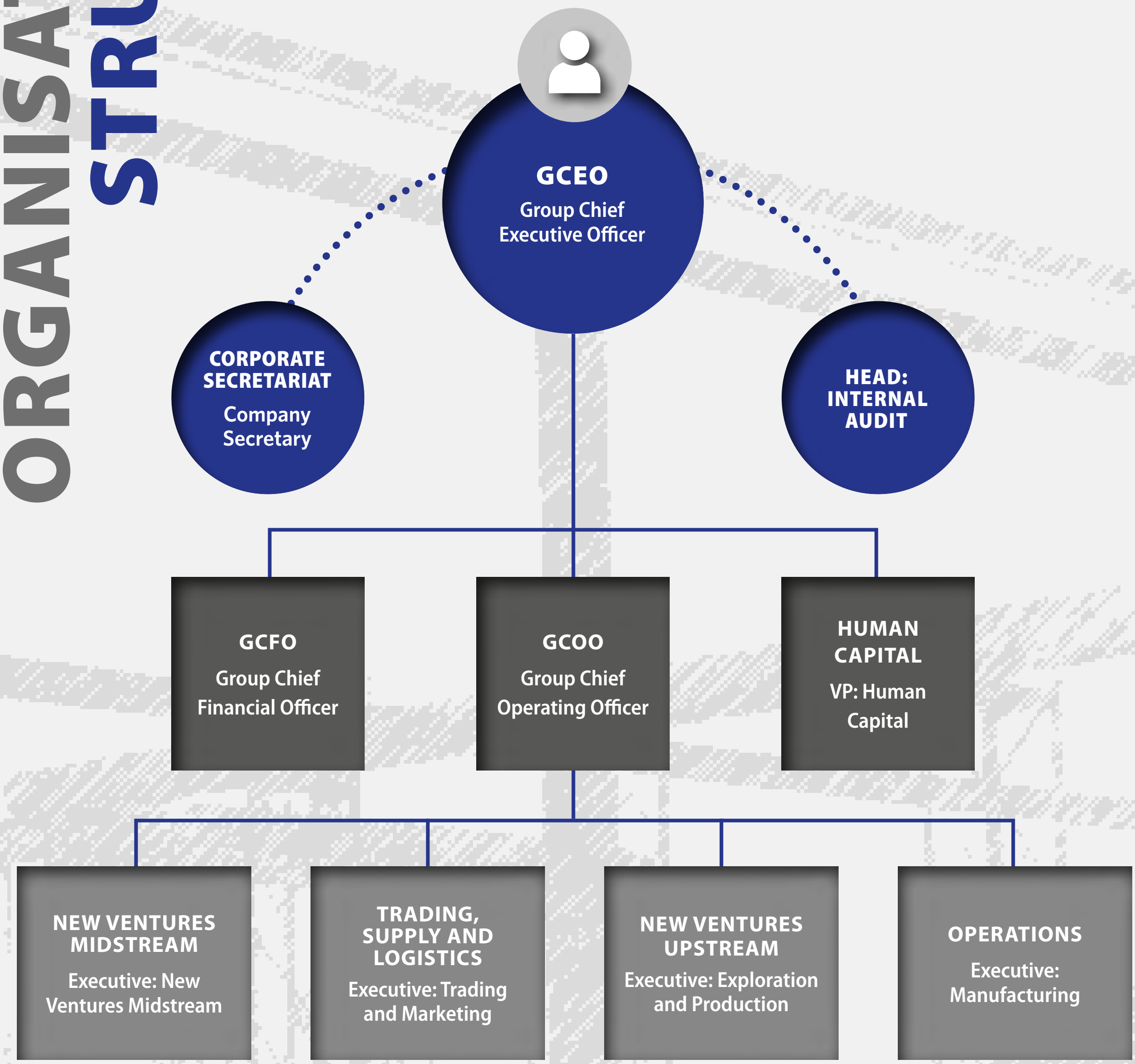
Our values

Stewardship
Honesty
Integrity
Respect
Transparency
Batho Pele

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 to 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.

ORGANISATIONAL STRUCTURE



OUR GLOBAL FOOTPRINT

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

OUR STRATEGY

The PetroSA strategy seeks to stabilise the organisation and position it to contribute more effectively to the national energy security of supply. The strategy focuses on reducing operating costs, enhancing revenue generation, leveraging mutually beneficial strategic partnerships, and addressing the long-term commercial sustainability of the organisation.

The strategy further seeks to address the critical, depleting gas feedstock, which has led to a number of challenges, including a precarious financial position, a persistent going-concern threat, and an insufficiently funded decommissioning liability.

Key Strategic Areas

PetroSA's Corporate Plan outlines the Company's strategic intent and key objectives, as well as performance targets and indicators. It also highlights PetroSA's focus on exploring opportunities across the value chain.

In the short to medium term, the following levers underpin the PetroSA Corporate Plan:

- **The sustainable operation of the GTL Refinery in Mossel Bay, which includes the optimum production of indigenous gas feedstock.**
- **Finding a long-term feedstock solution for the GTL Refinery, including increasing the refining capacity.**
- **Diversification of income streams, improving margins through participation in the downstream commercial market, and continuously containing costs.**
- **Driving transformation through leveraging the inherent advantage of being a state-owned company (SOC), through strategic partnerships with wholesalers and suppliers to facilitate access of black businesses to the oil and gas sector. This strategy recognises the imperative to increase the representation of women in the economic activities of our country, particularly in the petroleum industry. It therefore recognises women empowerment as the key lever for transformation.**
- **Conducting the business according to the highest health, safety, environmental and quality standards. Owing to the depleting offshore gas reserves, a paradigm shift is required to turn around the Company's financial situation. In this regard, PetroSA has adopted an Emergency Plan designed primarily to generate cash and increase revenues.**

PERFORMANCE AGAINST OBJECTIVES 2019/2020

ORGANISATIONAL CAPACITY 10%

1 | Organisational transformation

OBJECTIVE	KEY PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL	PERFORMANCE RESULTS
Talent Management	1.1 Talent Management Index	Talent Management Index of 3	Talent Management Index of 2	**Not achieved**

1. **Improve talent management**

1.1 **Talent Management Index**

1.1.1 ***Implement youth programmes***

Objective: To maintain and sustain the PetroSA talent pipeline via the following interventions, with the focus being mainly on youth programmes:

- A minimum of five Graduates-in-Training (GIT);
- 120 (i.e. a capacity of 80%) students at the Centre of Excellence;
- 10 bursaries awarded for the financial year; and
- 10 Technogirls in the Science, Technology, Engineering and Mathematics (STEM) Programme.

Target: 31 March 2020.

Actual: Achieved 90% for the implementation of youth programmes.

1.1.2 ***Recruitment of women at all levels***

Objective: The representation of women remains a challenge for PetroSA, especially at management level. The objective is to explore possible opportunities that arise due to attrition or where new positions are identified in which women can be appointed.

Target: 30% of appointments at all levels to be women appointees.

Actual: Women constitute 30% of the total workforce. Of the total appointments during the year, 47% were women.

1.1.3 ***Development of an Employee Value Proposition (EVP) Framework***

Objective: To develop a new social contract with employees to manage the changes the Company will face in developing a high-performing organisation that focuses on health, safety and the environment (HSE) as well as strategic partnerships.

Intended results: The EVP Framework will be developed and submitted to the Board for approval.

Target: Board-approved EVP Framework by 31 March 2020.

Actual: The target was not achieved as the development of the EVP Framework was deferred until further notice.

ORGANISATIONAL CAPACITY (continued) 10%

1 | Organisational transformation (continued)

1.1.4 Skills development

Objective: To develop a Skills Development Plan focusing on improving the contribution to the broad-based black economic empowerment (B-BBEE) rating. The scope of the plan will include the following skills programmes as per the Skills Development Act:

- Training spend on black employees;
- Training spend on people living with disabilities; and
- Absorption of learners from the Apprenticeship and Work-Integrated Learning Programmes.

Target: Achieve 15–17 BBBEE Points by 31 March 2020.

Actual: The Company achieved 16.32 points on the B-BBEE Scorecard. This was due to lower training spend on the economically active population (EAP) targets (black people, women, and people living with disabilities).

1.1.5 Improvement to the performance management cycle

Objective: Improved compliance to the individual performance management process.

Target: 75% of individual performance contracts scored and accepted/approved on the SAP Employee Self Service (ESS) by 30 April 2020.

Actual: 29% of individual performance contracts were approved on SAP ESS by 30 April 2020.

1.1.6 Competency Acquisition Plan (CAP)

Objective:
- Develop and implement a CAP for all positions across the Company, with clear targets and regular competency assessments (by the person himself/herself and by an independent assessor or summative), by 31 March 2020; and
- Develop and implement a competency guide with clear objectives covering assessments in the following four areas: skills, experience, knowledge and attitude.

Actual: The target was not achieved. A Competency Framework has been drawn up but its approval and implementation have been delayed to ensure that there is proper alignment with the new Corporate Plan and Strategy.

A basic skills audit was initiated but could not be completed due to limited participation of employees.

1.1.7 Succession Plan / cover jobs

Objective: Develop a succession pipeline for all positions, based on the Competency Guide, by 31 March 2020.

Actual: The target was not achieved. The development of succession plans for all positions was deferred and will be implemented in the next financial year, taking into account the resource requirements of the new Corporate Plan and Business Model.

1.1.8 Skills Transfer Plan

Objective: Develop and implement an effective Skills Transfer Programme (for expatriates and pre-retirees).

Actual: The target was not achieved. This has been deferred and will be implemented in the next financial year, taking into account the resource requirements of the new Corporate Plan and Business Model.

1.1.9 Strategic Recruitment Plan

Objective: Develop and implement a Recruitment Plan by 31 March 2020 with the aim of filling all critical positions, including executive positions such as the Group Chief Executive Officer (GCEO) and Group Chief Financial Officer (GCFO) and those positions required to support the successful implementation of the Emergency Plan.

Actual: 26 of the 34 identified roles were filled during the period under review.

FINANCE 30%

2 | Profitability

OBJECTIVE	KEY PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL	PERFORMANCE RESULTS
Improve profitability	**2.1** EBITDA as a % of revenue (PetroSA Co. Financials)	5%	**-10%**	**Not achieved**
	2.2 Return on assets	6 – 8.5%	**-40%**	**Not achieved**

2. Improve profitability

2.1 Earnings before interest, tax, depreciation and amortisation (EBITDA) as a percentage of revenue
This ratio measures the Company's overall operational performance without having to factor in financing decisions (interest, dividends), accounting decisions (depreciation, amortisation, provision for abandonment) or taxation. The target EBITDA as a percentage of revenue is 5% for the PetroSA Company (i.e. excludes PetroSA Ghana). This target is aligned with the approved budget and is made up as follows:

$$\frac{\text{EBITDA}}{\text{Revenue}} = \frac{\text{R590 million}}{\text{R11 692 million}} = 5\%$$

Target: EBIDTA as a percentage of revenue of 5%.
Actual: An EBITDA as a % of revenue of -10% was achieved against a target of 5%.

2.2 Return on assets (ROA)
The target is to achieve an ROA of 6 to 8.5%. This is in line with the current South African Government Bond 10Y. The ROA is based on the approved budget of 6% for the Group.

Target: ROA of 6 to 8.5%.
Actual: Achieved an ROA of -40% for the period under review.

3 | Access to funding

OBJECTIVE	KEY PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL	PERFORMANCE RESULTS
Improve access to funding	**3.1** Maintain letter-of-credit (LC) facility	R900 million facility in place with R350 million collateral by 31 March 2020	**R900 million facility in place with no additional collateral requirements**	**Achieved**
	3.2 Optimum cash conversion cycle	Cash conversion cycle Index of 3	**Cash conversion cycle Index of 1.4**	**Not achieved**
	3.3 Secure controllable offshore funding for decommissioning liability	30% of controllable offshore decommissioning liability by 31 March 2020	**34% of USD value of controllable offshore decommissioning liability**	**Achieved**

3. Improve access to funding

3.1 Maintain letter-of-credit (LC) facility
To accommodate the procurement of feedstock and purchased product at favourable terms, a trade facility of R900 million is required to be in place by 31 March 2020. This could be in the form of an LC facility, a parent-company guarantee, etc.

Target: R900 million facility in place with R350 million collateral by 31 March 2020.
Actual: PetroSA continued to maintain the committed facility of R900 million with no additional collateral requirements.

FINANCE (continued) — 30%

3 | Access to funding (continued)

3.2 Optimum cash conversion cycle (CCC)

This metric measures the time it takes for the Company to convert its investment in inventory into cash. The budget cash management cycle for the Company (i.e. excluding Ghana) is 48 days. It is made up of:

- 34 debtor days;
- plus 61 inventory days;
- minus 47 creditor days.

Target: The target is to achieve a CCC Index of 3 based on a weighted average target of 30 days for manufactured products, 30 days for purchased products and 30 days for other business.
Actual: The CCC Index for the period under review is 1.4.

3.3 Secure controllable offshore funding for decommissioning liability

The target is to have the decommissioning liability fully funded by 2024. In order to achieve this, the target for 2019/2020 is to have 30% of controllable offshore decommissioning liability by 31 March 2020. This could be done through deferment of the liability, transfer of the liability, or a reduction in the costs of rehabilitation. The funding includes the current facility of R2.9 billion.

Target: 30% of controllable offshore decommissioning liability by 31 March 2020.
Actual: Achieved 34% of controllable offshore decommissioning liability.

CUSTOMER, PARTNERSHIPS AND STAKEHOLDER — 10%

4 | Stakeholder engagement

OBJECTIVE	KEY PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL	PERFORMANCE RESULTS
Improve stakeholder relations	**4.1** Stakeholder Engagement Index	Stakeholder Engagement Index of 3	**Stakeholder Engagement Index of 2**	**Not achieved**

4. Improve stakeholder relations

4.1 Stakeholder Engagement Index

The purpose of this KPI is to improve stakeholder and partnership relations by ensuring effective stakeholder engagements. The index covers the following areas:

- Internal stakeholders, including employees and organised labour; and
- External stakeholders, including customers, suppliers, bankers and communities.

The above is monitored through a Stakeholder Engagement Plan.

Target: Stakeholder Engagement Index of 3.
Actual: Achieved a Stakeholder Engagement Index of 2.

INTERNAL BUSINESS PROCESSES 50%

5 | Governance

OBJECTIVE	KEY PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL	PERFORMANCE RESULTS
Improve governance	5.1 Improve compliance with legal prescripts	All instances of non-compliance resolved within the ambit of the law, including consequence management	**22 instances of non-compliance relating to the transgression of legislation (Act/Regulation)**	**Not achieved**
	5.2 Effective decision-making	100% of decisions taken to enable implementation of the Corporate Plan	**100% of decisions taken to enable implementation of the Corporate Plan**	**Achieved**

5. Improve governance

5.1 Improve compliance with legal prescripts

The aim is to ensure that the organisation complies with all applicable laws and regulations. This will be achieved by monitoring areas of non-compliance.

- A "legal prescript" is narrowly defined for the purposes of this KPI as proven non-compliance with the law (and not internal policies, procedures, work practices, etc.), and not instances of non-compliance in respect of which there is no resultant consequence (e.g. an administrative oversight with no financial, legal or other penalty).
- The Company is driving behaviour by way of three components:
  - » Zero non-compliance;
  - » Where non-compliance drives resolution; and
  - » Where non-compliance drives consequence management.

Target: All instances of non-compliance resolved within the ambit of the law, including consequence management.
Actual: Cumulatively, there were 22 instances of non-compliance relating to the transgression of legislation (Act/Regulation). Of the 22 non-compliances recorded during the course of the year, 11 were resolved.

5.2 Effective decision-making

The aim is to ensure 100% decision-making in respect of all submissions made to the Board so as to enable implementation of the Corporate Plan. This will contribute to increased efficiency, the better utilisation of resources, the improvement of performance, the achievement of planned objectives, etc.

Target: 100% of decisions taken to enable implementation of the Corporate Plan.
Actual: 100% of decisions were taken by the Board to enable implementation of the Corporate Plan.

6 | Health and safety management

OBJECTIVE	KEY PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL	PERFORMANCE RESULTS
Improve health, safety, the environment and quality (HSEQ) performance	**6.1 HSEQ Index**	3	**3**	**Achieved**
	6.1.1 Enviromental incidents	4–6 environmental incidents	**6 environmental incidents reported**	**Achieved**
	6.1.2 Lost-time injury frequency rate (LTIFR)	LTIFR = 0.35–0.39	**0.64**	**Not achieved**

INTERNAL BUSINESS PROCESSES (continued) 50%

6 | Health and safety management (continued)

OBJECTIVE	KEY PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL	PERFORMANCE RESULTS
	Quality management			
Improve health, safety, the environment and quality (HSEQ) performance	**6.1.3** Maintain product and service quality management system	70–80% quality conformance score of audited areas vs plan	**80.9% conformance score**	**Achieved**
	6.1.4 Implementation of HSEQ Culture and Awareness Plan	70–80 % completion of activities on the developed HSEQ Culture Plan	**81.8% completion of planned activities**	**Achieved**

6. Improve HSEQ performance

6.1 HSEQ Index of 3

The HSEQ Index is expressed as a weighted average of the ratings (R) obtained for the individual HSEQ KPIs, resulting in the HSEQ Index being as follows:

The target for PetroSA for FY19/20 is an HSEQ Index of 3.

Any fatality occurring as a result of a work-related exposure to an accident or illness caused by or related to a PetroSA workplace hazard will override the calculated HSEQ Index by a reduction of 10% of the overall rating.

$$\frac{R_{\text{(Health and Safety)}} + R_{\text{(Environment)}} + R_{\text{(Quality)}} + R_{\text{(HSEQ Culture)}}}{4}$$

Below is an explanation of how the HSEQ Index is dissected and calculated for final scoring. The narrative also explains how certain targets were conceived and derived.

6.1.1 Health and safety management

Goal: Zero harm to people
Indicator: Lost-time injury frequency rate (LTIFR)

This refers to the safety performance of the Company, with the objective being to reduce the number of lost-time injuries (LTIs) towards the ultimate goal of zero harm to people.

The targets in respect of this element are based on historical achievement and on targets set over the past five years. As a result of the number of lost-time incidents, the LTIFR targets have not been achieved in recent years. Consequently, the target of 0.35 to 0.39 for FY19/20 remains a stretched target based on historical performance.

The LTIFR is calculated as follows on the basis of a rolling 12-month formula:

$$\text{LTIFR} = \frac{\text{Number of LTIs} \times 200\ 000 \text{ hours}}{\text{Hours worked (over 12 months at the end of the period under review)}}$$

An “LTI” is defined as a work-related injury or occupational illness arising out of and in the course of a duty and which results in any related temporary or permanent disablement or death as determined by a medical practitioner and confirmed by the PetroSA-appointed Occupational Medical Practitioner (OMP). Note that this definition excludes noise-induced hearing loss.

A rating of 5 will be achieved if the overall injuries on duty (IODs) are reduced by 10% compared with the IODs recorded in FY18/19.

INTERNAL BUSINESS PROCESSES (continued) 50%

6 | Health and safety management (continued)

Actual: There were 14 LTIs recorded across the organisation, resulting in an LTIFR of 0.64 as opposed to a target of 0.35 to 0.39. Although the targeted LTIFR was not achieved, the total number of LTIs recorded for the period under review was significantly lower (14) than in the previous financial year (27).

There were no fatal incidents as a result of an accident or illness caused by, or related to, a PetroSA workplace hazard. There were, however, two incidents involving two PetroSA contractors.

6.1.2 Environmental management

Goal: Zero harm to the environment
Indicator: Environmental incidents

This refers to the environmental performance of the Company. An "environmental incident" is defined as an event in respect of which one or more of the following criteria apply:

- The environmental damage is localised;
- The environmental damage extends beyond the boundary fence, and a substantiated complaint is received from the community;
- There is permit non-compliance and/or permit exceedance with respect to prescribed limits;
- The event falls under a section 30 incident description in terms of the National Environmental Management Act (NEMA).

Based on historical performance, the target of three to six incidents for FY19/20 remains a stretched target. In addition to this, NEMA section 30 incidents are included in this KPI. The definition was revised to include NEMA section 30 incidents in FY18/19 to enable the Executive Committee (EXCO) and the Board to have a broader, extended view and reach of the organisation's environmental performance. It is critical and of value to continue to monitor this KPI in order to track trends after the expansion of the definition.

This KPI measures the number of environmental incidents. A rating of 5 will be achieved if environmental incidents (all categories) are reduced by 10% compared with FY18/19.

Actual: The environmental incidents reported were on a par with the target of six incidents.

PetroSA is generally compliant with legislative requirements. Where, however, legislative non-compliance has been reported previously, steps are taken to address the findings.

6.1.3 Quality management

Goal: Produce fit-for-purpose products and services
Indicator: Maintain quality management systems

The PetroSA quality management system (QMS) is internationally recognised through the ISO 9001:2015 Certification issued by a third party. ISO 9001 is an international standard that sets out the requirements for a QMS. The QMS helps PetroSA to be more efficient in managing quality-related risks and in improving customer satisfaction. PetroSA's objective is to retain the ISO 9001:2015 Certification by maintaining the internally developed QMS.

This KPI will indicate the robustness of PetroSA processes and the extent to which they conform to the requirements of ISO 9001:2015, as assessed by an external certification body (Ratings 1 and 2), as well as the maintenance of the Company's internal QMS requirements by process owners (Ratings 3 to 5).

During internal quality system audits, a quality conformance score is allocated based on the conformance level of the audited process against the 12 weighted, critical quality aspects. Each aspect is rated on a scale of 1 to 5, depending on the level of conformance. The quality aspects for each business unit will then be aggregated in order to determine the divisional scores, based on processes in the 2021/2020 Internal Quality Audit Plan.

The corporate quality conformance score will be calculated as the average score of the divisional scores.

INTERNAL BUSINESS PROCESSES (continued) 50%

6 | Health and safety management (continued)

Rating		1	2	3	4		5
No.	**Critical quality aspect**				**Rating**	**Weight**	**Weight rating**
1	Issues; interested parties; process mapping and analysis					0.05	0.00
2	Evidence of leadership and commitment					0.10	0.00
3	Customer and supplier focus					0.05	0.00
4	Risks and opportunities					0.10	0.00
5	Quality objectives and planning to achieve them					0.05	0.00
6	Planning of changes to the QMS					0.05	0.00
7	Documented information: Management and control					0.10	0.00
8	Operation/process realisation					0.20	0.00
9	Performance evaluation					0.10	0.00
10	Non-conformity and corrective actions					0.10	0.00
11	Level 1 self-assessments (L1)					0.05	0.00
12	Verification of closure of previous audit findings					0.05	0.00
	Maximum possible rating				**5**		
	TOTAL					**100%**	
	Overall rating						**0.00**
	Overall score						**0.00%**

Critical quality aspects and weight allocation are subject to revision and amendment.

Actual: The average quality conformance score for the organisation was 80.9%. Of the planned audits, 76% were completed during the year.

In May 2019, the QMS Surveillance Audit was conducted by an external certification body. PetroSA's QMS Certification was retained.

6.1.4 HSEQ awareness and culture

Goal: Zero harm to people and the environment
Indicator: An HSEQ-aware and HSEQ-engaged workforce

Safety Culture Surveys are conducted every year to determine the HSEQ culture, awareness and consciousness of the PetroSA family. The results of the surveys provide input into the initiatives that leadership must pursue to further improve the HSEQ culture.

From the results of the Culture Survey feedback in FY18/19, an HSEQ Culture Improvement Plan of Action will be formulated with the objective of improving the HSEQ culture in FY19/20. This plan will present a number of interventions to be pursued in order to change the course of the HSEQ culture in the organisation. The FY19/20 plan will build on lessons learnt, on feedback from Safety Culture Surveys, on observations, on inputs from business, and on incidents for implementation and execution.

The plan will focus on the key HSEQ leadership aspects, namely:

- Leadership visibility;
- Leadership responsiveness to HSEQ issues;
- Rewards and recognition;
- Employee empowerment and participation; and
- Learning from past incidents.

This KPI will measure the implementation and monitoring of the Culture Improvement Plan. An HSEQ Culture Survey will be conducted to ascertain perceptions of the organisational HSEQ culture.

INTERNAL BUSINESS PROCESSES (continued) 50%

6 | Health and safety management (continued)

Actual: From the results of the FY18/19 Culture Survey feedback, an HSEQ Culture and Awareness Plan was formulated with the objective of improving the HSEQ culture in FY19/20. This plan presented a number of interventions and activities that were pursued in order to change the course of safety and of the general HSEQ culture in the organisation. As against a target of 70-80%, 81.8% of the planned activities were executed.

The overall HSEQ Index achieved for the reporting period was 3.

7 | Product quantity

OBJECTIVE	KEY PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL	PERFORMANCE RESULTS
Improve productivity	**7.1** Product Quantity Index	Product Quantity Index of 3	**Product Quantity Index of 2.4**	**Not achieved**

7. Improve productivity

7.1 Product Quantity Index

The target is to achieve volumes and yields that are aligned with the approved budget.

The target is to have a Quantity Index of 3, as tabulated below:

Key performance area (KPA)	KPI	Weight	Annual target	YTD actual	Q4 rating	Weighted score
Improve productivity (7)	**Product Quantity Index (7.1)**	**15%**	**Quantity Index of 3**			
	Indigenous production volumes	5%	2.544 million barrels (MMbbls)	2.214 MMbbls	**2**	**0.67**
	Production based on imported feedstock	3%	3.832 MMbbls	2.404 MMbbls	**1**	**0.20**
	Purchased products (trading, supply and logistics (TSL))	3%	319 045 m^3	914 737 m^3	**5**	**1.00**
	Product yields	2%	86%	82%	**2**	**0.27**
	Product slate	2%	0.51	0.42	**2**	**0.27**
	Index weighted score					**2.41**

Actual: The Product Quantity Index for the quarter was 2.41. Indigenous production was 13% below budget due to the month-long, unplanned shutdown of the GTL Refinery following a Synthol trip incident as well as reliability issues that caused a number of plant trips on the gas loop and at the refinery. Non-indigenous production was 37% below budget due to the unavailability of affordable feedstock.

Purchased products were higher than budget due to increased volumes of imported diesel to supplement the refinery production shortfall.

INTERNAL BUSINESS PROCESSES (continued) 50%

8 | Product sustainability

OBJECTIVE	KEY PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL	PERFORMANCE RESULTS
Sustainability Index	**8.1** Sustainability Index	Sustainability Index of 3	**Sustainability Index of 4**	**Achieved**

8. Improve sustainability

8.1 Sustainability Index

The target is to achieve a Sustainability Index of 3 as tabled below.

KPA	KPI	Target (FY19/20)	Weight	YTD actual	YTD rating	Weighted score
Improved sustainability (8)	**Sustainability Index (8.1)**	**Sustainability Index of 3**	**10%**			
	LT commercial viability	70% execution of the Emergency Plan by 31 March 2020	5%	Achieved cost savings of R707.6 million vs a target of R699 million	**5**	**2.5**
	Socio-economic development	Improve B-BBEE rating from Level 6 to Level 4	5%	B-BBEE rating of 4 retained	**3**	**1.5**

Actual:

1. **Execution of the Emergency Plan**
   Savings from the Emergency Plan amounted to R707.6 million against a target of R699 million. This translates to 101% achievement of the targeted Emergency Plan initiatives.

2. **Improve B-BBEE rating from Level 6 to Level 4**
   The B-BBEE verification was completed by end November 2019 and PetroSA has improved its B-BBEE rating from Level 6 to 4.

STAKEHOLDER MANAGEMENT

Engaging with and responding to individuals, groups and organisations affected by its activities makes the Company perform better and improves relationships

OUR STAKEHOLDER MANAGEMENT STRATEGY

In its endeavour to build and maintain value-adding relationships, PetroSA has developed a Stakeholder Engagement Strategy and Plan with a view to initiating and sustaining constructive engagements over time and throughout the organisation by interacting as early and as frequently as possible with its stakeholders. Engaging with individuals, groups and organisations that are affected by its activities, and responding to their concerns, makes the Company perform better and improves its relationships with stakeholders.

PetroSA's Government and Stakeholder Relations Strategy and Policy provides the organisational framework that determines who the Company's stakeholders are and how it engages with them in the process of maintaining mutually beneficial relationships while conducting value-adding business. As with all other activities of PetroSA, the Stakeholder Relations Strategy is operationalised in accordance with the Company's values of Batho Pele ("People First"), stewardship, honesty, integrity, respect and transparency. The Stakeholder Engagement Strategy is aligned with the Company's Corporate Plan, is benchmarked against best practice in the industry, and is in line with the latest trends relating to King IV and the Integrated Reporting Framework.

PetroSA's main stakeholders and the nature of its engagement with them during the period under review are dealt with below:

GOVERNMENT

PetroSA is a wholly-owned state company which operates as a commercial entity and creates value for the Shareholder. As a national asset, the Company pursues the government's policies and strategies within the oil and gas sector. Among the government's strategies are to ensure the country's security of hydrocarbon supply and to drive transformation in the industry. Engagement with the Office of the President, the Shareholder Ministry, the DMRE, and other state departments, including state-owned entities and companies, is of paramount importance.

In June 2019, the President of the Republic of South Africa met with chief executives of state-owned companies (SOCs), including PetroSA and the CEF. The President had requested the meeting in order to hear the views of the executive leaders of strategic SOCs on challenges they face in implementing their mandates and on opportunities they have identified to strengthen this sector. The President indicated his appreciation for the frank and open manner in which the executives raised their concerns. He further invited PetroSA's Board Chairperson and the GCEO to the State of the Nation Address in Parliament in February 2020. Following this engagement, the Board Chairperson, a Board Director and the GCEO attended the Budget Speech delivered by the Minister of Finance.

In pursuit of fostering alignment with the Shareholder Ministry, the management of the CEF and of PetroSA, as well as their Board chairpersons, attended the inaugural Budget Vote Speech delivered by the Minister of Mineral Resources and Energy in Parliament, as well as the dinner that took place later in the evening. The occasion presented opportunities for positive engagements and information-sharing with potential suppliers, customers and partners.

To influence policy direction, a PetroSA delegation engaged with senior management of the DMRE. The delegation offered the DMRE a closer look at the technical aspects of the petroleum business, including looking more deeply into the free carry percentage of the state and B-BBEE companies when discussing the finalisation of the Mineral and Petroleum Resources Development Act (MPRDA). From 20 to 23 August 2019, PetroSA's technical experts provided input into the modelling of various fiscal scenarios in respect of state equity, as provided for by the MPRDA. Following these engagements, PetroSA's Chairperson and Executive Management attended the 2020/26 DMRE Strategic Planning Session. Also in attendance was the Executive Management of the DMRE and other state-owned enterprises (SOEs) reporting to the DMRE. These engagements continued to take place during the course of the quarter in order to ensure strategic alignment of the Shareholder Ministry with its entities.

The Portfolio Committee on Mineral Resources and Energy has an oversight obligation in respect of PetroSA's performance. On an annual basis, PetroSA presents its financial status to the South African Parliament, and its FY18/19 audited financial results were therefore presented to this committee.

PUBLIC ENTITIES

PetroSA continues to build relationships with a core network of industry role players. These stakeholders include the Petroleum Agency SA (PASA) and the National Energy Regulator of South Africa (NERSA). PetroSA also collaborates with other SOCs such as Eskom, South African Airways, SA Express, Transnet, and the Department of Defence regarding areas of mutual commercial interest and benefit.

During the period under review, National Treasury met with PetroSA's Procurement and B-BBEE Management Team. The rationale underlying this engagement was that the Company was seeking measures that could be initiated to alleviate constraints emanating from the Preferential Procurement Policy Framework Act that seemed to be hindering better B-BBEE scores in respect of the Preferential Procurement Scorecard element. National Treasury also made a presentation on the Preferential Procurement Regulations.

BUSINESS

In order to keep abreast of, and benchmark with, the industry and other national oil companies (NOCs) throughout the continent and the world at large, the CEF Group of companies made presentations at two international oil and gas conferences, namely the Africa Oil and Power Conference and the Africa Oil Week Conference that took place at the Cape Town International Convention Centre (CTICC) from 9 to 11 October 2019 and from 4 to 8 November 2019, respectively. During Africa Oil Week, PetroSA's Chief Executive Officer (CEO) and the SFF's CEO jointly hosted a delegation from the Uganda National Oil Company (UNOC). UNOC's CEO led the UNOC delegation. The meeting explored the potential for cooperation in respect of capacity building and for synergies with regard to projects of mutual benefit to the two countries.

The 12th Africa Energy Indaba Conference took place at the CTICC from 3 to 4 March 2020. The conference brought together industry experts, government and other role players with the aim of finding solutions regarding sufficient energy provision across the continent. The CEF Group of companies was one of the premium sponsors of, and exhibitors at, the conference.

COMMUNITIES

As a responsible and caring corporate citizen, PetroSA engages with communities impacted by its operations in an open and transparent manner, and endeavours to pursue activities that are beneficial to those communities, in line with PetroSA's strategic objectives. PetroSA has established a Stakeholders Forum that meets

quarterly at the GTL Refinery. During these engagements, community stakeholders raise a number of issues that are related mainly to human capital (HC). Concerns range from employment opportunities, nepotism in respect of recruitment, and other perceived internal and external infringements. HC Management encourages the community to use the toll-free, whistle-blowing number to report concerns, and investigates any allegations made. Other issues raised relate to gangsterism and drug abuse in communities and community requests for PetroSA's intervention and assistance in these matters.

The Company engages with other institutions and municipalities in the greater Mossel Bay area. The Thusong Service Centre is one such institution. It operates a community outreach programme that was initiated by the Mossel Bay Municipality. The aim of the programme is to bring a variety of government services (e.g. the South African Revenue Service (SARS), the South African Police Service (SAPS), the Department of Home Affairs, etc.) closer to the people – and all under one roof. During the week of 21 to 25 October 2019, the Thusong Service Centre celebrated its 20th anniversary in the service of the Mossel Bay community. PetroSA, which has supported this initiative for over four years, was invited to take part in these celebrations – which also presented an opportunity for engaging and building relationships with many stakeholders of the Eden District in one place.

PetroSA assists the government in achieving its strategic objective of a better life for all. The Company's footprint is therefore to be found not only in communities where it operates, but also beyond this in other rural poverty nodes. To this end, through the Community Affairs Department of PetroSA, the construction of the Integrated Energy Centre (IeC) in Qamata in the Eastern Cape was completed. Once the centre's operations have been tested, it will be handed over by the Minister of Mineral Resources and Energy to the community of Qamata.

PROFESSIONAL INSTITUTIONS

The Offshore Petroleum Association of South Africa (OPASA) is a representative body for the offshore upstream petroleum industry. The association serves as a platform for members to engage on matters of common interest, including health and safety and legislative and regulatory proposals. The Minister of Mineral Resources and Energy and his team held a meeting with OPASA members to discuss issues relating to the integration of the Department of Mineral Resources and the Department of Energy, the finalisation of the MPRDA, and environmental financial provisioning, among others.

PetroSA LABOUR UNIONS

In the year under review, PetroSA's senior management and the official labour formations engaged at the highest political levels. This is an example of how the Company's stakeholder engagements should, in the main, endeavour to influence the direction of the country's petroleum policy in a way that can add value to the Company's operational mandate.

In August 2019, the Portfolio Committee on Mineral Resources and Energy invited members of the Joint Labour Unions (CEPPWAWU, NUMSA and Solidarity) and their national office bearers to a parliamentary stakeholder engagement session. Among the issues discussed were how the government could assist in turning around the Company's fortunes. CEPPWAWU's PetroSA representative made a presentation to the committee and stressed the importance of the government granting PetroSA NOC status and relaxing the abandonment liability with regard to PetroSA by way of legislation.

THE ENVIRONMENT

PetroSA has a responsibility to pursue environmentally friendly business practices and to engage effectively in business networks that provide current and factual environmental impact assessments. Where possible, the Company acts to minimise the negative impact on the environment within which it operates.

The Minister of Mineral Resources and Energy established an interdepartmental task team to evaluate the potential environmental risks posed by the process of hydraulic fracturing as well as the negative and positive social and economic impacts of shale-gas exploitation. PetroSA requested to be part of these engagements and was subsequently invited to the Hydraulic Fracturing Monitoring Committee meeting that was held in August 2019. PetroSA is now a member of this forum, which holds meetings once a month.

02.

PetroSA BOARD

STATEMENT BY THE CHAIRPERSON


Frans Baleni

PetroSA's performance and current business realities portend challenging times ahead

It is my special privilege to give you the Board's account and review of the 2019/2020 financial year performance of PetroSA. And, it is not good at all to have to report yet another negative financial performance, even though it is my first start as Chairperson. As it has been pointed out in the management reports, the business has recorded a loss of R5.6 billion, a continuation of a string of poor financial performances over the last five years. These dismal and disappointing results are not something that the Board, Management and other employees of PetroSA can be proud to be associated with. These results are signs of a company that is descending into an unprecedented crisis and the enormity of the underlying business issues that we should honestly confront and decisively deal with as stakeholders.

The seriously disappointing performance of the year under the review is attributable to various internal and external factors. The former are largely within management control and require stricter focus and control. This pattern of poor financial performance needs to be contained and addressed because it erodes shareholder value and returns.

Externally, various global and local conditions had an adverse impact on performance and revenues. Diminishing indigenous reserves, poor operational performance at the Refinery and reduced global demand for oil due to the COVID-19 pandemic all contributed to a difficult operating environment. Lower crude prices and a weakened rand against the USD and Euro were also factors affecting revenues. We will only likely to see the true impact of these conditions in the coming financial year.

CHALLENGING BUSINESS CONDITIONS

The performance of PetroSA during the year under review, coupled with current harsh business realities, portend more challenging times ahead. Without painting an unnecessarily gloomy picture, it is important to state upfront that the business-as-usual approach will not be of any help if we hope to successfully turn around this company into a sustainable business. Any hope for a better future requires an honest appraisal of the current situation, new mindsets, and robust internal engagements to map out a new path for the Company.

In the Board's view, a drastic change in how we do things is essential for successfully turning around this company into a more commercially viable and competitive business. PetroSA is currently at a crossroad, a critical point in the company's history. We collectively have to do everything within our powers to save PetroSA and keep it afloat or we'll sink together. Primarily, the natural gas wells, which for more than two decades were a stable and cost-effective supplier of natural gas feedstock to our Gas-to-Liquid (GTL) Refinery in Mossel Bay, are close to the end of their operational lives. This constitutes a serious threat to the sustainability of the current operating model in the absence of any affordable alternative feedstock. Unfortunately, the costs of alternative feedstocks are disproportionally higher than the cost we are used to and could raise our already high operational costs even further.

Equally, we can no longer ignore the severity and impact of the overall management and performance of PetroSA over the past five years on our present situation and future prospects. Issues of governance and leadership instability in the organisation have not helped to change the status quo and shift the business trajectory in the right direction. These will remain among the Board's priority focus areas. It is critical that we make the right choices now if we are to survive this challenging period.

A TIME TO MAKE HARD CHOICES

Significant efforts have been expended into optimising operations and minimising associated high fixed costs to sustain the business, while exploring viable, alternative long-term strategic options and operating models. The stringent cost-cutting measures implemented companywide have not made much impact. The results are simply not enough to alleviate the cash crunch that we are experiencing. The reality of PetroSA's limited financial resources, and the Shareholder's capital constraints, reinforce the view that business-as-usual stance simply isn't an option.

PetroSA must devise some self-help mechanisms as it repositions itself and explores alternative funding avenues that do not solely rely on Shareholder support and bailouts. Efforts to remedy the situation require some urgency, starting with stabilising leadership at the executive level. The Board started this process with the appointment of a new CEO. However, it acknowledges that this appointment is not sufficient, and more needs to be done as PetroSA continues to have a number of vacant executive management positions. Filling these positions would obviously be impacted upon by the planned merger of PetroSA with SFF and iGas. The Board will continue to prioritise good corporate governance, enforcing measures to improve compliance as well as building and entrenching an organisational culture that is underpinned by a strong sense of ethics and values, and inculcating a culture of accountability across the business.

The Board is equally committed to making tough choices that will not only benefit the Company and its stakeholders but the whole country. We all have to be aware that the work carried out by our Board and staff every day has a national impact. That's why we need to do things differently to achieve a commercially sound and developmental PetroSA.

THE FUTURE TRAJECTORY

The Board, working closely with the Shareholder (CEF), is optimistic that the work currently in progress to finalise the corporate plan will produce a new operating model for the long-term sustainability of the PetroSA business. This is linked to the plan to rationalise PetroSA, iGas and the SFF with a view to forming a new national petroleum company.

Due to resource constraints to carry out the capital-intensive projects such as exploration and drilling, there is a need to establish strategic partnerships to support upstream initiatives. Partnerships are the key to unlocking the much needed, but scarce, resources that PetroSA does not currently have. The partnerships are important building blocks for creating a more sustainable future by facilitating investments in projects that PetroSA cannot fund on its own or without sharing the high risks involved. Affording PetroSA a 20% state carry in all the upstream exploration blocks in South Africa may also usher into a new era with potential value for PetroSA.

Despite requiring significant capital expenditure, acquisitions are another option for diversifying and expanding

STRATEGIC RELATIONSHIPS

Our relationships with our stakeholders and the Shareholder play a vital role in enabling us to navigate turbulent waters, and we are grateful for their support. In particular, the discussions with President Cyril Ramaphosa enabled us to share the challenges we are facing, as well as our intention to find a solution to such challenges. Further engagements with Minister Gwede Mantashe and colleagues at the Department of Mineral Resources and Energy (DMRE) are also encouraging, particularly in terms of the drive to find much-needed solutions with regard to the Company's ongoing sustainability and stability. In this respect, our discussions with labour unions have also been critical and we welcome the open dialogue created during the course of the year under review.

We also value the relationships we have built, and continue to build, with groups and individuals in our sector and in the communities in which we operate. These relationships enable us to understand the needs of these communities and to play our part in responding to such needs.

BOARD OF DIRECTORS

- Board Audit and Compliance Committee
- Strategy and Risk Committee
- Social and Ethics Committee
- Human Capital and Nominations Committee

Mthozami Xiphu (63)
BA, Bluris, MA

Mr Xiphu is Chairperson of the Board of Directors of the South African Oil and Gas Alliance (SAOGA). He was the Chief Executive Officer (CEO) of the Petroleum Agency SA (PASA) from 2005 until 2012. He served as Director: Legal Services for the then Department of Minerals and Energy (DME) between 2001 and 2005 and as Assistant Director: Legal Services for the then Western District Municipality (1996–2001). Mr Xiphu also served on the PetroSA Interim Board from 5 July 2017 to 17 October 2019.

Bongi Masinga (52)
BCom (Unisa), USA–SA Leadership and Entrepreneurship Program (Wharton School of Business)

Ms Masinga is one of the founding members of the Afropulse Group. She was also the Chief Operating Officer (COO) and Head of Corporate Advisory Services at Quartile Capital. Ms Masinga has held various positions in the financial services sector for companies such as the DBSA and Gensec. She has merchant-banking experience gained while working at Hill Samuel in London. Currently, she serves on the boards of Bidvest Ltd, Libstar Ltd and MerSETA, is an Independent Trustee of Petra Diamonds, and is also a Council Member of the Durban University of Technology.

Frans Baleni (60)
BA (UJ), Board of Directors Certificate (Institute for Management Development), Project and Infrastructure Finance Programme (London Business School)

Mr Baleni has served on the Boards of companies in various sectors, including mining, energy and education. Such companies included the Development Bank of South Africa (DBSA), Rand Mutual Bank and Eskom. He occupied various positions within the National Union of Mineworkers (NUM) and served as its Secretary General from 2006 to 2015.
Mr Baleni has also served as the Chairperson of the Mineworkers Investment Trust. He was a United Democratic Front activist and was later involved in negotiations at the Convention for a Democratic South Africa (CODESA).

Solomzi Tshiki (57)
BSocSc (Natal), Honours in Business Administration (Stellenbosch University)

Mr Tshiki is a founding member of Grand Parade Investment. He has worked in the field of human resources (HR) for various corporates, including Engen Petroleum Ltd, and subsequently started his own HR consulting company. He is a non-executive director at Garies Consolidated Holdings, Black Equity and Motivity. Mr Tshiki has completed business process re-engineering and other management programmes at the universities of Frankfurt (Oder) and Antwerp as modules towards an Honours in Business Administration (HBA).

Dr Len Konar (65)

Dr Konar is a chartered accountant. He is a former Professor in, and Head of, the Department of Accountancy at the then University of Durban–Westville. He has also served as an executive director of the Independent Development Trust. Dr Konar is a member of the King Committee on Corporate Governance, the Corporate Governance Forum, the Institute of Directors, and the National Association of Corporate Directors (USA). He has served as a non-executive director of a number of JSE-listed companies and has also chaired, or served on, the audit committees of some of their boards. He currently serves as a non-executive director of the Guardrisk group of companies. He is also a supervisor of MBA/PhD candidates at various South African universities.

Leon Haywood (65)
BSc Hons (Geology) (UP), MBL (Unisa)

Mr Haywood has worked for Shell in South Africa and in London for more than 20 years and has been involved in distribution, planning, pricing, and supply and trading. He spent time in Latin America and Africa developing business for Masefield and Addax/Oryx, and another seven years working as Managing Director of Litasco Middle East responsible for the Middle East and Africa. Mr Haywood has extensive knowledge of crude and product trading in the Middle East and Africa, is a Senior Associate Consultant for Channoil Consulting Limited, and a supply and trading expert for Africa and the Middle East.

Llewellyn Delport (57)
BSc (Chem. Eng.) (UCT), MBA (GSB, UCT), Executive Development Programme (Ashridge Business School, London)

Over a period of 36 years, Mr Delport has served multinational mining companies in South Africa, Namibia, Angola, England and Canada. Twenty of these years were spent as a General Manager, Managing Director or CEO.

Liziwe Mda (54)
BSc chemical engineering (UZN),
MSc chemical engineering (Wits) and MBA (Wits)

Ms Liziwe Mda has extensive experience in the chemical and petrochemical industries. She also has experience as a non-executive director in a JSE listed company.

Nomagcisa Tsipa-Sipoyo (55)
B. Iuris degree (Unitra, now WSU), ND in Road Transport Management (UJ) PGDMP, post graduate Diploma in Management Practice (Henley Business school)

Ms Tsipa-Sipoyo's background includes working for UCT's Centre for Conflict Resolution as Senior Consultant, for Arcus Gibb Engineering Consultancy as National Transformation Manager, and as Director of Transport Safety and Compliance in the Western Cape government. She later took up directorships at Greenspace Investments (PTY) Ltd, West Coast Petroleum, and Isanqa Resourcing investment companies. She has also served as a panellist for IMMSA. She is currently studying for an LLB through Unisa, as well as a PGD in Management Practice at Henley Business School.

Name	Category	Board	Board Audit	Human Capital	Strategy and Risk	Social and Ethics	Nominations	TOTAL
		9	4	4	8	4	2	31
Mr N Gumede	Non-executive	9		4	8		2	23
Mr QMN Eister	Non-executive	9	4	3	8		2	26
Mr SS Masemola	Non-executive	9	1		7	4	2	23
Mr M Xiphu	Non-executive	9		4	8		2	23
Mr RG Degni	Non-executive	9	4		8	4	2	27
Mr N Mashiane	Non-executive	9		3		4		16
Ms NM Mhlakaza	Non-executive	3	1	1				5
Ms N Mkhize	Non-executive	6	3				1	10

Name	Category	Board	Board Audit	Human Capital and Nomco	Strategy and Risk	Social and Ethics		TOTAL
		2		2		1		5
Mr Frans Baleni	Non-executive	2		2				4
Mr Llewellyn Delport	Non-executive	2						2
Dr Deenadaylen Konar	Non-executive	2						2
Mr Leon Haywood	Non-executive	2						2
Mr Solomon Tshiki	Non-executive	2		2		1		5
Mr Mthozami Xiphu	Non-executive	2		2				4
Ms Liziwe Mda	Non-executive	2						2
Ms Nomagcisa Tsipa-Sipoyo	Non-executive	2		2		1		5
Ms Bulelwa Ndamase	Non-executive	0				1		1
Ms Sibongile Masinga	Non-executive	2				1		3

CORPORATE GOVERNANCE STATEMENT

APPROACH

PetroSA's approach to governance is based on the King IV Report on Corporate Governance for South Africa 2016 (King IV). The Board remains committed to ensuring a strong ethical culture, transparency and accountability. This is demonstrated by its compliance with both the letter and spirit of legislation, regulations, and non-binding rules, codes and standards applicable to both itself and the subsidiaries under its control.

PetroSA'S GOVERNANCE FRAMEWORK

PetroSA's corporate governance framework includes the structures, processes and practices that the Board of Directors employs in order to direct and manage the Group's operations. The Board serves as the focal point and custodian of corporate governance and is therefore explicitly responsible for providing strategic direction and oversight. The Board has applied King IV with a view to promoting and entrenching the primary corporate governance outcomes, namely an ethical culture, good performance, effective control, and legitimacy.

The governance framework delineates the roles and responsibilities of the Board and the Board committees so as to ensure delivery on the mandate and enable the Board to govern the Group. In addition, provision is made for management committees that implement Company strategy.

The governance framework outlines all the structures that have been established, including Board committees that have formal terms of reference. A Level of Authority Framework regulates the powers assigned to the structures set out in the framework. The committees perform their functions in line with the powers delegated to them by the Board.

ETHICAL AND EFFECTIVE LEADERSHIP

The Board recognises that ethical leadership is a fundamental component of good corporate governance. As the custodian of good corporate governance, the Board is responsible for setting an ethical tone, as espoused in King IV.

Principally, the Board is responsible for providing ethical leadership and strategic oversight through independent judgement in order to ensure the long-term sustainability of the organisation.

Acknowledging the challenges facing PetroSA, the Board consequently adopted a Turnaround Strategy to assure such sustainability.

The Board has adopted a values-based approach which underlies its decision-making processes. To this end, the Board and employees are required to declare their interests annually, and as and when conflicts of interest arise.

In line with the Ethics Management Programme implemented to embed an ethical culture within the organisation, a Company-wide ethics assessment was conducted with the assistance of the Ethics Institute. The assessment confirmed that employees are aware of the Company's values, as well as of its ethics policies and procedures. In addition, areas for improvement were noted. Remedial actions are monitored through attestation letters, which are completed on a quarterly basis.

In addition, the Code of Ethics and Conflict of Interest Policy provide guidance on the Company's expectations with regard to the standards of conduct expected of the Board and employees.

GOVERNANCE STRUCTURES

Board of Directors

The Board is responsible for directing and overseeing the affairs of the Company, for balancing the interests of stakeholders, and for ensuring the Company's long-term economic, social and environmental sustainability.

The Board, which has a unitary structure, was appointed with effect from 17 October 2019.

The Board comprises a majority of independent, non-executive directors at all times, constituted as required in terms of the Companies Act, the Company's Memorandum of Incorporation and the Board Charter. The Shareholder, CEF SOC Limited (CEF), appoints non-executive directors for a three-year cycle, and reappointment is at the discretion of the Shareholder.

In line with the previous year's report, the Board appointed Mr Pragasen Naidoo as the GCEO with effect from 1 March 2020. The GCEO is responsible for the day-to-day management of the operations of the business.

Appointment and composition of the Board of Directors

The PetroSA Memorandum of Incorporation states that the Board should consist of not less than eight and not more than 16 directors. PetroSA has a unitary Board that comprises a majority of independent, non-executive directors and two executive directors.

Non-executive directors are appointed by the Shareholder. The non-executive directors were appointed with effect from 17 October 2019.

The Board is balanced with respect to gender, race and skills. With regard to skills, these include, but are not limited to, skills in the fields of engineering, finance, risk management, accounting, the oil and gas sector, human resources, and law.

However, the Human Capital and Nominations Committee is mandated by the Board to identify the necessary skills, qualifications and experience required by the Board as and when the need arises.

The responsibilities of the Chairperson, Chief Executive Officer (CEO), Chief Financial Officer (CFO) and non-executive directors are clearly separated.

Collectively, the Board believes that the current mix of knowledge, skills, experience, gender and tenure meets the requirements to lead the Company effectively.

There is a clear balance of power and authority at Board level and no single director has unfettered decision-making powers.

Term of office, rotation and retirement

A Board member is appointed for a three-year term and may, subject to eligibility, serve a maximum of three consecutive terms. The Shareholder appoints all directors. The Shareholder furthermore manages racial, gender and disability targets as well as succession planning.

Changes in Board composition

Subsequent to the resignation of the previous Board in the year under review, the Shareholder appointed 10 independent, non-executive directors and one executive director. Ms B Ndamase resigned on 10 March 2020.

Chairperson and Chief Executive

The roles of the Chairperson and CEO are clearly differentiated. The Chairperson is responsible for leading the Board, for ensuring its effectiveness, and for setting its agenda, whereas the CEO leads the executive team in running the business, developing strategy, and coordinating proposals for consideration by the Board.

Board and committee meetings

The composition of Board committees for FY20/21 is as set out in the following table.

Strategy and Risk Committee	Board Audit and Compliance Committee
Ms L Mda *(Chairperson)* Mr F Baleni Mr L Delport Dr D Konar Mr L Haywood Mr M Xiphu	Dr D Konar *(Chairperson)* Mr L Delport Ms B Masinga Ms B Ndamase Mr L Haywood Ms L Mda
Invitees: CEO COO CFO CRO	Invitees: CEO CAE (CEF) CFO Auditor-General CFO (CEF) CRO CAE

Social and Ethics Committee	Human Capital and Nominations Committee
Ms B Ndamase *(Chairperson)* Ms B Masinga Mr S Tshiki Ms N Tsipa-Sipoyo	Mr M Xiphu *(Chairperson)* Mr F Baleni Mr S Tshiki Ms N Tsipa Sipoyo
Invitees: Manager: Communications Manager: Corporate Affairs Manager: SHEQ Manager: Stakeholder & BEE Manager: Procurement CRO	Invitees: CEO VP: HC Executive: HC (CEF)

CEO: Chief Executive Officer; COO: Chief Operating Officer; CFO: Chief Financial Officer; CRO: Chief Risk Officer; CAE: Chief Audit Executive; SHEQ: Safety, Health, Environment, Quality; BEE: Black Economic Empowerment; VP: Vice-President; HC: Human Capital

Board committees

Board Audit Committee

The primary objective of the Board Audit Committee (BAC) is to assist the Board in fulfilling its oversight responsibilities in terms of the Companies Act 71 of 2008 and the Public Finance Management Act (PFMA) 1 of 1999, as well as to:

- Assist the Board in discharging its responsibilities with regard to matters relating to auditing, finance, combined assurance, internal auditing, the appointment of external auditors, and reporting (e.g. in the form of annual reports and the reporting of financial misconduct);
- Have regard to all significant risks, as well as accounting and reporting issues, that may impact the integrity of the annual financial statements; and
- Review the appropriateness of accounting policies and the assumptions made by Management in preparing the financial statements.

The BAC consists of four independent, 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 recommends the appointment of the Chairperson of the BAC through its Nominations Committee. The effectiveness of the BAC is assessed annually.

The GCEO, the Acting Group Chief Financial Officer (Acting GCFO), the Chief Audit Executive (CAE), the Chief Risk and Compliance Officer (CRCO) and the external auditors are permanent invitees to the BAC's meetings. The CFO and the CAE represent the Shareholder.

Other assurance providers are invited to the BAC's meetings when required for committee composition and with regard to its key roles and responsibilities as at the date of this report.

Human Capital Committee (HCC)

The HCC is chaired by a non-executive director and comprises four non-executive directors appointed by the Board. The GCEO and the Vice-President: Human Capital (VP: HC) attend HCC meetings by invitation, with a standing invitation extended to the CEF Shared Services Unit.

The role of the HCC is to see to it that the business has a responsive human capital strategy and policies to ensure that it recruits, develops and retains employees so that the organisation is aligned with the changing business operating model.

Nominations Committee

In view of the amalgamation of the HCC and the Nominations Committee, matters relating to nominations are addressed by the new committee, which comprises five non-executive directors appointed by the Board. The GCEO attends committee meetings by invitation.

The purpose of the Committee is to ensure that the organisation has established sound governance and internal processes so that the Company is led ethically as a good corporate citizen. The key deliverables include:

- Establishing the process for the composition and constitution of Board committees by assessing and evaluating the skills, competencies and experience of directors in order that such committees may function better and be more effective in discharging their role as enshrined in the terms of reference; and
- Ensuring that there are processes in place to evaluate the effectiveness of individual Board members and committees by way of Board evaluation.

The Committee ensures that there are induction processes in place for new directors and appropriate development programmes for directors. The activities carried out by the Committee during the year are reflected in the report.

Strategy and Risk Committee

The Committee is chaired by a non-executive director and comprises five non-executive directors appointed by the Board. The CEO, GCFO and relevant Executive Committee (EXCO) members attend Committee meetings by invitation.

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

- Overseeing the formulation of the Corporate Plan in line with the Group's mandate and overarching strategy;
- 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 and programmes, taking into account the Capital Allocation Model, funding requirements and due diligence findings; and
- Receiving and reviewing quarterly reports and recommending to the Board the submission of these reports to the Shareholder in compliance with the PFMA and the Shareholder Compact.

Social and Ethics Committee

The Committee comprises four non-executive directors and is chaired by an independent non-executive director.

The GCEO and relevant EXCO members attend Committee meetings by invitation.

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 respect to: employment equity; broad-based black economic empowerment (B-BBEE); health, safety, the environment and quality; good corporate citizenship; stakeholder relationships; labour and employment; procurement; and communications.

Director independence and managing conflicts of interest

The Board places a premium on its members maintaining high levels of independent thinking and objective judgement. To this end, the independence of each non-executive director is assessed annually in this regard.

In addition to assessing non-executive directors against the criteria recommended by King IV, the Independence Assessment takes into account whether a non-executive director has demonstrated an independent state of mind and objective judgement in relation to matters affecting the Group, and whether he or she has an interest, position, association or relationship which, when considered from the perspective of a reasonable and informed third party, is likely to influence the director unduly or cause bias in his or her decision-making.

Director induction and development

New directors undergo a formal induction process in order to equip them with organisational, industry and regulatory information that will make them effective in the shortest possible time. They are provided with the Company's founding documents, manuals, policies and significant reports, with relevant legislation, etc. Site visits to the Company's operations are also conducted.

Directors are provided with opportunities to attend industry-specific conferences at the Company's expense in order to promote their continuous development.

Directors are also able to seek independent professional advice concerning the Company's affairs should they require this.

Board evaluation

The performance of the Board, of committees and of individual directors was evaluated through a process facilitated by the DMRE.

Executive succession

The HCC and the Nominations Committee are responsible for succession planning in respect of Executive Management.

Company Secretary

The Company Secretary plays a pivotal role in the corporate governance of the Group. She attends all Board and committee meetings and provides the Board and directors, both collectively and individually, with guidance on the execution of their governance roles. The Board has considered, and is satisfied with, the qualifications, competence and expertise of the Company Secretary.

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 individual contribution;
- **Offer people choice** in terms of how their remuneration and benefits are structured in order 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 performance level;
- Enable high achievers to **share in the financial success of the organisation**; and
- **Reflect the company's approach to its people** as being fair, transparent and equitable.

REMUNERATION COMPONENTS

Remuneration at PetroSA is based on a total reward strategy that 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 is linked to business goals and objectives via organisational value drivers and balanced scorecard measures.

Guaranteed remuneration

Guaranteed remuneration is designed to ensure that individuals are paid equitably, both 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 and spousal assurance; and
- Disability/income protection insurance.

Market comparisons are based on total guaranteed remuneration. Reputable remuneration consultants are used to calculate the market values and to produce the most relevant and appropriate remuneration surveys.

Variable remuneration

In PetroSA's case, the variable component of its remuneration structure would consist of a short-term Incentive Scheme, the structure of which may be amended from time to time to align with business strategy and industry norms. However, the design would always have the following objectives in mind:

- To drive organisational, 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 or scarce skills.

Non-executive remuneration

The Shareholder determines the remuneration of non-executive directors, which consists of a quarterly retainer payment and fixed fees for attending Board and committee meetings. Non-executive directors are also reimbursed for Company-related expenses and engagements.

Pertinent facts relating to remuneration during the 2019/2020 financial year

- During the past financial year, an across-the-board increase of 6.5% was awarded to employees on TASK Grades 14 and lower (the Bargaining Unit). This increase was awarded in accordance with a multi-year agreement reached by the National Bargaining Council for the Chemical Industry (NBCCI) in May 2018.
- In support of the proactive measures to contain and preserve cash, and in line with the instructions from National Treasury and the Minister of Energy, the business awarded no salary increases to executives and senior managers earning salaries in excess of R1.5 million per annum. Employees on TASK Grade 15 and higher who were earning salaries of between R1 million and R1.5 million per annum, received a salary increase of only 2.8%. The application of the ministerial directive resulted in an annualised saving of R18 million.
- However, in order to address disparities with regard to the salaries of all levels of staff in relation to their respective pay scales, and to align the remuneration of peer groups, further salary adjustments were awarded to qualifying employees with effect from 1 September 2019. The total annualised cost of these ad hoc parity adjustments amounted to R40 million.

DIRECTORS' AND EXECUTIVES' REMUNERATION

Year ended 31 March 2020

Non–executive Directors	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
N Gumede	1 169	–	–	–	247	–	–	**1 416**
QMN Eister	684	–	–	–	152	–	–	**836**
SS Masemola	547	–	–	–	67	–	–	**614**
M Xiphu	923	–	–	–	196	–	–	**1 119**
RG Degni	642	–	–	–	4	–	–	**646**
N Mashiane	431	–	–	–	94	–	–	**525**
N Mkhize	321	–	–	–	–	–	–	**321**
NM Mhlakaza	196	–	–	–	–	–	–	**196**
BM Ngubo	42	–	–	–	5	–	–	**47**
F Baleni	547	–	–	–	71	–	–	**618**
D Konar	314	–	–	–	32	–	–	**346**
L Delport	250	–	–	–	70	–	–	**320**
L Haywood	235	–	–	–	85	–	–	**320**
S Tshiki	266	–	–	–	58	–	–	**324**
L Mda	–	–	–	–	12	–	–	**12**
M Tsipa-Sipoyo	243	–	–	–	35	–	–	**278**
S Masinga	145	–	–	–	16	–	–	**161**
B Ndamase	213	–	–	–	45	–	–	**258**
Total	**7 168**	**–**	**–**	**–**	**1 189**	**–**	**–**	**8 357**

Executive Management	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	Other R'000	Total R'000
B Sayidini (2)	2 574	–	185	165	372	–	–	**3 296**
K Zono	3 801	–	646	282	277	–	–	**5 006**
O Mohapanele (2)	141	–	21	13	–	–	–	**175**
M Nene (2)	1 996	–	417	193	435	–	–	**3 041**
O Chibambo (2)	2 061	–	149	329	396	–	–	**2 935**
A Zokufa (2)	1 364	–	318	126	270	134	–	**2 212**
T Manne (2)	2 294	–	326	159	369	–	–	**3 148**
A Futter (2)	1 769	–	204	107	126	–	–	**2 206**
S Soobader (2)	1 874	–	217	128	112	–	–	**2 331**
P Naidoo	451	–	40	16	–	–	–	**507**
Total	**18 325**	**–**	**2 523**	**1 518**	**2 357**	**134**	**–**	**24 857**

1 – Resigned
2 – Acting Vice-Presidents appointed during the year

Year ended 31 March 2019

Non–executive Directors	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
N Gumede	1 495	–	–	–	411	–	–	1 906
QMN Eister	1 008	–	–	–	348	–	–	1 356
SS Masemola	757	–	–	–	154	–	–	911
M Xiphu	855	–	–	–	228	–	–	1 083
BM Ngubo	770	–	–	–	201	–	–	971
RG Degni	1 008	–	–	–	126	–	–	1 134
N Mashiane	657	–	–	–	255	–	–	912
N Mkhize (1)	654	–	–	–	75	–	–	729
NM Mhlakaza	617	–	–	–	68	–	–	685
Total	**7 821**	**–**	**–**	**–**	**1 866**	**–**	**–**	**9 687**

Executive Management	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	Other R'000	Total R'000
B Sayidini (2)	2 092	–	51	93	373	–	–	2 609
K Zono	3 816	–	646	198	361	–	–	5 021
W Fanadzo (1)	69	–	–	–	–	–	–	69
O Mohapanele (2)	1 108	–	163	96	217	–	–	1 584
M Nene (2)	2 185	–	375	138	428	261	–	3 387
O Chibambo (2)	2 048	–	146	265	353	–	–	2 812
M Ngwane (2)	439	–	77	55	73	–	–	644
H Motau	1 500	–	–	–	–	–	–	1 500
A Zokufa (2)	328	–	77	29	15	–	–	449
M Sebothoma (2)	1 691	–	284	70	259	–	–	2 304
T Manne (2)	360	–	51	20	–	–	–	431
A Futter (2)	551	–	106	44	126	–	–	827
S Soobader (2)	627	–	71	30	112	–	–	840
Total	**16 814**	**–**	**2 047**	**1 038**	**2 317**	**261**	**–**	**22 477**

1 – Resigned
2 – Acting Vice-Presidents appointed during the year

GOVERNANCE PROCESSES

The Company's principles are founded on a risk-based approach and zero tolerance of non-compliance risks

COMPLIANCE RISK MANAGEMENT

Compliance risk management forms an integral part of PetroSA's governance processes as entrenched in the Group Compliance Policy. The Company's principles are founded on a risk-based approach to the regulatory environment and on zero tolerance of non-compliance risks in ensuring sustained growth in the Company's business model. As such, the Board of Directors has a fiduciary responsibility to act with care and skill (in terms of the Companies Act of 2008) in ensuring adherence to good governance and is accountable for ensuring compliance with local and international laws, regulations, policies, procedures and any adopted standards applicable to PetroSA. These responsibilities are delegated to Management, which is accountable to the Board for designing, implementing, monitoring and improving the systems and processes of compliance risk management and integrating these into daily business activities.

Consequently, it is the responsibility of the Group Compliance Function to monitor and report on the effectiveness of management control over compliance with the regulatory environment and the daily compliance risk management processes. The responsibility of the Group Compliance Function is further strengthened by the process for reporting to the BAC, which provides additional compliance oversight through the independent monitoring and assessment of PetroSA's compliance obligation and its quality and integrity of reporting practices.

COMPLIANCE RISK MANAGEMENT STRATEGY

The Company recognises that it operates in a highly regulated oil and gas industry and acknowledges the impact that legislation poses for the business. The Group's approach to regulatory compliance remains risk-based and aligned with best practice. The generally accepted Compliance Practices Framework, as endorsed by the Compliance Institute Southern Africa (CISA), guides PetroSA's approach, methodology and strategy in respect of compliance risk management. The Compliance Function is delegated throughout the Company based on specialist areas. In addition, the dedicated Group Compliance Team assists Management in discharging its responsibility of complying with statutory, regulatory and supervisory requirements by facilitating the development, establishment and maintenance of an efficient and effective compliance risk management process.

In FY19/20, Group Compliance continued to monitor reporting on key controls implemented by Management and, to a large extent, found the control environment to be satisfactory.

PetroSA's compliance risk management process and its various gates relating to regulatory compliance are best illustrated by **Figure 1**.

The key focus areas of PetroSA's compliance reporting are guided by the three-year annual Compliance Management Plan, which is approved by the Board. The plan highlights key performance areas and key performance indicators that are part of daily compliance activities, which are reported quarterly to EXCO and the Board.

Various key mechanisms and tools are consistently implemented to drive the monitoring of, and effective responses to, compliance risks across all areas of the organisation. These can be described as follows:

Regulatory universe

Compliance management takes a holistic view of laws and non-binding provisions, continually monitors the regulatory environment, and resorts to effective and appropriate responses in order to adapt to changing circumstances. The role of Group Compliance is to assist the Board and Management in discharging its responsibility of complying with these regulatory requirements.

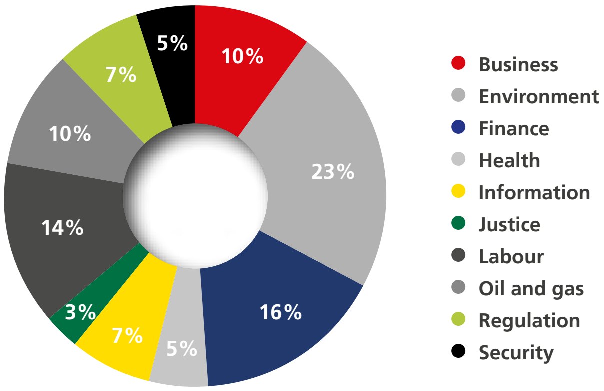
The process is driven by the regulatory compliance universe, which represents a complete set of compliance-related risks facing the PetroSA Group. The establishment and maintenance of the regulatory compliance universe are a fundamental component of the Compliance Risk Management Framework. The day-to-day responsibility of Group Compliance is to develop and actively manage the universe through the identification and updating of laws, regulations and best-practice codes and standards applicable to PetroSA. In addition, the focus is placed on confirming the applicability of regulations with Management, on assessment of the impact and likelihood of non-compliance with regulations, on approval of the regulatory requirements by EXCO and the Board, and on proactively engaging regulatory authorities regarding regulatory compliance-related issues.

FIGURE 1 Compliance risk management process

Group Compliance updated the regulatory universe in FY19/20, which led to the inclusion of six additional laws, taking the universe from 77 to 83 Acts applicable to the Company. The universe consequently consists of 83 pieces of legislation that span different categories, that is, labour, the environment, finance, etc. Monitoring and reporting of regulatory compliance risks are undertaken during annual assurance reviews in which compliance with Acts, regulations, licences, exploration rights and permits are tested for adequacy and effectiveness of controls.

PetroSA's ongoing reporting of instances of non-compliance throughout the year allows it to proactively monitor such instances and remedy them as they become apparent. This is not only good business practice, but it is also an ethos of ensuring a sustainable business for the community and stakeholders, as well as Shareholder value protection.

FIGURE 2 Regulatory compliance universe

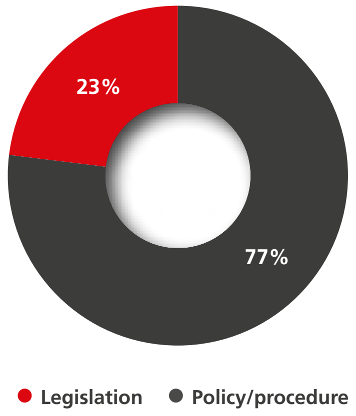


Key focus area: Management Attestation Letter (MAL)

Key to identifying risks in the organisation, in particular instances of non-compliance, is the MAL process, which addresses the organisation's attention to ethical and responsible reporting of risks and controls. On a quarterly basis, Management completes the MAL at a departmental, divisional and corporate level. The purpose of the attestation process is to monitor the effectiveness of the risk and compliance control environment (at management and executive governance level) to ensure that it fairly represents, in all material respects, a sound control environment. All identified deficiencies in the process of internal controls attestation are tracked and followed up with Management for rectification, which includes a process of continuous monitoring at Governance Management Committee meetings. This process strives to cultivate a culture of good governance, as well as ensure accountability concerning compliance risk management.

Instances of non-compliance reported during the MAL process and via direct reporting by Management are tracked in a Non-Compliance Risk Register. Seventy-seven per cent (77%) of incidents reported during FY19/20 were due to non-compliance with legislation. Areas in particular where a high number of non-compliance incidents were reported were the Mossel Bay Operations and Trading Supply and Logistics Divisions. Incidents were related to inspections conducted by the DMRE and to environmental non-compliance arising from activities at PetroSA's Bloemfontein and Tzaneen depot facilities.

FIGURE 3 Non-compliance categories



PetroSA recognises that handling cases of non-compliance adequately is a key part of its comprehensive compliance risk management process. This process entails implementing corrective measures effectively and by way of appropriate consequence management, with serious transgressions being dealt with in terms of PetroSA's Code of Ethics.

Key focus area: Business continuity management (BCM)

The key to the continued existence of PetroSA and the provision of services to its customers is that it anticipate and respond to disruptions in a coordinated manner. In this regard, BCM forms an integral part of how PetroSA deals with any business disaster. It is an ongoing process of risk assessment and management that is aligned to international business continuity standards such as ISO22301.

Since PetroSA is part of an industry that is sensitive to changes in the economic and political environment, it is essential that all of its critical business processes operate effectively and without disruption. All critical processes are entrenched in a business continuity plan (BCP) which is maintained, is readily accessible, and is available for use in the event of a disaster or major disruption to business activities. The PetroSA Business Continuity Management Policy governs all BCPs and requires that they be kept in ready-to-execute mode and be reviewed annually. This process includes the maintenance of a "battle box" of critical data, information and other essentials that is readily available on- and off-site to assist BCP owners to respond to an incident.

Across the Company, 77 BCPs were recorded, with 87% being revised and updated in FY19/20 in order to align with and include current business operations. During the year under review, in the light of the global COVID-19 threat, and in anticipation of PetroSA's business continuity response and resilience, Group Compliance conducted the partial testing of BCPs with BCP owners across the Company. Pertinent and critical challenges experienced by users during the testing phase were addressed and resolved in conjunction with the Information Security Department. This allowed for the successful implementation of BCPs during the national COVID-19 lockdown.

In the upcoming financial year, PetroSA's focus will be on auditing the battle boxes across the organisation, on mandatory biannual testing of BCPs, and on revisiting the Business Continuity Strategy. In facilitating the activities listed above, a thorough business impact assessment will be conducted.

Key focus area: Combined Assurance Model

King IV advocates that audit committees apply a Combined Assurance Model in order to ensure a coordinated approach to all independent assurance activities. To maintain a balance between the various assurance providers and obligations, the PetroSA Group has formulated a Combined Assurance Framework for use by all PetroSA assurance providers to allow broader coverage of strategic risks facing the organisation and in meeting its assurance objectives. The compliance reviews conducted and assessed by such a platform confirm the effectiveness of controls or identify deficiencies requiring the adoption of appropriate mitigating steps.

PetroSA established a Combined Assurance Forum in the financial year, drawing from all assurance providers in the Company. The assurance providers in the Company include functions such as finance, internal audit, risk and compliance, HSEQ, information security, and legal. PetroSA will further entrench the operationalisation of combined assurance in the coming financial year.

PetroSA values the importance of effectively managing this process, thereby ensuring that the Company meets its legal and statutory obligations as well as its obligation of continuous service delivery to its customers and external stakeholders.

Future commitment

The identification and effective monitoring and management of regulatory risks are an integral part of Group Compliance's governance responsibility to PetroSA and its stakeholders. In meeting this objective for FY20/21, the Company is committed to providing increased impetus, in line with its annual Group Compliance Plan initiatives, in the following areas:

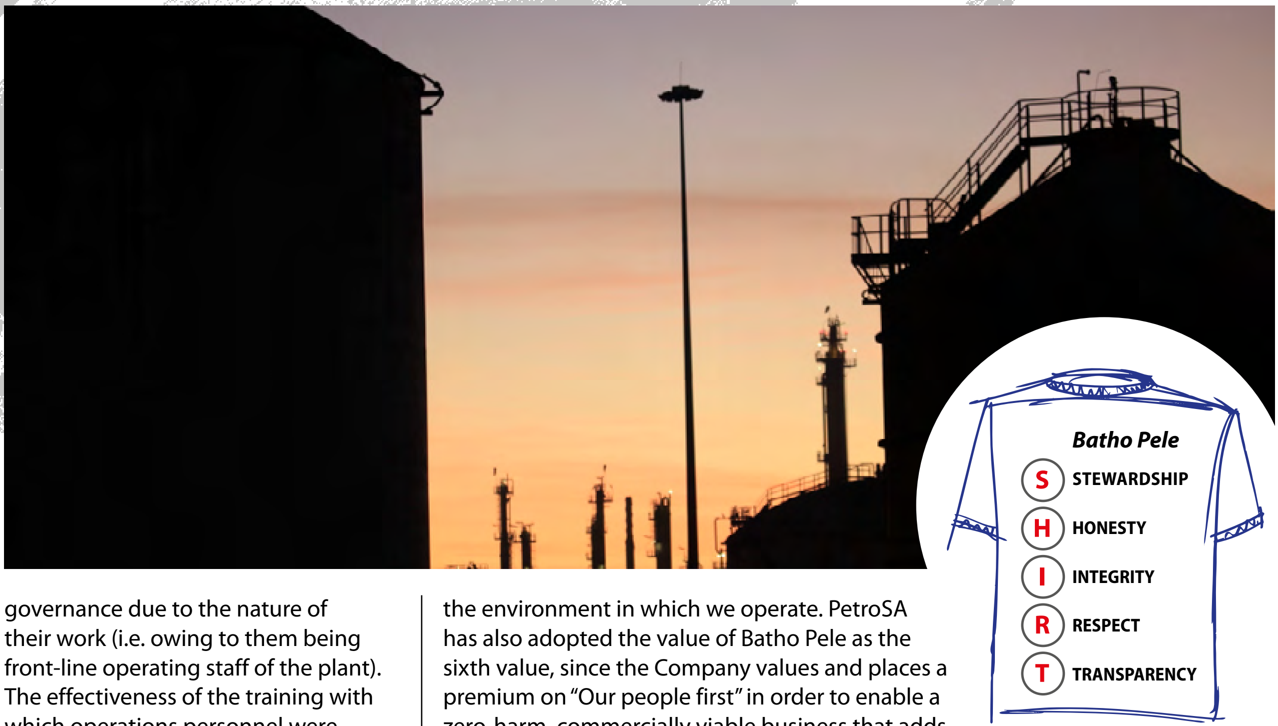
- Establishing and continuously monitoring accountability and corrective measures, especially where material non-compliance has occurred;
- Continuously responding to and remediating risks;
- Actively conducting annual compliance risk analyses and updating the risk profile;
- Creating management awareness, via assurance reviews, of the necessity of complying with legal and regulatory requirements;
- Reviewing mitigatory controls;
- Ensuring that Management actively engages in the continuous updating of policies; and
- Committing to compliance with voluntary industry standards and specifications.

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 on its Board, Executive Management, employees and contractors adhering to the highest ethical standards.

In support of ethical conduct, an Employee Group Compliance Manual was developed and continues to be distributed to all staff. This manual is a condensed version of the Code of Ethics Policy, Gift Register Procedure, Declaration of Related-Party Interests, Prevention of Fraud and Corruption Policy, and other conduct-related policies and procedures. In addition, Group Compliance conducts training in key governance areas.

In the period under review, the focus was on the capacitation of employees within the Operations Division, who, at times, are not provided with training in corporate



governance due to the nature of their work (i.e. owing to them being front-line operating staff of the plant). The effectiveness of the training with which operations personnel were provided, and the results thereof, will inform future training needs and topics.

In view of its status as the national oil company of South Africa, PetroSA believes that ethical behaviour underpins the trust placed in it by customers, suppliers, the Shareholder, communities and employees and is therefore a non-negotiable element of the Company's behaviour and conduct. The implementation of the envisaged compliance and conduct culture is achieved by developing tools such as Group compliance manuals and methodologies contained in the Compliance Risk Management Framework. The Group Compliance Manager, as the second line of defence, monitors the business and business unit compliance champions in order to ensure that policies, manuals and methodologies are consistently applied so that compliance risks can be uniformly identified, assessed, monitored and escalated.

A formal governance framework exists and is supplemented with sets of policies that are regularly reviewed. However, PetroSA places a high premium on actual behaviour, which then becomes the apex of our business dealings.

PetroSA values

Values are integral to our operations and to the building of a compliance culture. We place a high value on stewardship, honesty, integrity, respect and transparency in our dealings within the environment in which we operate. PetroSA has also adopted the value of Batho Pele as the sixth value, since the Company values and places a premium on "Our people first" in order to enable a zero-harm, commercially viable business that adds value to the people of South Africa.

FIGURE 4 PetroSA's values

Through the Employee Group Compliance Manual, the Code of Ethics, and the associated Group-wide attestation process, employees are made aware of compliance-related policies as well as of the conduct expected of them, as described in PetroSA's Code of Ethics. On being appointed, and every year thereafter, all PetroSA employees are required to acknowledge that they have read and understood the manual.

Quarterly Group compliance and ethics reports are tabled before EXCO and the Board. These responses bring to the Board's attention key risks, ethical issues, major regulatory developments, and issues relating to compliance incidents, in line with defined materiality levels. As part of inculcating the PetroSA values in all employees and stakeholders, a values moment is a standing agenda item for all PetroSA meetings. PetroSA uses the values moment for consistent, meaningful, practical and helpful reflection on our values as an organisation and to demonstrate PetroSA's leadership commitment to the B-SHIRT values that all are expected to "wear" and live daily.

FIGURE 5 PetroSA's governance system

Corporate governance at PetroSA reflects an attitude premised on ethos rather than a mere statement.

The PetroSA Group has a formalised system of corporate governance that is a catalyst for improved compliance and enhanced performance.

Governance structure

Governance committees | **Terms of reference**

Legislation, policies, procedures, codes, work manuals and instructions

Approved by management and the Board at various levels

Set of shared values

Stewardship Honesty Integrity Respect Transparency

PetroSA has a zero-tolerance policy aimed at eliminating fraud and corruption within the organisation

Annual declaration
The Company's electronic annual declaration of policies and procedures, Acts and other prescripts governing areas of responsibility of business units remains key and integral to its ethics awareness and education efforts among staff members.

Declarations of external interests and gifts are also captured on the SAP system and are reported quarterly to the GCEO and the Board. Group Compliance and the Divisional Business Unit Compliance Champions monitor these declarations and acknowledgements. Table 2 provides the various declarations and percentages per category for the year under review.

FIGURE 6 Risk management approach

TABLE 2: Declarations and percentages per category

Type of declaration	Number of declarations
Board/audit committee memberships	1 (0.7%)
Charitable organisation management	0 (0%)
Gifts	144 (96.6%)
Business nterests held	4 (2.7%)
Conflict of interest	0 (0%)
TOTAL	**149**

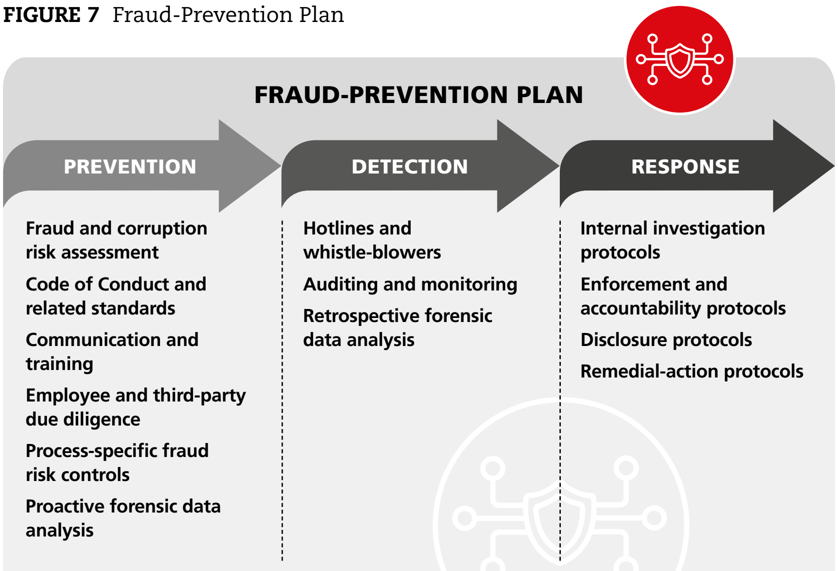
Fraud and corruption risk management
PetroSA and its subsidiaries (the Group) are committed to conducting business in accordance with all applicable legal and regulatory requirements in the jurisdictions in which they operate. The Group strives, at all times, to operate with integrity and to maintain the highest ethical standards. The primary objective of this policy is to articulate and direct the Group's approach to anti-bribery, anti-corruption and sanctions in support of the Group's responsible corporate citizenship. The Prevention of Fraud and Corruption Policy establishes an effective Anti-Bribery, Anti-Corruption and Sanctions Compliance Risk Management Programme by expressing what conduct it expects of its employees, including Management, to ensure process efficacy.

PetroSA has a zero-tolerance policy aimed at eliminating fraud and corruption within the organisation.

The policy applies to all employees, which includes permanent employees, fixed- and short-term contractors, Management, executive and non-executive directors of the Group, affiliated third parties (including but not limited to contractors, consultants, service providers and outsourced employees), and any person who represents the Group in any way and is remunerated for their services.

The Board has adopted a comprehensive approach to the management of fraud and corruption risks outlined in its Fraud-Prevention Plan. The approach hinges on the pillars indicated in Figure 7.

FIGURE 7 Fraud-Prevention Plan



Management remains responsible for the development and implementation of effective systems of internal control, governance and risk management. Forensics serves as a second line of defence in ensuring that fraud and corruption that are not prevented are appropriately detected and investigated. The management of this is progressively inculcated through awareness and training at the various levels of the organisation.

A key control within PetroSA's Fraud-Prevention Plan is its outsourced whistle-blower hotline. The hotline, which is available to all staff and various stakeholders, allows for confidential and anonymous good-faith reporting. Any matters not adequately investigated and resolved by Management are escalated to the GCEO and/or BAC.

Incident reporting
All employees within the Group have a duty to immediately report any corruption that is suspected or discovered. Employees can report possible corrupt activity directly to the Chief Risk and Compliance Officer, the Forensic Manager, their Line Manager or by using the anonymous, independent fraud hotline managed by Whistle-Blowers (see Table 3).

TABLE 3: PetroSA Whistle-Blower contact details	
Fraud hotline	**0800 117 861**
Fax	**0865 222 816**
Email	**information@whistleblowing.co.za**

All reported information is treated as strictly confidential and employees may disclose information without fear of retribution and/or victimisation. It is important to note that any employee employed in the Group who reports suspected or known corruption in good faith will be protected as far as possible and will have further rights as set out in the Protected Disclosures Act of 2000.

The following key enabling legislation and governance standards apply to PetroSA with regard to the prevention and combating of fraud in its business:

- Prevention and Combating of Corrupt Activities Act 12 of 2004 (PACCA);
- Prevention of Organised Crime Act 121 of 1998;
- Financial Intelligence Centre Act 38 of 2001 (FICA);
- Protected Disclosures Act 26 of 2000;
- Companies Act 71 of 2008;
- King IV Report on Corporate Governance for South Africa 2016;
- Regulations with specific reference to the principles of the United Nations (UN) Global Compact and the recommendations of the Organisation for Economic Co-operation and Development (OECD) regarding corruption;
- Global Reporting Initiative (GRI) Sustainability Reporting Standards;
- United Nations Convention against Corruption (UNCAC);
- Business Social Compliance Initiative (BSCI) Code of Conduct;
- Internationally endorsed Financial Action Task Force (FATF) recommendations and its global standards for implementing effective anti-money laundering measures;
- G20 countries – Anti-Corruption Action Plan, November 2014;
- Southern African Development Community (SADC) Protocol against Corruption; and
- African Union (AU) Convention on Preventing and Combating Corruption.

ENTERPRISE RISK MANAGEMENT

PetroSA is committed to adopting a framework for effectively managing risks and opportunities

APPROACH

Taking informed risks and availing oneself of opportunities are an inherent and necessary part of doing business at PetroSA. Through the Group's Enterprise Risk Management (ERM) Policy, PetroSA is committed to adopting a framework for effectively managing significant business risks and opportunities.

The ERM Policy aligns the Group with the principles of good corporate governance as outlined in the King IV Report, with the COSO guidelines as supported by the Public Finance Management Act (PFMA) 1 of 1999, and with the international standard on ERM, namely ISO31000.

FIGURE 8 Enterprise risk management structure

Group-level risk exposures are measured against formalised risk appetite and tolerance statements that are further aligned with and promote the Group's strategic business objectives. By means of the PetroSA risk matrix, the appetite for and tolerance of risk are core considerations in the Company's risk response plans, as they take into account the relationship between the potential impact of key risks and the effectiveness of mitigating controls or management actions.

ERM OBJECTIVES

- Create and protect value for the PetroSA Group and the Shareholder;
- Provide well-defined risk and opportunity management methodologies in order to promote risk-based decision-making;
- Align risk-taking behaviour with strategic business objectives;
- Support the existing PetroSA business and growth strategy;
- Embed and promote a risk and opportunity management culture in day-to-day activities in all sectors;
- Improve the visibility of risks and opportunities for the Shareholder and maximise shareholder value and net worth.

RISK OVERSIGHT

The ERM Plan sets out the deliverables of the Risk Department for the financial year. The plan is tracked and reported to the EXCO, the Board Strategy and Risk Committee and the BAC on a quarterly basis. The responsibilities of the relevant levels are depicted in Figure 9.

The Risk Department comprises risk engineers and managers dedicated to divisions within the organisation. Risk engineers and managers report to the CRCO, who, in turn, reports to the GCEO. The CRCO also has a duty to report to the relevant Board subcommittees, such as the Strategy and Risk and Board Audit committees.

INSTITUTIONALISATION AND OPERATIONALISATION OF ERM

Software training

PetroSA uses Cura risk management software across the Group, which provides for seamless capturing and reporting of group risks. Training in the use of Cura continues to be a focal point of embedding ERM. In this regard, all divisions attended requisite training, including the GCEO and EXCO members. During the period under review, the Company undertook an upgrade of the risk management tool.

FIGURE 9 ERM responsibilities of the relevant management levels throughout PetroSA

Board of Directors
Accountable for ERM at PetroSA

Strategy & Risk and Board Audit committees
Oversight of risk and opportunity management. Monitor progress and ensure that controls and risk management plans are effective.

Executive Management (first line of defence)
Implements and demonstrates robust risk management in PetroSA. Accountable for control management and monitoring of the risk management process.

Risk Management & Compliance Department (second line of defence)
Establishes and maintains ERM framework. Facilitates the ERM process and monitors progress. Embeds an ERM culture in PetroSA.

Internal Audit (third line of defence)
Provides independent assurance on the adequacy and effectiveness of the ERM process.

The focus for the year ahead is the completion of the ERM dashboard module. The dashboards are designed to make interaction with the risk management framework more accessible and user-friendly. The rollout of the risk management dashboards aims to empower the business to engage in proactive, real-time management and monitoring of the Company's risk exposures.

FIGURE 10 Risk management dashboard

Risk awareness and ERM training

Training with regard to the Company's ERM framework and policy was provided for executives, the Board and heads of department. This training is undertaken annually. Project managers were also trained in ERM in cases where new projects were initiated. Ad hoc training was provided in order to support the implementation of ISO9001:2015.

To further entrench risk management in the business, Risk and Opportunity Fridays were launched in August 2019 and continue to serve as a platform where the Risk Department makes itself available to the business to assist with all aspects of risk management. The aim is to improve the risk management culture, specifically at operational levels within the organisation, and to facilitate a bottom-up approach to risk management. As part of risk culture development and the embedding of risk management in the business, the following will be undertaken:

- Training and awareness sessions on risk management, compliance and forensics will be conducted across the organisation;
- ERM training will be provided for executives, the Board and heads of department;
- Mandatory risk management training will be provided for the organisation, with a focus on practical aspects; and
- Risk training for quality champions will be aligned with the requirements of ISO9001:2015.

In its continued commitment to the Group's business and growth strategy, PetroSA has identified an opportunity to outsource its risk management services to the CEF Group.

ERM maturity

There have been no significant advances in improving ERM maturity. With the departure of experienced risk management personnel and the CRCO over the past three years, the aim, during the year under review, was to maintain the systems in place comprising the elements of the maturity model. Results of the elements comprising the maturity assessment are depicted in Figure 11. A high-level overview indicates that PetroSA's maturity level has likely remained unchanged. In the next financial year, the focus will be on training personnel, building culture by conducting workshops at department level, and embedding trend analysis in reporting.

Corporate risk profile

PetroSA's strategic risk profile is aligned to its strategy by classifying risks based on the focus areas of the business, namely: Growth, Health, Safety, the Environment and Quality (HSEQ), Transformation, Sustainability, Skills and Knowledge, and Finance and Governance. A graphical representation of the Company's unrisked and risked strategy is included below (see Figure 12).

PetroSA's strategic risks consistent with the Company's overall strategic direction have not changed significantly over the last two years. With respect to most of the strategic risks, the Company continues to operate outside of the defined appetite. The residual risks associated with sustainability have increased, primarily due to delays in decision-making and dependence on external parties to action the risk treatment plans.

The Company's challenges have become more severe over the last three years, with risks actually materialising.

PetroSA's financial situation continues to be dire and the risk with regard to commercial viability has increased. Unstable operation and the inability to source non-indigenous feedstock at the budgeted margins and frequency have been detrimental to profitability. PetroSA's response has included sourcing feedstock in larger parcels and leveraging the Group's working capital. The effectiveness – including repeatability – of this control has not been established. An Operations Improvement Plan has been implemented to curb unstable operation and to further optimise operations by seeking to entrench a culture of ownership and stewardship.

FIGURE 11 PetroSA's progress with regard to elements indicative of maturity

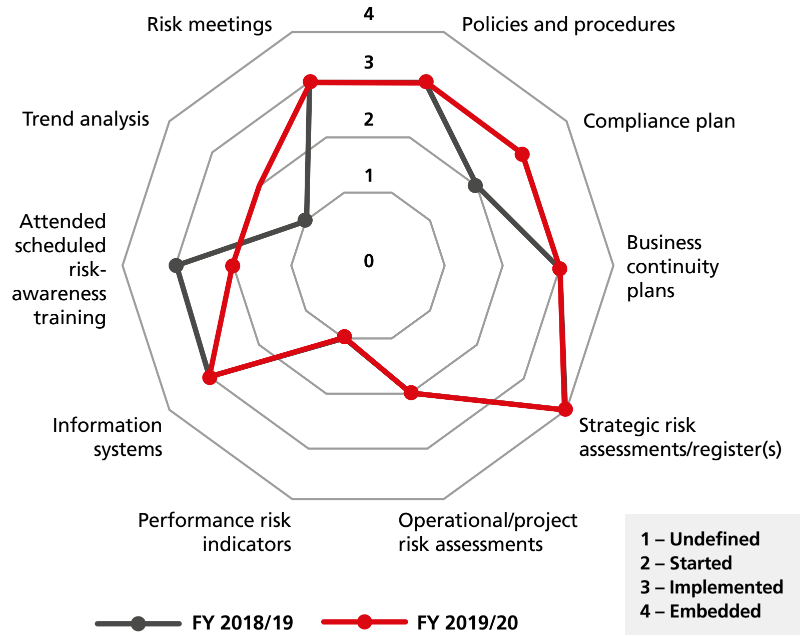
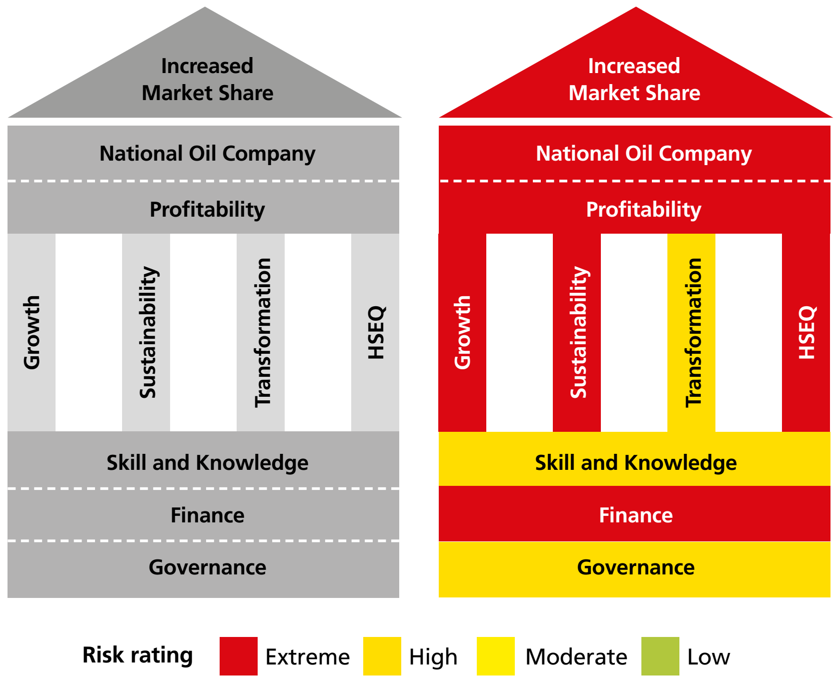


FIGURE 12 PetroSA's unrisked and risked strategy



Owing to the Company's financial position, working capital management has been an integral part of doing business. In addition to the Turnaround Plan, which sought to reduce costs and increase revenue, other cost-containment initiatives (e.g. a review of key major contracts) were undertaken during the year under review.

There was no significant progress in respect of medium- and long-term initiatives during the financial year, which increased the risk rating. Medium-term interventions rely on the predicted life of field (LOF) of December 2020 being maintained. However, should the planned implementation of 12 well-interventions not be successfully executed, end LOF will be threatened. Delays have been experienced in executing the well-interventions due to the impact of COVID-19.

With the appointment of a permanent PetroSA Board and GCEO, a new Corporate Plan was developed. Progress has been made with regard to the medium- and long-term initiatives contained in the plan. These initiatives are still at the early and middle phases of project development. In view of the Company's balance sheet constraints, the risk of PetroSA's inability to fund the long-term initiatives remains residually extreme, threatening implementation of the Corporate Plan.

PetroSA was successful in improving its B-BBEE status from Level 6 to Level 4 at the end of the financial year. This will allow the Company to pursue business opportunities with potential private- and public-sector entities in the future. However, with respect to the broader industry, the Company's transformation target remains a plan in progress and is heavily on reliant on profitable and sustainable operations going forward.

Failure to adequately mitigate the HSEQ risk could lead to non-compliance, resulting in HSEQ incidents and/or the loss of the Company's licence to operate. PetroSA remains committed to ensuring a safe workplace. The workforce has embraced the Company's safety initiatives, which has yielded positive results. This is evident from the reduction in LTIs, from 22 in FY18/19 to 13 in the year under review. The focus for FY20/21 is to improve the Company's process safety culture.

Stakeholder management, and particularly the employer–employee relationship, has deteriorated due to the established forum for engagement not being fully effective during the year. PetroSA has since revived this forum to ensure that matters of concern are efficiently addressed in order to strengthen the relationship.

Emerging risks

As part of close risk monitoring during the year under review, the Company has focused on evaluating and introducing measures to manage a number of emerging risks. These include:

- A lack of a process safety management (PSM) culture, which impacts the Company's insurability;
- Working capital management, which impacts the Company's going-concern status; and
- The impact and management of the COVID-19 pandemic.

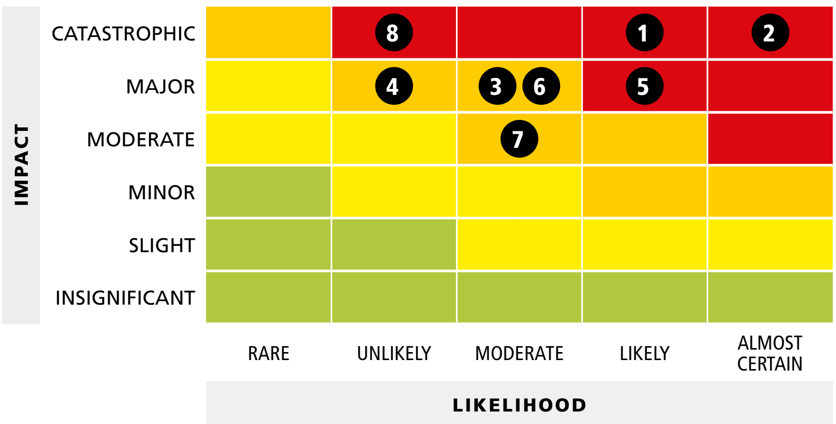
PetroSA has undergone an intense programme focused on process safety in order to improve its insurability. It took much effort to obtain insurance cover, but indications are positive with respect to our insurability in the future.

The impact of COVID-19 on the exogenous factors has had a negative impact on the funds allocated to the decommissioning liability. This is expected to have a major adverse impact on the financials for FY20/21. This will therefore be a focal point with regard to risk management for FY20/21. The Company will review action plans to minimise or address the effect of the COVID-19 pandemic.

PetroSA's strategic risk profile continues to be affected by, among others, the exogenous factors, reduced plant performance, the decommissioning liability, the lack of a mature, long-term plan, and the dependency on external parties to realise the Corporate Plan. The successful implementation of the Corporate Plan requires a concerted effort to minimise and manage risks, as well as engagement at Shareholder and national level so as to address industry issues and PetroSA's role with regard to these. An overview of the Company's strategic risks, mapped on the PetroSA risk matrix, can be seen in Figure 13.

The Company's strategic risks, the key performance area they impact on, and the response measures are tabulated thereafter (see Table 4).

FIGURE 13 Strategic risk identification



Strategic Risk Identification

1. Commercial viability
2. Growth and diversification
3. Employee Value Proposition
4. Transformation agenda
5. Brand and reputation
6. Organisational structure
7. Governance and ethics
8. HSEQ

TABLE 4: Risks, impacts and responses

No.	Risk statement	KPA impacted	Response measures
1	**Failure of PetroSA to be commercially viable** Comprises the following sub-risks: • Unprofitable GTL Refinery operations • Price risk • Marketing risk • PetroSA Ghana does not yield budgeted production and revenue • Exogenous factors • Failure to reduce costs • Indigenous feedstock constraint • Failure to be a going concern	Improve profitability Improve access to funding Improve productivity	• GTL Refinery reliability and optimisation philosophy in place • Ongoing economic optimisation in respect of Refinery • Optimal feedstock procurement • Hedging policy in place • Leverage investments • Turnaround strategy initiatives implemented • Continuous cost and cash flow management • Optimised well-management and well-interventions plan in place
2	**Inability to grow and diversify PetroSA's revenue streams** Comprises the following sub-risks: • Failure to sustain GTL Refinery operations beyond December 2020 • Lack of a long-term solution • Failure to deliver the growth strategy	Improve sustainability	• Progress medium-term initiatives • Progress long-term sustainability and growth initiatives • Develop a sustainability and growth funding plan • Develop and execute a decommissioning liability funding plan • Improve stakeholder engagement • Improve Shareholder engagement
3	**Inability to train, capacitate and retain the right talent**	Improve talent management	• Develop the EVP Framework • Allocated financial resources for training and development • Use alternative development initiatives
4	**Failure to deliver on PetroSA's transformation agenda**	Improve talent management Improve sustainability	• B-BBEE plan in place • Progress initiatives as per the Corporate Plan • Enterprise and Supplier Development (ESD) Programme is in place • Execute corporate social investment (CSI) initiatives
5	**Erosion of business reputation and brand**	Improve profitability Improve access to funding Improve sustainability Improve stakeholder relations	• Implement the long-term view for preserving the PetroSA brand • Improve stakeholder engagement
6	**Inability to successfully restructure PetroSA in order to fulfil its mandate**	Improve talent management Improve profitability Improve sustainability	• Progress restructuring initiative in line with the new business model • Develop and execute Stakeholder Engagement Plan
7	**Poor governance and ethical environment**	Improve access to funding Improve governance Improve sustainability	• Implement the Ethics Strategy • Ensure an active fraud and ethics whistle-blowing hotline • Implement the PetroSA Group Combined Assurance Framework
8	**Failure to manage HSEQ incidents**	Improve HSEQ performance	• Reinforce the Health, Safety and Environment Management System as part of the HSEQ Management Plan • Implement the Incident Management System Improvement Plan • Embed a process safety culture

There is no silver bullet to solve all the risk challenges that the Company faces

PetroSA fully realises that there is no silver bullet that will solve all the risk challenges faced by the Company in the financial period under review. Such challenges include exogenous factors, including a weak rand–dollar exchange rate, fluctuations in crude oil prices, the COVID-19 global pandemic, the resultant weakened balance sheet, and highly priced feedstock.

In addition, the looming decommissioning liability and constrained working capital played a significant role in the period under review. PetroSA firmly and steadfastly believes that various initiatives, including the redefined Corporate Plan, the stabilisation of leadership and governance, and support through the government's pronouncement of the company as a state carrier in the Upstream Petroleum Development Bill, will unequivocally steer the Company towards reclaiming its position as an enabler and steward of government assets in the oil and gas sector.

INTERNAL AUDIT

The Internal Audit Function is governed by the Internal Audit Charter, which is reviewed, aligned with the recommendations of King IV and approved annually by the Board. To provide for the independence of the Internal Audit Function, the Chief Audit Executive reports functionally to the Chairperson of the Board Audit Committee (BAC) and administratively to the Group Chief Executive Officer (GCEO). The Chief Audit Executive has unrestricted access to the GCEO and to the Chairperson of the BAC and has a standing invitation to attend meetings of the Executive Committee and of other committees made up of a majority of executives, but is not a member of these committees.

The Internal Audit Function is responsible for providing Executive Management and the Board with independent, objective assurance on the adequacy and effectiveness of the Group's governance, risk management and internal control processes. It is the role of Internal Audit to monitor internal control systems and to assist Management in ensuring the adequacy of such controls. The Internal Audit Function includes the provision of consulting services, which are designed to add value and improve the Company's business systems.

The work of the Internal Audit Function focuses primarily on areas that present the greatest risk to the Group. This is achieved by following a risk -based approach in formulating its annual and strategic internal audit plans, which are approved by the BAC. The Internal Audit Annual Plan considers the key risks identified by Management, the requirements of the BAC and Management, as well as available resources. Internal Audit continues to deliver on the agreed Audit Plan and meets with stakeholders in order to understand their key risks and adapt the Audit Plan accordingly. The Annual Plan is reviewed on a quarterly basis for material changes in the Group's risk profile, with revisions where necessary to the Annual Plan being approved by the BAC.

During the year, the BAC has interacted with Internal Audit in respect of the Internal Audit Plan and continues to review progress against the plan and the findings emanating from the respective audits.

The International Standards for the Professional Practice of Internal Auditing (ISPPIA) require that a Quality Assurance Review (QAR) be conducted every five years. Internal Audit performed and finalised the QAR in October 2018. The QAR was conducted by an independent external reviewer recommended and nominated by the Institute of Internal Auditors South Africa (IIA SA). The next QAR will be conducted during FY22/23. Internal quality reviews are conducted on an annual basis.

03.

PetroSA LEADERSHIP

CHIEF EXECUTIVE OFFICER'S REVIEW


Bongani Sayidini

Despite financial challenges, PetroSA did not seek a bailout to remain afloat

I was appointed Acting Group Chief Executive Officer (GCEO) of PetroSA in December 2018 at the height of the Company's challenges. In particular, the indigenous gas feedstock was on a steep decline and severely impacting the profitability and commercial viability of the organisation.

The Company relied heavily on imported condensate, bought at a significant premium (US$3/bbl–US$6/bbl to the Brent crude oil price) from the international market as complementary feedstock for the Gas-to-Liquid (GTL) Refinery. Due to constraints at Mossel Bay Harbour, which limited condensate imports to smaller vessels of 325 000 barrels, the economics of imported condensate was particularly challenged by the lack of scale.

The high fixed-cost structure exacerbated matters, since the Company continued to bear the costs as though the GTL Refinery was still operating at full capacity, when in fact it was only operating at about a third of its design capacity due to the challenge regarding declining feedstock. Furthermore, the Company had a R12.4 billion decommissioning liability that was underfunded by R9.6 billion. This is a legacy liability, largely as a result of the country's historical policy of self-sufficiency.

Operational challenges (relating to plant efficiency, reliability and availability) persisted during the year under review, particularly precipitated by the inability to operate the Refinery at the targeted rate of 18 000 barrels/day due to the prohibitive cost of importing heavier condensates.

NOTABLE STRATEGIC ACHIEVEMENTS

Having approached government to empower PetroSA through legislative instruments, government heeded the call and designated PetroSA to carry the state participation interest in the Upstream Petroleum Resources Development Bill that was gazetted on 24 December 2019 – a welcome Christmas present. The state participation interest will go a long way towards turning around PetroSA in order that it may contribute more meaningfully to national energy security of supply.

The Company's broad-based black economic empowerment (B-BBEE) status improved in the period under review from a Level 6 contributor to a Level 4 contributor. This has alleviated the pain of not being able to do business with notable state-owned companies (SOCs) such as Transnet, and has also served to improve the image of the National Oil Company (NOC), whose mandate is to spearhead the transformation of the petroleum industry.

PetroSA Ghana subsidiary declared a dividend of R354.2 million during the period under review (2019: R293 million). This dividend was specifically requested to improve PetroSA's cashflow in the midst of declining commercial viability.

Furthermore, the Company secured a five-year contract to supply Eskom with diesel for its peaking power plants in the Western Cape. This has contributed to the increased sales during the year under review.

FINANCIAL PERFORMANCE

Despite its financial challenges, PetroSA did not look to the fiscus for a bailout to keep it afloat during the period under review. Nevertheless, the Group posted a loss of R5.6 billion compared to the R2.1 billion loss of the previous year. This is largely attributed to the decommissioning liability that increased from R9.8 billion to R12.4 billion by the close of the financial year as well as the impairment of assets due to gas reserves falling below the techno-commercial limit of the GTL Refinery. The lower crude prices and the weakening of the rand against the US dollar (USD) had a slight negative impact on revenues.

Despite the loss, the Group's results marginally improved, with sales volumes increasing by 12% compared with the previous year. Group revenue increased by R1.6 billion, from R12.1 billion the previous year to R13.7 billion. Cash reserves improved slightly from R2.7 billion the previous year to R2.9 billion in the year under review – this excludes cash restricted for the issuing of letters of credit.

NEW CHIEF EXECUTIVE OFFICER'S STATEMENT

Pragasen Naidoo

I joined PetroSA as its Group CEO on 1 March 2020, during the last month of the 2019/2020 financial year. This means the interim Group CEO, Mr Bongani Sayidini, was in charge for the financial period under review and accordingly gave a management's performance overview as reflected above.

On behalf of EXCO, I would like to thank Mr Sayidini and his executive team for steering the ship during this period.

Let me also thank the Board of PetroSA for the confidence it expressed in me by appointing me to lead this company at this critical juncture of its existence. This comes with immense responsibilities that I do not take lightly. I also acknowledge the support and guidance of the Board of PetroSA, chaired by Mr Frans Baleni to the executive leadership team, and will rely on this mutually supportive relationship as we navigate the challenging and difficult commercial environment that PetroSA operates in. Ongoing efforts to stabilize PetroSA are noted as well as the progress achieved with cost containment measures to sustain and grow the company. I believe this mission can only be achieved through working together and supporting one another.

Let me also thanks the Ministry and Department of Mineral Resources and Energy, the CEF Group of Companies as our parent company for the support, and the employees of PetroSA for their hard work, dedication and support. I thank the Honourable Minister Gwede Mantashe for his visionary leadership and guidance and commit to doing everything possible to translate his vision for PetroSA into a reality.

TRANSFORMATION

During the period under review, PetroSA continued to play a meaningful transformative role, ensuring that the industry is unlocked for historically disadvantaged South Africans and for the socio-economic development of communities in which the Company operates.

Accordingly, during the period under review, payments made to suppliers of goods and services amounted to R14.8 billion. Total procurement (non-discretionary) expenditure in respect of organs of state, sole-source suppliers and foreign entities was R6.3 billion. On the other hand, the Group's total discretionary procurement for the period under review was R8.5 billion. The total B-BBEE procurement expenditure of R6.1 billion equates to 71.51% of discretionary spend for the period under review.

WORD OF GRATITUDE

As we seek to give effect to PetroSA's transition towards an NOC, I am greatly indebted to PetroSA employees for their invaluable contribution in helping keep the organisation afloat during the period under review – and this despite the disheartening challenges and uncertainty in relation to the future of the organisation which weighed heavily on their energies and motivation.

I thank the employees for the personal sacrifices they made, sometimes working long hours and weekends to ensure that the NOC continued to operate and to contribute to the socio-economic development of our country.

I also wish to thank the former PetroSA Board and Executive Committee for their guidance and support. Without their collective leadership and wisdom, my tenure as the Acting GCEO of PetroSA, faced as it was with such daunting challenges, would only have been a source of stress and despair.

CHIEF FINANCIAL OFFICER'S REVIEW


Alison Futter

It was a challenging year beset by a volatile economic environment

INTRODUCTION

The Group experienced a financially challenging year that was considerably worse than the previous financial year. Even though Group sales volumes and revenue were 12% and 13% higher than in the previous year, gross margins decreased by more than 100%. The main drivers behind increased sales were distillate sales (a 47% increase) and commercial-trading sales (a 155% increase). Unfortunately, distillate sales (even though high-value) contributed only 4% to total Group sales, with purchased-product sales having low margins.

The lower crude prices (13% less) stunted revenue growth. However, the weakening of the rand against the US dollar by 23% and against the Euro by 21% did not have a significant influence on revenue.

FINANCIAL PERFORMANCE

The Group posted a net loss of R5.6 billion for FY 2019/20 (2019: R2.1 billion). Group earnings before interest, tax, depreciation and amortisation (EBITDA) was significantly lower at R86 million compared with R311 million in the previous year (a decrease of 72%). The Group's operating loss (after impairment of R4.8 billion vs R696 million in the previous year) was R6.1 billion compared to R1.3 billion in the previous financial year. The increase in impairment charges resulted mostly from the decrease in the value in use of property, plant and equipment in the Company as well as in the investment in PetroSA Ghana.

Gross revenue increased by 13% from R12.1 billion in the previous year to R13.7 billion in the current year. This was the result of higher sales volumes (a 12% increase) and the weakening of the rand against major currencies.

Investment income for FY 2019/20 was R334 million, which constituted a 11% decrease compared with the R377 million of the previous financial year. This was due to lower interest rates as the Reserve Bank decreased rates to stimulate the economy.

TABLE 5: Salient performance indicators for the Group

Summary of financial information	2020 R'm		% Change	2019 R'm
Turnover	13 691	↑	13%	12 139
Gross margin	(180)	↓	-167%	269
EBITDA	86	↓	-72%	311
Operating loss	(6 064)	↓	-375%	(1 276)
Net loss before impairment, interest and tax	(1 239)	↓	-114%	(580)
Loss for the year	(5 579)	↓	-168%	(2 082)
Cash generated by operating activities	403	↑	14%	355
Total assets	14 394	↓	-22%	18 511
Capital expenditure	445	↑	58%	1 061
Abandonment provision	12 901	↓	-27%	10 147
Total debt	2 201	↓	-15%	1 917
Cash (unrestricted)	2 874	↑	8%	2 657
Cash (restricted)	2 141	↑	2%	2 101
Net asset value	(4 464)	↓	-996%	498
Year-end exchange rates				
ZAR/USD	17.98	↓	-23%	14.57
ZAR/EURO	19.74	↓	-21%	16.36
Crude oil prices				
Annual Brent average	60.99	↓	-13%	70.01

FIGURE 14 Percentage change in sales volumes

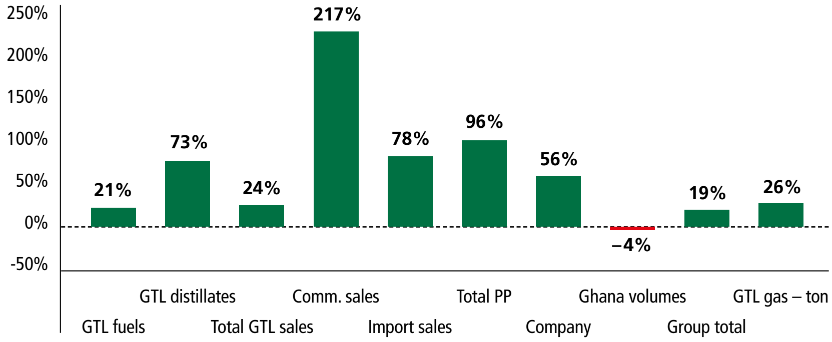


FIGURE 15 Percentage change in revenue

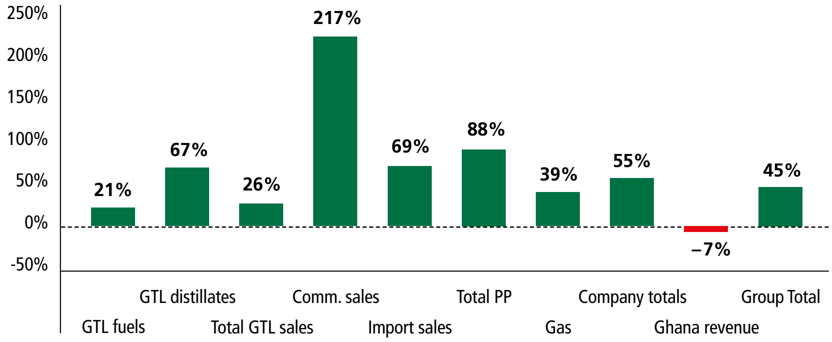


FIGURE 16 Production changes

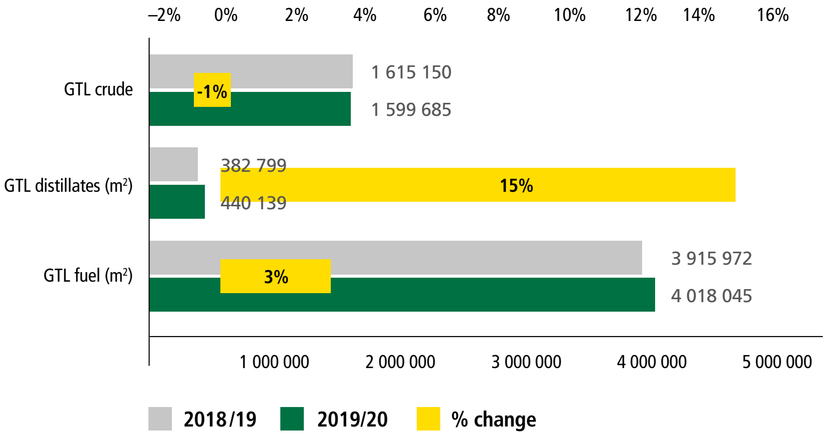
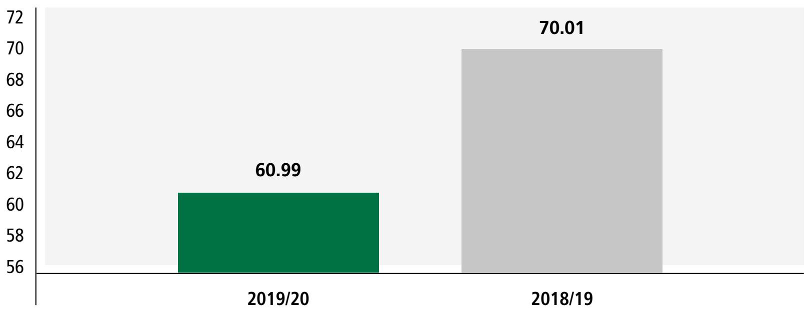


FIGURE 17 Brent crude average



Cash reserves of the Group were slightly higher at R2.9 billion vs R2.7 billion in the previous year (excluding cash restricted for the issuing of letters of credit). However, PetroSA Company ended the year with a cash balance of R956 million versus a cash balance of R1.9 billion at 31 March 2019, a decrease of R923 million.

Group net asset value moved into negative territory for the first time since 2012 when PetroSA Ghana was acquired, ending the year at a negative R4.5 billion and resulting in a net loss for the year of R5.6 billion.

COST MANAGEMENT

Operating costs continued to be a focal area during the year and were almost on par with those of the previous year (R1.3 billion in 2019/20 vs R1.3 billion in 2018/19). This is evidence that the cost-savings culture has now become entrenched in the Company, but this will require continuous scrutiny and discipline to ensure sustained benefits going forward.

FINANCIAL POSITION

The Group's financial position is an area for concern, with total Group assets decreasing to R14.4 billion (2019: R18.5 billion) as the Group net asset value declined to a negative R4.5 billion (2018/19: R498 million positive value).

The Shareholder recognised the solvency and liquidity challenges faced by the PetroSA Group and accordingly approved the Corporate Plan for 2020/2024, including a Shareholder loan for specific interventions. The Minister of Mineral Resources and Energy has issued a directive to rationalise PetroSA, iGas and the Strategic Fuel Fund (SFF). The merger process will be conducted by an independent consulting firm, commencing in May 2020. The objective of the directive is to form a National Petroleum Company.

Total interest-bearing debt of R2.2 billion as at 31 March 2020 reflects an increase from the R1.9 billion of 2018/19; which is entirely a result of the weakening rand.

The Group's balance sheet had a current gearing of –86% at 31 March 2020, presented as a ratio of gross interest-bearing debt to equity (2019:

79%). The gearing ratio has moved into negative territory mainly because of the reduction in total equity as a result of continued losses. The loss by the rand of 23% of its value against the dollar during the financial year also played a part in this.

GOING CONCERN

Despite diminishing indigenous reserves, poor operational performance at the Mossel Bay Refinery, and the largely unfunded, long-term decommissioning liability as reported, the Company does not intend to liquidate or cease trading. The Directors, on 3 July 2020, resolved that the Company would not proceed with voluntary business rescue or liquidation of the Group. It was resolved to continue trading in the expectation that financial support would be forthcoming from the Shareholder upon approval of the Group Corporate Plan 2020–2024. The merged group will have the 'financial muscle' to procure imported feedstock at commercial terms for processing at the Mossel Bay Refinery and the bank balance to support the capital interventions listed in the PetroSA Corporate Plan 2020–2024 that will transition PetroSA from a gas-to-liquids business to a gas and liquids business.

Whilst indigenous gas reserves are close to depletion and are expected to run out by December 2020, PetroSA has secured the utilisation of the SFF to procure large parcels of feedstock (1 million barrels of very large crude carrier (VLCC) feedstock) to process through the Gas-to-Liquid (GTL) Refinery. The frequency of delivery of smaller parcel sizes to the refinery improves feedstock availability, thus assisting the refinery to achieve a throughput of 21 000 bpd. The SFF feedstock procurement solution includes economies relating to logistics cost and the minimisation of excessive demurrage costs. PetroSA will, however, continue to be vulnerable to exogenous factors such as fluctuations in the crude oil price and volatility in foreign exchange rates in the intervening period. In the next two years, the receiving lines will be replaced so as to improve feedstock receiving rates.

Furthermore, plans to commercialise the tail gas from existing fields not suitable for GTLR consumption will contribute to improved margins. Purchased-product trading and PetroSA Ghana activities are unaffected and continue to expand. The Board is not aware of any new or potential changes that may have an adverse, material effect on the Group.

DIVIDENDS

No dividends were declared in this financial year.

CASH FLOW

Cash generated by operations increased by R48 million (R403 million vs R355 million in 2018/19). This was mainly due to the contribution by PetroSA Ghana.

CAPITAL EXPENDITURE

The Group reduced investment in property, plant and equipment, intangible assets and other investment activities by R616 million in order to preserve cash.

LIQUIDITY AND INTEREST RATE RISK MANAGEMENT

The PetroSA Treasury manages its cash and cash equivalents in line with Board-approved policies. Investment counterparties are approved based on their assessed ratings and are actively monitored.

Cash under management for the Group decreased from R2.2 billion in the previous year to R1.3 billion as at 31 March 2020, mainly due to operational activities. These balances included R350 million cash restricted by the bank as security for the issuance of letters of credit. As at 31 March 2020, South African rand cash and cash equivalents for PetroSA were invested at a rate of 6.57% NACM (2019: 7.57%). At 31 March 2020, R350 million was invested in fixed-rate instruments. The rate of return achieved on investments is in line with current market rates, as well as the reduced cash holding during the financial year, thus contributing R88.2 million in interest income generated by the Treasury in the period under review, down from R137 million in the previous year.

PetroSA invested R1.3 billion in cash, ring-fenced for the rehabilitation liability at a fixed rate of 10.67%, and R490 million at a floating rate of 6.84%, earning R177 million for the year. A further R486 million is invested with the CEF as collateral for rehabilitation liability guarantees, earning an interest rate of 7.02%.

FOREIGN CURRENCY RISK MANAGEMENT

The Group is exposed to foreign currency fluctuations, as it raises funding in offshore financial markets, imports raw material and spares, and then exports finished product. All local sales of finished products are concluded on a foreign currency-derived basis.

The Group hedges foreign exchange transactions to the extent possible where there is a future currency exposure. The Group also enjoys both natural and synthetic hedges (via foreign currency accounts) in order to manage foreign currency exposure.

FUNDING

A limited-recourse, reserve-based lending (RBL) facility, which is ring-fenced at the PetroSA Ghana asset level for an amount of up to USD150 million, was concluded during the 2015 financial year. As per the nominal reduction schedule contained within the RBL facility agreement, the facility was reduced to USD75 million as at 1 January 2020. As at 31 March 2020, the maximum amount available for utilisation with regard to the facility was USD65 million, which was fully utilised.

In addition, the Group has corporate facilities of up to R350 million to support working capital requirements. The Group's funding strategy to support the pipeline of projects and investments has been to raise bridging finance in the short term, thereafter converting to longer-term debt at the asset/project level.

PetroSA's cash position remains severely challenged, and, in addition to raising funding via external funders, 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 commitment included in the Corporate Plan.

TAX-COMPLIANCE STATUS

PetroSA and the PetroSA Group of companies have filed and, as applicable, paid all taxes as they fall due in South Africa and in foreign jurisdictions in which PetroSA operates.

On 18 February 2020, the South African Revenue Service (SARS) issued a letter of demand for R1 billion with respect to exports from unlicensed depots for the period May 2015 to March 2017. On 28 February 2020, PetroSA requested a suspension of payment of the amount, but the application for suspension was denied by SARS. On 1 June 2020, the court issued judgment in favour of PetroSA, in the process interdicting SARS from taking any enforcement and/or collection steps against PetroSA until the merits of the SARS DAS audit assessment have been heard in the High Court. On 30 June 2020, PetroSA filed its D96 intention to litigate against SARS. PetroSA is now awaiting a court date in early 2021.

ACCOUNTING STANDARDS

The financial statements for the year ended 31 March 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS). The International Accounting Standards Board (IASB) has issued IFRS 16: Leases, a new accounting standard, which is applicable to the Group. The PetroSA Group adopted the standard for the first time during the 2020 financial year.

PREFERENTIAL PROCUREMENT

For the period under review (i.e. April 2019 to March 2020), payments made to suppliers of goods and services totalled R14.8 billion.

Total procurement (non-discretionary) expenditure in respect of organs of state, sole-source suppliers and foreign entities totalled R6.3 billion. The Group's total discretionary procurement for the period under review in terms of the

Codes (i.e. Levels 1–8) was thus R8.5 billion. Total B-BBEE (broad-based black economic empowerment) procurement expenditure of R6.1 billion equates to 71.51% of discretionary spend for the period under review.

AREAS OF FOCUS IN THE NEXT FINANCIAL YEAR

Cost savings

On 23 March 2020, the President announced a nationwide lockdown, for 21 days, in response to the COVID-19 pandemic. This was later extended to the end of April 2020. COVID-19 has had an adverse impact on local and global demand for oil and finished fuel products, which has caused a significant reduction in revenue (as a result of both reduced volumes and selling price). In addition, the PetroSA Group has still had to fund its high fixed-cost structure. In response to COVID-19, management identified immediate cost savings with regard to capital and operating expenditure, and contracts were renegotiated with service providers for cost reductions and extended payment terms. The cost savings, resulting from ideas flowing from the BillionPlus Project, Project Isivumelwano, and the identification and disposal of non-core assets, will all be revisited for implementation in 2020/21. Management has also initiated engagements with labour for changes to remuneration benefits and for salary cuts.

Corporate Plan and Strategy 2020/2024

The Group is in the process of executing a sustainability plan that will ensure long-term supply of feedstock to the GTL Refinery beyond the end-of-plateau of the indigenous reserves. This will require the development and implementation of a suitable funding plan which will include recapitalisation and the sourcing of commercial funding.

WORD OF APPRECIATION

My thanks go to our Finance Team members for their diligence and unwavering support during a very challenging year beset by volatile economic conditions. The Group experienced extreme financial pressure occasioned by the significant impairment of its operating assets. In these trying circumstances, the Finance Team rose to the challenge of delivering appropriate financial management and governance systems across the Group.

EXECUTIVE MANAGEMENT TEAM

PRAGASEN NAIDOO
Group Chief Executive Officer (GCEO)

BSc Eng (Chem. Eng.), MSc Eng

Mr Naidoo was appointed PetroSA Group Chief Executive Officer (GCEO) at the beginning of 2020. Prior to this, he was the Group Chief Operations and Business Development Officer at the Central Energy Fund (CEF), a holding company of PetroSA. He has 18 years' experience in the petroleum industry, spanning the areas of human capital development and management, technology development and engineering, capital project execution, and business development and operations. Mr Naidoo has also had extensive exposure to local and international business environments. Mr Naidoo was appointed CEO on 1 March 2020.

ALISON FUTTER
Acting Chief Financial Officer (CFO)

BCom, MCom (Taxation)

Mrs Futter joined PetroSA in October 2006, working within the Finance Division. She fulfilled the role of International Tax Advisor from 2006 to 2012, Acting Group Tax Manager from 2012 to 2014, and, from 2015, Group Tax Manager. Prior to joining PetroSA, she was Principal Tax Consultant at Ernst & Young (from 2000) and Tax Accountant at Old Mutual (from 1998). She was appointed to the role of Acting Group Chief Financial Officer in September 2018.

KHOLLY ZONO
Group Chief Operating Officer (GCOO)

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

Mr Zono worked as a Lecturer and Research Associate at Nelson Mandela Metropolitan University (now Nelson Mandela University) before joining PetroSA as a Research Scientist in 1998, serving in various internal and key strategic roles, including master plan development, and representing PetroSA in various engagements with the Department of Energy. He was Vice-President: Operations from June 2014 until October 2017. In November 2017, he was appointed Acting Chief Operating Officer and Chief Executive Officer (CEO) (a combined role) until November 2018. He was appointed to the position of GCOO in January 2018.

BONGANI SAYIDINI
Vice-President: New Ventures Upstream

BTech Chem Eng, MSc Petroleum Eng, DIC, LLM Petroleum Law and Policy (with distinction), MBA

Mr Sayidini has 19 years' experience working in the petroleum industry, all gained at PetroSA, where he started his career as a Production Engineer in training and later Reservoir Engineer. He has fulfilled various senior technical and strategic roles within PetroSA, ranging from Senior Reservoir Engineer to Principal Reservoir Engineer, Strategist: Business Intelligence, Regional Manager: East Africa, Exploration & Production, and Vice-President: Exploration & Production. Mr Sayidini was acting CEO until 28 February 2020.

THABISO MANNE
Acting Vice-President: New Ventures Midstream

B Chem Eng, BSc Chemistry, MBL

Mr Manne has been working in the petroleum and chemical industry for more than 22 years. He started his career at Sasol, where he worked in Research and Development, Technical Support and Operations Management. After joining PetroSA in 2009, he was assigned to the team tasked with the development of Project Mthombo, a project to build a crude oil refinery in Port Elizabeth. He subsequently assumed the business development responsibilities for projects in the New Ventures Midstream Division. He also contributed to key national energy-policy initiatives such as Cleaner Fuels and the National Integrated Energy Plan. Mr Manne is a member of the boards of GTL.F1, PetroSA's joint venture technology company, as well as PetroSA Ghana. He assumed the role of Acting Vice-President: New Ventures Midstream in January 2019.

OMPHILE MOHAPANELE
Acting Vice-President: Human Capital

BAdmin (NWU), BA Hons (Industrial and Organisational Psychology) (UCT)

Mr Mohapanele has over 20 years' human resources generalist experience gained in industries spanning the mining, cement and lime, and petrochemical industries. He has also held the position of Human Capital Client Manager responsible for the Operations Division.

ODOI PAUL QABANISO CHIBAMBO
Acting Vice-President: Trade Supply And Logistics

Certificate in Strategic Management, Dip (Marketing), MBA

Mr Chibambo has over 39 years' experience. Before joining PetroSA as Business Development Manager for sub-Saharan Africa, he was Trading Manager at BP South Africa. He served as Regional Head of Logistics and has successfully developed BP's African trading business. He also implemented a new business model to transition the trading business from Europe to Asia. He was appointed Acting Vice-President: Trading, Supply & Logistics in December 2018.

MARLENE KHUMALO
Group Company Secretary

BProc., PGD (Taxation), Admitted Attorney

Ms Khumalo served in the potable and wastewater sectors for more than15 years. She has experience in, among others, company secretariat, legal, compliance and risk management work. She commenced her employment at PetroSA in September 2018 as Group Company Secretary.

04.

REVIEW OF THE 2019/2020 FINANCIAL YEAR

STRATEGIC FOCUS AREA 1: BUSINESS SUSTAINABILITY

1

With the depletion of gas feedstock, PetroSA continues to explore alternatives to sustain operations

GTL REFINERY PERFORMANCE

The GTL Refinery operated below budget with regard to both indigenous and non-indigenous production. Total production was 28% below budget (4.618 MMbbls vs 6.378 MMbbls). Summarised performance in respect of total production can be seen in Table 6.

TABLE 6: Total production for the 2019/2020 financial year

Total production	2019/2020 FY		
MMbbls	Budget	Actual	% dev
Indigenous	2.544	2.214	–13%
Non-indigenous	3.834	2.404	–37%
Total production	6.378	4.618	–28%

Operational context and challenges

Indigenous production was negatively affected by a month-long, unplanned total shutdown of the GTL Refinery. This incident occurred during the minimum gas loop turndown test run. The Synthol train tripped owing to a loss of catalyst level while the standby train was undergoing statutory maintenance. This test run led to minimum, continuous landed gas rates and associated yields. Other reliability issues occurred at both the FA Platform and gas loop, causing intermittent production interruptions.

Non-indigenous production was affected by two challenges. The first challenge arose because of reliability issues affecting plant availability. The second challenge was the unavailability of imported condensate.

Reliability issues affected availability in Q1 (88% availability) and Q3 (91% availability). Outstanding refinery availability of 100% was achieved in Q2 and Q4, as against a target of 95%. This resulted in an average plant availability of 94.8% for the year, as against a target of 95%.

Unavailability of imported condensate resulted in the plant operating at low rates, as parcels had to be stretched out. Failure to secure condensate as per budget was the major contributor to the unavailability of imported condensate. The Refinery ran out of condensate towards the end of Q4, even when operating the plant at the minimum allowable design rate. This resulted in the condensate-processing and petrol- and diesel-producing units being parked.

KEY OPERATIONS PROJECTS

Light well interventions in respect of producing fields

As part of the efforts to safeguard the feedstock supply to the GTL Refinery, a number of light well intervention projects have been executed and more are planned for the next financial year. It is critical for the success of the longer-term projects to ensure that the current life of field (LOF) forecast is realised. This will enable the GTL Refinery to continue operating.

Enhanced Condensate Processing (ECP) Project

With the depletion of gas feedstock to the GTL Refinery, PetroSA continues to explore alternatives to sustain operations. The ECP Project presents a solution for when gas feedstock is no longer available. The ECP Project is a revamp of the existing Mossel Bay facility for the processing of 46 000 barrels per day (bpd) of light crude/condensate in the American Petroleum Institute (API) gravity range of 45 to 53. This would more than double the current condensate-processing capacity of 18 000 to 20 000 bpd. Through some incremental upgrading of the bottom of the barrel, ECP should also improve the margin capture capability of the Refinery.

A feasibility study in respect of the ECP Project was completed in June 2017. Following successful internal peer reviews, the Board gave approval for the project to proceed to the front-end engineering and design (FEED) phase, subject to Shareholder approval. The Shareholder referred the project to PetroSA for updates on certain areas, including a review of the economics of the project and alignment with the PetroSA 2020 Strategy. The project will be submitted to the PetroSA Board, and subsequently to the CEF and for approval by the Minister of Mineral Resources and Energy in order that the FEED phase can commence in May/June 2020.

Reformate-reduction initiatives

Given that imported reformate is required to achieve the octane specification of petrol, an increase in the throughput, especially of lighter grades of imported condensate, will result in higher reformate consumption.

Two key initiatives have been underway in FY19/20 to reduce the overall reformate requirement. The required refinery changes are mostly limited to pipework modifications which will optimise the use of existing equipment. Changes required currently will be to the de-isopentaniser (DIP) and the platformer unit. These changes will also enable an increase in the throughput of the petrol-producing units of about 15%. The two projects have completed the FEED phase and are awaiting Final Investment Decision (FID) approval in May/June 2020 in order to proceed to the next project phase.

Single-Point Mooring (SPM) pipeline repairs

The project objective is to restore the mechanical integrity of the SPM diesel (14 inch) and petrol (12 inch) pipelines to enable seamless operation of GTL Refinery condensate processing, diesel imports, high-octane blend stock imports, and fuel products export from the Voorbaai terminal. The 2016 and 2019 pipeline pigging studies were commissioned to assess corrosion of the pipelines. These studies recommended that the 14-inch distillate be in service only until January 2022. The project has been scheduled for January 2022 in order to perform the repairs. The FEED phase of the project has been completed and is awaiting FID approval in May/June 2020 to enable implementation of the project.

Conversion of Voorbaai alcohol tanks to receive diesel

PetroSA's monthly diesel imports dictated the need to increase diesel storage capacity by an additional 20 000 m^3 of working volume. The conversion of the alcohol tanks has increased total diesel storage at Voorbaai to 40 000 m^3. This enables importation of larger parcel sizes, thereby improving freight economics per unit. The project has been completed and is operational.

FUTURE OUTLOOK

Production forecast

The forecast for FY20/21 is that total production will be 22% below budget. Indigenous production is expected to be impacted by well-performance, depending on the success of well-interventions.

Non-indigenous production is expected to be below budget mainly due to low condensate processing rates in Q1. This is foreseen as a direct impact of the lockdown in April 2020 and slow economic recovery later on in the quarter. See Table 7 for the forecasted production.

TABLE 7: Production forecast for Q1 20/21 and financial year-end (FYE)

MMbbls	Q1 20/21			Forecast FYE		
	Budget	Actual	% dev	Budget	Actual	% dev
Indigenous	0.687	0.638	–7%	1.926	1.733	–10%
Non-indigenous	1.384	0.800	–43%	5.733	4.279	–25%
Total production	2.071	1.439	–31%	7.659	6.012	–22%

Liquid-refinery roadmap

Corresponding with the three phases of the Corporate Plan, milestones have been put in place which will focus on stabilising (in the short term), transitioning (in the medium term) and growing (in the long term).

For the *short-term* phase, the key objective is to stabilise current operations. The main focus will be on: stable indigenous and non-indigenous production operating at a minimum gas loop turndown rate and processing condensate at a rate of up to 18 000 barrels per day; as well as on the Operation Management Intervention Plan for implementing interventions to improve current operations.

The *medium-term* phase will focus on embedding operational excellence. Gas loop production will be at zero and the condensate processing rate at 18 000 barrels per day. The Change Management Plans for achieving efficient and sustainable operation will be concluded. Opportunities to enhance the margin on low-cost aspects of the ECP, such as the DIP, will be reviewed.

In the *long-term* phase, ECP will be commissioned. The condensate processing rate will be up to 46 000 barrels per day.

Stable indigenous and non-indigenous production

Operations are on track for operating the gas loop at minimum turndown. This operating philosophy will be finalised during another trial scheduled for August 2020. Condensate-processing units are available to process up to 18 000 barrels per day. Securing feedstock with assistance from the SFF will be an added advantage so as to minimise reduction of imported feedstock.

Operations Management Intervention Plan

Operations Management has devised and implemented an Intervention Plan to turn around operations performance.

The four pillars of the Turnaround Plan are:

- Leadership stability;
- Improving asset stewardship;
- Site optimisation; and
- Improving the health, safety, environment and quality (HSEQ) and process safety management (PSM) cultures.

Progress was made in the implementation of this plan, mainly in the area of leadership stability, with changes in leadership being made in order to reduce acting positions and to drive greater accountability. Progress has also been made towards improving the HSEQ and PSM cultures by, among others, setting up a dedicated project team that will drive and help embed improvements.

Further actions
Following a proposal by the Strategy and Risk Committee, work is underway to improve performance management through adapting the refining industry performance benchmark standard, Solomons, to PetroSA.

Work to be completed includes: establishing the appropriate key performance indicators (KPIs) that can help benchmark the Company's performance against the last benchmark, as well as appropriate repurposing of key parameters like the equivalent distillation capacity (EDC) in order to take into account the changes in GTL Refinery capacity since the last benchmark.

The target is to have a report ready by the end of Q2 20/21.

Well interventions
As part of the efforts to maintain feedstock supply to the GTL Refinery, 12 light well interventions have been identified within the producing F-A, E-M and South Coast Gas (SCG) fields. Execution of the well interventions is planned for the new financial year and requires the use of a shared dive support vessel. These present inherent subsurface uncertainties, making it necessary to conduct a basket of interventions to operate at the required gas rates until 31 December 2020 and beyond. Subsea activities are key to ensuring the successful outcome of the intervention programme and thus a sustained gas supply to the GTL Refinery.

E-BK and E-AD projects
Gas market development for the South African economy is identified in the current Corporate Plan as part of PetroSA's Business of Tomorrow. In this regard, development projects such as E-BK and E-AD have been identified as medium-term projects to extend the LOF and supply alternative gas markets, such as gas-to-power generation. PetroSA intends to secure partners in these projects that are able to support the projects' funding requirements as well as project execution.

The E-BK field is a condensate-rich gas accumulation, situated in the E-BK Production Right, which is located approximately 135 kilometres offshore from Mossel Bay within the central part of the Bredasdorp Basin. The E-BK field is planned to be developed with a single horizontal well (horizontal length of approximately 700 metres) connected via a 21-kilometre subsea tieback to the tie-in point at E-BB on the SCG pipeline. The gas and condensate will be transported via the existing SCG facilities to be processed on the F-A Platform, from where the gas and condensate will be transported via the existing subsea export pipelines to the GTL Refinery in Mossel Bay. The E-AD field is an oil and gas accumulation in multiple horizon sequences and is located in the SCG Production Right. The Field Development Plan targets only gas accumulations to support the identified gas market. The notional field development includes the drilling of one well (E-AD2 well) and tying it via a 50-metre jumper to the E-AD tie-in point in the SCG pipeline.

The objective of these projects is to supply gas to alternate gas markets such as the Gourikwa Eskom peaking plant and other available commercial gas markets in the region. The E-BK Project is the most mature in the New Ventures Upstream opportunity funnel, as the project has completed the technical Feasibility Phase. The E-AD Project is currently in the Pre-Feasibility Phase, pending the review/finalisation of the subsurface studies using the recently reprocessed 3-D seismic data from December 2019.

The target for the financial year is to seek internal approval to proceed to the FEED phase, to tender for the FEED study, as well as complete the engineering studies for FEED. The E-AD field target is to finalise the subsurface technical work and complete the Pre-Feasibility Phase. A farmout process to secure partners for these developments will commence, the objective being to secure a partner by FYE.

PetroSA Ghana Limited: Ghana
PetroSA Ghana participates in three areas offshore from Ghana: the Greater Jubilee Unitised Area (Jubilee, Mahogany and Teak fields), the West Cape Three Points (WCTP) Block and the Deepwater TANO (DWT) Block. In 2019, two drill ships were contracted to accelerate drilling and completion in both the Jubilee and TEN fields to Q2. Five wells were drilled and completed in 2019 across both the Jubilee and TEN production and development areas.

Greater Jubilee Field

As at 30 September 2019, reserves for the Jubilee fields amounted to 566.3 MMbbls, of which 31.9 MMbbls represented total production for the year under review. Production net to PetroSA Ghana was 0.86MMbbls before royalty and redetermination adjustments.

Contingent resources associated with the Greater Jubilee (Mahogany and Teak) Area were estimated at 19.4 MMbbls hydrocarbons, as defined by the Independent Oil and Gas Reserve Auditor.

Deepwater TANO (DWT) TEN fields

As at 30 September 2019, estimated 2P reserves for the Tweneboa, Enyenra and Ntomme (TEN) fields were 206.5 MMbbls of oil and 320 Bscf (billion standard cubic feet) of gas.

Total oil production for the year under review was 22.1 MMbbls, of which the net oil entitlement to PetroSA Ghana was 0.9 MMbbls before royalty and redetermination adjustments. During the same period, the total associated gas production was 48 Bscf and net gas to PetroSA was 13.1 Bscf, of which net sale gas to PetroSA of 26MMscf (million standard cubic feet) was exported.

At the end of FY19/20, 12 wells were on stream in the TEN fields. The associated gas produced is used to generate power on the Floating Production Storage and Offloading (FPSO) unit. The remainder of the gas is either reinjected or flared, or substituted for Jubilee gas if Jubilee is unable to provide the gas.

The JV partners are currently conducting further subsurface and field development studies for Wawa Appraisal, including other opportunities in the development and production area.

Farmouts (West Coast and South Coast)

PetroSA is pursuing the opportunity to explore its offshore assets on the South and West Coast of South Africa, together with reputable, experienced oil and gas companies, by forming JV partnerships through the divestment of part equity in the assets in exchange for the carried interest of current and future work programme commitments.

West Coast

In 2019, exploration activity offshore of the West Coast of South Africa focused on seismic acquisition and portfolio management. In Block 5/6/7, a strengthened JV partnership was established in line with the Corporate Plan on pursuing a partnership strategy. The JV, between Total (40% equity holder and operator), Shell (40% equity holder) and PetroSA (20% equity) was awarded the second renewal phase of the exploration right (ER).

The committed work programme is the acquisition and processing of 10 000 km^2 of 3-D data. A world record for the amount of coverage in one day was achieved in Block 5/6/7 of approximately 200 km^2. The seismic acquisition was completed on 22 April 2020.

In respect of Blocks 2A and 3A/4A, a cooperation agreement was concluded with PGS Exploration (UK) Ltd (PGS) for the conducting of a multi-client seismic survey. This data will be acquired at no cost to PetroSA. Furthermore, PetroSA has applied to the Regulator for ER renewal with respect to Block 2C and Block 3A/4A. In terms of portfolio management, the objective is to reduce capital expenditure and operating costs by divesting a share of PetroSA's equity to a financially and technically strong industry major. Numerous companies have indicated their interest in partnering with PetroSA in order to unlock potential on the West Coast through the Company's vast portfolio of assets.

South Coast

On the South Coast, PetroSA has a 100% equity interest in Block 9 and 11a, both of which are covered by ER 61. Surrounded by producing fields, the Block 9 and 11a ER 61 is quite prospective. The remaining potential of the block is encouraging, although the deeper targets have not been drilled, leaving a large part of the block relatively unexplored. PetroSA has also identified several promising leads and prospects that could result in a promising drilling programme.

To determine this remaining potential of Block 9 and 11a, a multiple well-exploration programme is required. A discovery, especially of oil or a large gas discovery, could put PetroSA onto a growth trajectory. In this regard, partnerships are key in the oil and gas industry, allowing the risks and rewards of an exploration success to be shared. Companies, rarely conduct high-risk exploration on a sole-risk basis, especially in the current oil price climate. PetroSA intends to embark on a farmout process in order to secure a partner to embark on a comprehensive work programme for a full carry in exchange for equity. The target is to secure a partner by the 2020/2021 FYE.

MIDSTREAM GROWTH AND SUSTAINABILITY INITIATIVES

Commercial gas sales programme

PetroSA has been actively seeking alternative opportunities to monetise the offshore fields'"tail" gas using the existing FA Platform and infrastructure and complementing the assets at the Mossel Bay GTL Refinery with new assets so as to provide an additional revenue stream for the PetroSA business.

Options considered include:

- Developing a compressed natural gas facility;
- Separating the GTL Liquefied Natural Gas (LNG) Unit from the gas loop to enable the manufacture and despatch of LNG;
- Building an embedded power-generation system for own use; and
- Selling gas to Eskom over the fence, or short-term power generation in terms of the Risk Mitigation Power Procurement Programme of the Independent Power Producer's (IPP) Office.

The focus is now on executing a fast-track, short-term power-generation project that would entail power generation on the GTL site until Eskom is in a position to procure offshore indigenous gas.

ECP Project

The ECP Project is a revamp of the existing Mossel Bay facility for the processing of 46 000 bpd of light crude/condensate in the API range 45–53 as gasoline, diesel and LPG. In the absence of gas supply for the production of fuels through the Mossel Bay GTL Refinery, the ECP Project will allow PetroSA to remain active in the petroleum business, as well as retain an operating base and employment in Mossel Bay. The initial concept was to produce only Clean Fuels 1 (CF) products, but internal work is in progress to expedite the transition to CF2 product specifications with minimised capex. The scope includes the installation of a revamped Catenary Anchor Leg Mooring (CALM) buoy in a deeper position to allow for the import in large feedstock carriers, that is, 1 million-barrel tankers.

A feasibility study was completed in June 2017, when it was concluded that the conversion is technically feasible and that the project is commercially attractive. While the project is projected to require four years (excluding approvals) to complete, options to expedite its implementation are being explored.

New refining project

South Africa has a growing shortage of high-quality fuels and chemicals. This deficit is currently being addressed primarily by the growing importation of petrol and diesel, as well as basic chemicals and end products.

An opportunity exists to invest in an economically competitive new crude oil refinery sized and designed to produce these products locally. Such an investment will provide security of fuels supply, will increase South Africa's manufacturing competitiveness, and will make a positive macroeconomic and socio-economic impact.

In May 2019, the CEF and Saudi Aramco concluded a Memorandum of Cooperation (MOC) to enable the development of the Refinery Project. This was preceded by a Memorandum of Understanding (MOU) signed by the South African and Saudi Arabian Ministers of Energy in January 2019 and a government-to-government agreement, concluded in July 2018, as part of the President's investment drive to revitalise the South African economy. In essence, the MOC is a collaborative relationship, on an exclusive basis, enabling the CEF and Saudi Aramco to cooperate with each other in exploring the commercial viability of the project. In view of its experience in project development and the lessons learnt with Project Mthombo, PetroSA has been requested to assist the CEF in this engagement. The Pre-Feasibility Phase of the project commenced in June 2019.

The project scope is premised on the development of a world-class refinery and petrochemical complex to be located in the Richards Bay Industrial Development Zone (RBIDZ).

A number of third-party consultants have been appointed to conduct the market study, the techno-economic assessment of the refinery configuration studies, and in-country related activities required to complete the assessment at pre-feasibility level.

The CEF is responsible for progressing a number of supporting initiatives/ studies that are critical interface points for the projects. These include monitoring the land acquisition, securing support from state entities for the development of logistics infrastructure (crude importation mooring, port development, pipeline and rail infrastructure development). In addition to these, the CEF has also engaged with other state entities in order to define the interfaces for the provision of electricity and water.

To ensure that the project is able to deliver tangible economic benefits for the country, the CEF has conducted a preliminary assessment of South Africa's manufacturing and construction sectors. Furthermore, it has developed a framework for promoting initiatives required to position local industry and the historically disadvantaged in order to maximise participation in the construction and operational phases of the project. An assessment of the project's estimated socio-economic impact on the local, provincial and national economy and the country's regulatory framework has been conducted. An exploratory partnership and funding strategy for the project have also been developed.

The technical, commercial and in-country activities identified for the overall pre-feasibility study have been completed, and the appropriate submission to the Project Steering Committee and/or respective Shareholder is imminent (i.e. within the 2020/2021 financial fear).

Gas supply to the GTL Refinery
PetroSA continues to engage with the CEF on proposals for importing LNG to Mossel Bay. The project involves participation in the CEF LNG importation project that is being supported by i-Gas. The project is based on importation through Coega with a hub-and-spoke-type LNG distribution model to on-deliver to Mossel Bay should this be commercially viable.

A pre-feasibility report has been issued, and PetroSA is in the process of establishing a team to develop a project for the importation of LNG into Mossel Bay.

The CEF project team has gone out on tender for commercial, legal and technical consultants to conduct a feasibility study, and the tender adjudication is underway.

TRADE, SUPPLY AND LOGISTICS

Operational context and challenges
Year-on-year growth in demand for oil products has slowed in line with slowing global economic growth. Refinery capacity additions, especially in the Middle East and Asia, combined with lower demand growth, have led to generally lower refinery uses, resulting in weakened margins.

Performance for FY19/20 was impacted by a tough, volatile environment shaped by a slower economy as well as by limited access to higher margins dominated by the presence of multinational entities and an increasing number of independent retailers. This was compounded by lower crude oil prices, with the Brent price averaging 18% below budget ($61.06/bbl vs $74.02/bbl) The rand depreciated by 3% against the budget at R14.78/$ vs R14.39/$.

Total sales volumes and revenue
Downstream, income is generated mainly from the sale of oil products (petrol, diesel, fuel oil and LPG), with a small market for petrochemicals and gas for industrial use. These form part of PetroSA's integrated value chain that trades and refines crude oil and other feedstock into products which are marketed locally in the domestic, industrial and transport markets.

Sales for the year were higher than planned and driven by growth in the commercial sector, mainly through sales to state-owned entities and oil-marketing companies. The Company achieved a contribution margin of 5%, and this notwithstanding the constrained infrastructure, balance sheet, and reliance on hospitality arrangements. Strong counterparty relationships on both the customer and supplier side played a key role in achieving some of the business aspirations.

TABLE 8: Purchased product gross margin for 2020 financial year

Purchased product gross margin (GM) (Rm)	Actual 2019/2020	Budget 2019/2020
	Rm	Rm
Revenue	7 022	2 986
Cost of sales	6 670	2 857
Gross profit	318	174
Gross margin %	5%	6%

The gross margin contribution was 82% above plan, while the gross margin percentage was slightly below target, reflecting the logistical limitations.

Feedstock imports
Feedstock sourcing remained a challenge as a direct result of the port limitation and limited storage for condensate, as PetroSA's receiving berth is only able to accept medium-range vessels or a maximum cargo of 325 kbbls.

Strong partnerships with suppliers enabled PetroSA to access competitive trading terms despite the poor credit ratings.

The need to create a solution for the logistics infrastructure challenge remains a critical success factor in enabling a lower feedstock cost for the Refinery in the short to medium term. Using synergies within the Group, such as the SFF tanks in Saldanha to alleviate the logistics challenges of landing optimal cargo sizes, will improve the economies of landed feedstock. SFF storage will be a key enabler for cost reductions and providing a break bulk solution, thereby ensuring that PetroSA can optimise feedstock sourcing in terms of size and price.

This year, PetroSA recorded a key success in its efforts to open up the feedstock basket. For the first time, the Refinery was able to process condensates from the United States of America (USA). PetroSA was able to secure these cargoes on open terms, which enabled the Company to achieve a good balance between supply chain management and cash.

In the next financial year, the focus will be on improving logistical capability at the Mossel Bay port and using Group resources to optimise the feedstock supply chain. PetroSA will continue to work with crude suppliers to identify more optimal ways of sourcing feedstock in order to manage the risks associated with the activity.

Future outlook

According to the economic impact analysis by the Energy Information Administration (EIA), during 2019 the industry experienced weaker demand than expected and new vehicle efficiency measures have started to weigh on transport fuels. Increased refining capacity in recent years has increased product. However, demand did not grow as fast due to increased competition for market and tightening product specification. The new International Maritime Organisation (IMO) bunker rules introduced at the beginning of 2020 are one example of this.

On the supply side, geopolitical conflict plagued the market throughout 2019. Production losses in Iran, Libya and Venezuela have reached a combined 3.5 mb/d since the start of 2018. With the market being oversupplied, OPEC+ agreed to cut production in the hope of pushing up prices. However, fears of a recession sparked by the continued conflict between China and the USA kept prices lower.

The outbreak of COVID-19 added an additional, significant layer of uncertainty to the oil market outlook around March when the World Health Organization (WHO) declared it a global pandemic. In 2020, global oil demand is expected to contract for the first time since the global recession of 2009. However, according to the EIA, the market situation remains very fluid, making it extremely difficult to assess the full impact of the virus. General market consensus is that prices will remain depressed for a longer period.

The Declaration of Cooperation between OPEC+ members designed to adjust their production down in 2020 also supported the recovery in the oil price. The Trading, Supply and Logistics (TSL) Division will focus on fulfilling the commitments under the Corporate Plan for the period 2020 to 2024. These commitments include margin growth for downstream businesses and increasing the footprint on sales; pursuing the niche market product as a strategy to diversify its portfolio; and navigating through COVID-19 as the new norm in doing business and with respect to customer interaction.

The downstream business will move closer to customers by improving the customer offering through creating a business model that ensures a closer interaction with the end consumer. The product portfolio will be expanded to improve margins. Supply reliability will be further improved through partnerships and equity participation in assets that complement PetroSA's market needs. Growth in the lower end of the value chain will be achieved by increasing market share to 10% in the short to medium term. PetroSA has historically offered high-quality products which align with existing market requirements. This will remain a focal area as the Company transitions into the CF environment, where concentrated efforts will be made to ensure a fast and quick transition to CF2 products in the portfolio as it develops its supply chain.

STRATEGIC FOCUS AREA 2: HEALTH, SAFETY, ENVIRONMENT AND QUALITY (HSEQ)

2

The Company's key focus areas regarding HSEQ are to comply with legislation and mitigate risks relating to product quality and harm to people, property and the environment. Comprehensive interventions undertaken to mitigate these risks are detailed in the HSEQ Management Plan. The GCEO has delegated responsibility for executing the plan to the Corporate HSEQ Manager and all legal appointees in terms of both the Occupational Health and Safety Act (16(2)) and the Mine Health and Safety Act (2A(2)).

This report focuses on the HSEQ performance indicators on the Corporate Scorecard (HSEQ Index). A detailed examination and diagnosis of the status of HSEQ Management will be presented during the EXCO HSEQ Management Review planned for May 2020.

KEY MESSAGES

The HSEQ Index for the year under review was on target at 3.00. The index has shown consistency over the last three financial years. A significant contributor to the good performance this financial year was the execution of the activities in the Safety Culture and Awareness Plan as well the maintenance of the Quality Management System. Table 9 compares the HSEQ indices for both the preceding and current financial years.

TABLE 9: Comparative corporate HSEQ Index

	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020
Calculated	2.4	1.60	2.90	3.25	3.00
Adjusted	1*	1.44**	2.90	3.25	3.00

** Calculated score (2.4) defaulted to 1 due to a fatality in September 2015.*
*** Calculated score reduced by 10% due to a fatality in January 2017.*

There was a significant reduction in the number of lost-time injuries (LTIs) compared with preceding years. During the year, 14 LTIs were reported, compared with 27 in FY18/19. The reduction can be attributed to the focus placed on implementing the Safety Turnaround Plan, to growing safety consciousness, and to a gradual cultural shift that the Safety Turnaround Plan has instilled in the organisation.

Environmental incidents reported at the end of the year under review were on target at six, compared with seven in the previous financial year. The indicator has shown an improvement, that is, a declining trend of 14% as measured by environmental incidents.

The Quality Management System delivered beyond expectations. PetroSA retained its ISO 9001:2015 Certification, as issued by the third-party certification body. A quality conformance score of 80.9% was achieved.

The goal for the next financial year is to ensure that HSEQ processes are effective and efficient so as to support the GCEO, Executive Management, project managers, legal appointees, and all employees in the execution of the Corporate Plan, as well as in discharging day-to-day responsibilities.

PERFORMANCE ON INDIVIDUAL HSEQ KPIS

The HSEQ Index is expressed as a weighted average of the ratings (R) obtained for the individual HSEQ KPIs, making up the HSEQ Index as follows:

$$\frac{R_{(Environmental)} + R_{(Safety)} + R_{(Quality)} + R_{(Culture)}}{4}$$

TABLE 10: HSEQ individual KPI performance for 2019/2020

GOAL	KPI	TARGET	1	2	3	4	5
Zero harm to people and the environment (HSEQ Index)	Lost-time injury frequency rate (LTIFR)	LTIFR = 0.35–0.39	LTIFR = 0.45 and above	LTIFR = 0.40–0.44	LTIFR = 0.35–0.39	LTIFR < 0.35	**4+** A reduction in overall injuries on duty (IODs) of 10% vs FY18/19
	Environmental incidents	4–6 environmental incidents	>10 environmental incidents	7–10 environmental incidents	4–6 environmental incidents	0–3 environmental incidents	**4+** A reduction in overall incidents of 10% vs FY18/19
	Maintain Product and Service Quality Management System	Retain certification plus 70–80% conformance score	Retain ISO9001:2015 Certification	**1+** <70% quality conformance score	**1+** 70–80% quality conformance score	**1+** 81–90% quality conformance score	**1+** >90% quality conformance score
	Implementation of HSEQ Culture and Awareness Plan	70–80 % completion of activities on the developed HSEQ Culture Plan	2019/2020 HSEQ Culture Improvement Plan developed	**1+** <70% completion of activities on HSEQ Culture Plan	**1+** 70–80 % completion of activities on HSEQ Culture Plan	**1+** >80% completion of activities on HSEQ Culture Plan	**4+** An improvement of 10% in the culture survey vs FY18/19

NOTE: *In general, any fatality occurring as a result of work-related exposure to an accident or illness caused by or related to a PetroSA workplace hazard will override this scorecard by a reduction of 10% in the overall score.*

FIGURE 18 2019/2020 HSEQ Index dashboard

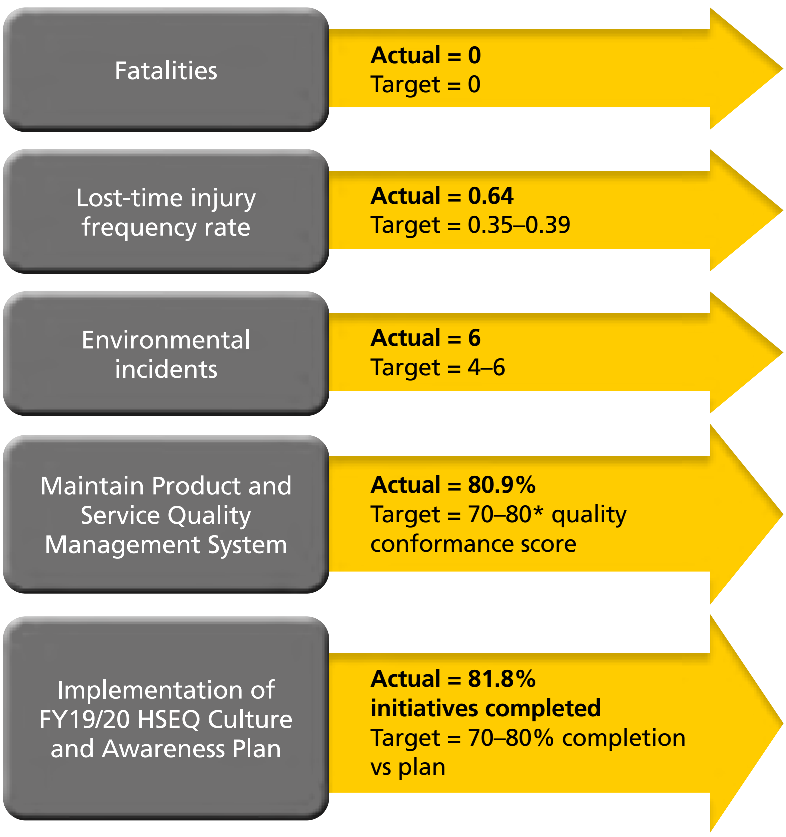


Table 10 and Figure 18 present the ratings for the individual HSEQ Index elements on the Corporate Scorecard against set annual targets.

LOST-TIME INJURY FREQUENCY RATE (LTIFR)

Fatal incidents

There were no fatal incidents as a result of direct work-related exposure, that is, an accident or illness caused by or related to a PetroSA workplace hazard. However, there were two incidents involving two PetroSA contractors:

- One employee lost his life while at the GTL Refinery. On Friday, 1 November 2019, Mr Michael Abrahams, an employee of MDC Civils, collapsed in an excavation at the GTL Refinery. The death was determined to be a result of natural causes.
- On 20 March 2020, an ERB truck capsized en route from Durban to the PetroSA Bloemfontein Depot. The motor vehicle accident happened in Winburg, approximately 111 km away from Bloemfontein. The driver of the vehicle passed away. ERB, the bulk vehicle contractor, is responsible for the investigation and any legal liability.

Lost-time injuries

A total of 13 LTIs were recorded across the organisation, leading to an LTIFR of 0.64 as at the end of March. This rate is above the targeted LTIFR of 0.35 to 0.39. Although the targeted LTIFR was not met, the total recorded number of LTIs for the period under review was noted to be significantly lower, at 14, than in the previous year, at 27. Refer to Table 11 for details on LTIs.

Table 11 indicates the number of LTIs and the LTIFRs over the past five financial years, compared with the current financial year and set targets. The estimated loss is also indicated (R millions).

TABLE 11: LTIs and estimated cost

	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020
Number of LTIs	**14**	**13**	**17**	**17**	**27**	**14**
Cost/LTI (× R 1000)	120	132	145	159	175	195
LTI cost (× million rand)	**1.7**	**1.6**	**2.2**	**2.7**	**4.7**	**2.7**
Number of fatalities	**0**	**1**	**2**	**0**	**0**	**0**
Cost/fatality (× million rand)	1.8	2.0	2.2	2.4	2.6	2.9
Fatality cost (× million rand)	**0**	**2.0**	**4.4**	**0**	**0**	**0**
TOTAL LOSS (× million rand)	**1.7**	**3.6**	**6.6**	**2.7**	**4.5**	**2.7**
LTIFR	0.33	0.42	0.68	0.79	0.93	0.64
LTIFR target	**0.40**	**<0.40**	**0.35–0.39**	**0.35–0.39**	**0.35–0.39**	**0.35–0.39**

Environmental incidents

An environmental incident is defined as an event which satisfies one or more of the following criteria:

- The environmental damage is localised;
- The environmental damage extends beyond the boundary fence, and a substantiated community complaint is received;
- There is permit non-compliance and/or permit exceedance with respect to prescribed limits;
- The event falls within the scope of a National Environmental Management Act (NEMA) section 30 incident description.

As at 31 March 2020, there were six environmental incidents which fell within the corporate definition of an environmental incident. This was a reduction of approximately 14% from the seven incidents recorded in the previous financial year. Refer to Table 12 for details on environmental incidents.

TABLE 12: Environmental incidents

Incident date	Incident number	Incident location	Incident description
12 April 2019	7089	FA Platform	On 11 April 2019, an oil sheen was reported to be visible on the south-west corner of the Platform. **Immediate action:** With immediate intervention, i.e. by lining up the interceptor pump to the slop tanks, the level in the interceptor tank started to drop and therefore stopped overflowing. The oil sheen dissipated before clean-up measures were instituted. The sheen was only visible for approximately 2 hours. **Volume:** Not determined **Root cause:** 1) Inadequate engineering or design; and 2) inadequate assessment of potential failure **Incident status:** Closed
20 May 2019	7172	FA Platform	On 20 May 2019 at approximately 07.53, an oil sheen was reported to be visible on the south-west corner of the Platform. **Volume:** Not determined **Root cause:** 1) Inadequate planning or maintenance; and 2) inadequate work planning **Incident status:** Closed
30 July 2019	7380	Tzaneen Depot	A diesel pipeline gasket burst, which resulted in approximately 20 litres of product being spilled on the concrete surface. Some of the diesel spilled was channelled into the storm-water drain. **Volume:** Approximately 20 litres **Root cause:** 1) Inadequate planning or maintenance; 2) excessive wear and tear; 3) extension of service life (gaskets were old) **Incident status:** Closed
9 November 2019	7685	FA Platform	A discharge of produced water occurred at the FA Platform on 9 November 2019 at 11.30. An oil sheen was visible on the north-west corner of the platform, drifting in a westerly direction. **Root cause:** 1) Inadequate planning or maintenance; 2) inadequate preventative maintenance (analyser did not pick up the condensate) **Volume:** Not determined **Incident status:** Closed
1 January 2020	7829	GTL Refinery (Unit 58 – Liquid Effluent Treatment to Ocean)	On 1 January 2020, the Liquid Effluent Treatment Plant Unit 58 was full. As a result, off-spec effluent was discharged to the ocean. **Volume:** Not available **Incident status:** In progress
21 January 2020	7874	GTL Refinery (Unit 58 – Liquid Effluent Treatment to Blinde River)	On 21 January 2020, effluent from the Liquid Effluent Treatment Plant Unit 58 was discharged to the Blinde River. **Volume:** Not available **Incident status:** In progress

TABLE 13: Corporate environmental incidents

	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020
Actual	7	7	5	9	7	6
Target	12	0–6	0–6	3–6	3–6	4–6

- Five (83%) of the environmental incidents occurred as a result of activities related to the Operations Division. This observation is aligned with the level of operational activities taking place at the Operations Division;
- Three (60%) occurred due to operational activities at the FA Platform facility and two (40%) occurred due to operational activities at the GTL Refinery facility;
- The hydrocarbons were released to the marine and freshwater resources; and
- One (17%) was due to the activities related to the TSL Division. This observation is aligned with the level of operational activities. The hydrocarbons were released to freshwater resources.

The main, root causes of corporate environmental incidents that were closed were workplace factors, including:

- Inadequate work engineering and design; and
- Inadequate assessment of planning or maintenance.

PetroSA is generally compliant with legislative requirements. Where legislative non-compliance has been reported previously, steps are taken to address the findings. Progress is being made towards full compliance.

MAINTAINING PRODUCT AND SERVICE QUALITY

A Quality Management System (QMS) helps organisations to be more efficient in managing quality risks and improving customer satisfaction. ISO 9001 is an international standard that sets out the requirements for a QMS.

PetroSA's objective was to retain the ISO9001:2015 Certification, as audited and verified by an accredited certification body, through the maintenance of its internally developed QMS.

ISO9001:2015 Certification retained

The QMS Surveillance Audit was conducted by SGS, an external certification body, from 23 April to 3 May 2019. PetroSA's QMS Certification was retained. This performance indicates the robustness of PetroSA's processes and the extent to which the Company conforms to the requirements of ISO9001:2015, as well as the maintenance of its internal QMS requirements by process owners.

Quality management system conformance score

During Internal Quality System Audits, a quality conformance score is allocated based on the conformance level of the audited process against critical quality aspects. The quality aspects for each business unit are aggregated to determine the divisional scores, based on processes in the 2019/2020 Internal Quality Audit Plan. The corporate quality conformance score is calculated as the average score of the divisional scores.

The Company's average quality conformance score was calculated to be 80.9%.

In total, 76% of the planned audits could be completed. Owing to the lockdown, audits planned for March 2020 could not be undertaken. These audits will be deferred to the next financial year.

IMPLEMENTING THE HSEQ CULTURE AND AWARENESS PLAN

Safety culture surveys are conducted every year to determine the HSEQ culture, awareness and consciousness of the PetroSA family. The results of the surveys provide input into the initiatives that leadership must pursue to further improve the HSEQ culture. From the results of the Culture Survey conducted in FY18/19, a HSEQ Culture and Awareness Plan was formulated with the objective of improving the HSEQ culture in FY19/20. This plan presented a number of interventions and activities that were pursued to change the course of the safety and general HSEQ culture within the organisation. In all, 81.8% of the planned activities were executed, as against a target of 70 to 80%.

A high-level overview of the survey results and Management's response are provided in Table 14.

TABLE 14: Safety culture survey results and initiatives

Culture survey results/issues	Management response – as in HSEQ Culture and Awareness Plan
Initiatives supporting safety culture not adequate	• Management walkabout (Gemba Walks) • Weekly safety stand-downs • SHE representatives and HSE committees • Central safety
PetroSA does not learn from past findings and incidents and act to prevent recurrences	• Incident Management System workshops • Root-cause analysis techniques training • Follow-up on external findings/instructions • Engaging with authorities
Decisions of management (at all levels) do not consistently put safety before production	• Legal-liability training for supervisors • SHEQ risk management training, i.e. hazard identification and risk assessment (HIRA) • Executive and Gemba Walks • Executives presenting safety stand-downs
Adequacy of response to emergencies	• Emergency response training, i.e. basic firefighting, first aid, and HAZMAT awareness • Participation in national Incident Management Organisation (IMOrg) • Evacuation drills

LOOKING AHEAD TO 2020/2021

The goal for the next financial year is to ensure that HSEQ processes are effective and efficient in order to support the GCEO, Executive Management, project managers, legal appointees, and all employees in the execution of the Corporate Plan as well as in discharging day-to-day responsibilities with regard to:

- Identification and management of HSEQ risks;
- HSEQ legal compliance;
- The creation and implementation of HSEQ internal controls; and
- Reviewing and monitoring the adequacy and effectiveness of internal controls.

These are all within the framework of the relevant legislation and standards. During FY20/21, the management of HSEQ will be geared towards:

- Reducing work-related injuries and occupational illness giving rise to any related temporary or permanent disablement, or death.
- A focus on preventive HSEQ, which will be hinged on improving PetroSA's management of incidents, with a specific emphasis on near misses.
- Monitoring the Company's environmental impact, which remains critical for the sustainability of PetroSA. Particular emphasis will be placed on efforts to reduce environmental incidents and greenhouse gases, as well as ensuring that PetroSA reduces its carbon footprint.
- The execution of the agile Safety Improvement Programme, which will continue for the planning period in order to support Company strategy. Some of the key activities of the programme are:
  - Training in, and awareness of, legal liability and responsibility for key roles in the organisation;
  - Visible and felt leadership through executive Gemba Walks;
  - Behaviour-based safety programmes;
  - Continuous employee engagement through various employee-engagement platforms and training and awareness initiatives; and
  - Supplier HSEQ management and coaching.
- Exploring the maximisation of some of the well-developed PetroSA HSEQ

PetroSA is focused on reducing harm to people, property and environment

processes, systems, facilities, tools and skills for the benefit of the broader CEF Group. These are, for example, health and medical expertise and health management systems, and consultative services to the CEF Group on the implementation (including training) and maintenance of HSEQ management systems, thereby generating income for PetroSA.

- The goal of developing, implementing and maintaining management systems certified to international standards, as well as having tools that support these management systems.
- Implementing and maintaining an effective Process Safety Management System.
- Maintaining ISO 9001 QMS Certification.
- Achieving ISO 45001 Certification for the Occupational Health and Safety Management System by 2022.

STRATEGIC FOCUS AREA 3: TRANSFORMING COMPANY, SECTOR AND SOCIETY

3

In pursuit of its transformation mandate, PetroSA remains committed to pursuing its mandate of leading transformation in the oil and gas industry. This mandate continues to be endorsed by the corporate leadership (the Board and Executive Management) through the key business objectives highlighted in the Corporate Plan and as articulated in the B-BBEE Improvement Plan of 2019/2020. To ensure the successful implementation of this plan, additional financial resources were allocated and strict monitoring measures were put in place which were assessed quarterly by both the Executive and the Board of Directors.

The revised B-BBEE Codes of Good Practice informed the focus areas of the B-BBEE Improvement Plan. According to these codes, as a public entity, PetroSA is measured against the targets of the specialised scorecard, which focuses on four scorecard elements. These are *Management control; Employment equity; Skills development; and Socio-economic development*.

In the current financial year, PetroSA managed to achieve its business objective with regard to transformation. As a reflection of the hard work that went into the implementation of the B-BBEE Improvement Plan, the results of the annual B-BBEE Verification Audit (2018/2019) indicated that PetroSA had improved its status by *two levels*, that is, from Level 6 (2018/2019) to Level 4 (2019/2020). Table 15 reflects the scores attained for each scorecard element.

TABLE 15: Overall annual B-BBEE audit result 2019/2020

Scorecard element	Target score set	2018/19 score achieved	2019/20 score achieved	Overall comment
MANAGEMENT CONTROL	20	14.81	13.74	Poor representation of women – Board, Executive Management, senior and junior
SKILLS DEVELOPMENT	25	17.25	16.32	Poor expenditure in supporting the economically active population (EAP) targets (blacks, women and people living with disabilities)
ENTERPRISE AND SUPPLIER DEVELOPMENT (Inclusive of Preferential Procurement)	50	37.05	47.01	Improved access to procurement opportunities for B-BBEE-compliant companies (Level 1–4). Also, full points were achieved for supplier development
SOCIO-ECONOMIC DEVELOPMENT	5	5	5	Full points were achieved for supporting black communities
TOTAL SCORE	100	74.11	82.07	PetroSA achieved the Level 4 B-BBEE contributor status

Source: BEE Unit March 2020

These results were welcomed throughout the organisation and, more critically, made the corporation compliant. Furthermore, this means that PetroSA is one step ahead in competing competitively with other entities for business. This is seen as the beginning of reclaiming the Company's leading status in advancing transformation in the industry as part of supporting the main Shareholder.

INITIATIVES AIMED AT SUPPORTING ECONOMIC GROWTH AND JOB CREATION

Highlights of the PetroSA Synthetic Fuels Innovation Centre (PSFIC) at the University of the Western Cape (UWC)

The agreement of cooperation between PetroSA and the UWC, signed in 2010, continues to bring mutual benefits as highlighted below:

Innovation: Based on research and development (R&D) at the PSFIC, PetroSA has filed three international patents, one concerning the use of bimetallic doped zeolite catalysts in olefin oligomerisation and two concerning naphtha as conversion of olefins to distillate (COD) process feedstock.

Additional funding for the PSFIC: On behalf of PetroSA, the PSFIC successfully applied to DTI-THRIP for an R&D project to develop COD technology for alternative feedstock. The award is for R9.68 million over three years. It will allow for an increase in the number of PSFIC-funded students and improved equipment resources.

Human capital development for the oil and gas industry: The number of researchers and students being trained at the PSFIC has increased to four postdoctoral fellows, three doctoral (PhD) students, three master's (MSc) students, and eight national diploma (ND) students.

Publications: Researchers from the PSFIC published three papers. Two papers considered the use conversion of light alkanes and naphtha to olefin-rich COD feedstock and one focused on the conversion of local kaolins to the zeolite catalyst ZSM.

Community engagement: The PSFIC was selected to host the 2018 BRICS pre-conference delegation to South Africa during the delegation's visit to UWC. The PSFIC is also providing facilities and staff in cooperation with local schools to provide job-shadowing opportunities for school-leavers.

Empowerment: Preferential procurement of goods and services

PetroSA believes that preferential procurement is one of the most effective instruments for advancing both the economic transformation of the South African economy and the participation of black people in the oil and gas industry. As part of supporting government's intentions of facilitating inclusive economic growth while helping local companies to create jobs and alleviate poverty, the Company pursued various interventions with B-BBEE-compliant companies, mainly those from Level 4 and above. This included the following interventions:

Meeting the preferential procurement target – ensuring B-BBEE compliance

For the period under review, payments made to suppliers of goods and services totalled R14.8 billion.

Total procurement (non-discretionary) expenditure in respect of organs of state, sole-source suppliers and foreign entities totalled R6.3 billion. The Group's total discretionary procurement for the period under review in terms of the Codes (i.e. Level 1–8) was R8.5 billion. Total B-BBEE procurement expenditure of R6.1 billion equates to 71.51% of discretionary spend for the period under review.

Promoting quality bids: B-BBEE improvement plans

Promoting the B-BBEE objectives continues to be a priority concerning preferential procurement. Through the Procurement Committee, ongoing work continues to be done as part of monitoring and ensuring compliance by strategic suppliers with B-BBEE plans. In line with promoting quality bids, companies that are below Level 4 are required to produce B-BBEE improvement plans when awarded contracts. Furthermore, they are expected to report on progress twice a year as part of ensuring that they achieve their compliance status.

Business development support: Consultation

Individual and small-group business regulation and compliance-related consultations continued to be facilitated via email, telephonically and/or in person. This included responding to and helping suppliers acquire and/or validate their compliance status and documents, such as B-BBEE, South African Revenue Service (SARS) and Compensation for Occupational Injuries and Diseases Act (COIDA) certificates and/or affidavits. Most of the work this year focused mainly on assisting companies with their company registration status with PetroSA and National Treasury, as well as providing ongoing assistance with vendor registration, helping with opening trading business accounts, and identifying available opportunities within the value chain.

Subcontracting for the purpose of business support

PetroSA has used subcontracting as one of the measures to broaden the empowerment of 51% black-owned and 30% women-owned exempted micro enterprises (EMEs) and qualifying small enterprises (QSEs). This includes making sure that a minimum of 30% of the value of a contract above R30 million is subcontracted to small-and-medium-sized enterprises (SMEs), which will mostly be new entrants in the PetroSA corporate value chain. This tool has also been instrumental in creating job opportunities for local people where the project is being implemented.

Table 16 provides a breakdown of the statistics in respect of tenders for the period 1 April 2019 to 31 March 2020.

TABLE 16: Tenders for the period 1 April 2019 to 31 March 2020

Item	Value/comment
Total number of tenders awarded	105
Total tenders awarded to Level 4 or above	95
Total number of subcontracts awarded	9
Total number of tenders and subcontracts awarded for the Eden District (Mossel Bay and George)	12
Total value of tenders awarded through subcontractors	R160 million
Total value of tenders for EMEs and QSEs for the financial year	R202 million

PetroSA is proud to have met the set target for B-BBEE procurement spend and acknowledges the challenge of attracting and retaining 51% black-owned and 30% women-owned EMEs and QSEs. Addressing this challenge will assist the Company to improve its overall B-BBEE status-level performance, while also continuing to honour section 217 of the South African Constitution, which states that all public-sector procurement must be fair, equitable, transparent, competitive and cost-effective.

ENTERPRISE AND SUPPLIER DEVELOPMENT (ESD) SUPPORT

PetroSA continues to have a vibrant, effective and successful Enterprise and Supplier Development (ESD) Programme as one of the key pillars of its transformation strategy. The programme is aimed at supporting preferential procurement measures by building the capacity, knowledge, skills and expertise of PetroSA's current and potential suppliers. It has three main components: business development support, financial support (in the form of loans, grants and credit facilities), and business organisation institutional support for SMEs.

This year, the focus has been on encouraging and helping new entrants to access the Company's supply chain by specifically targeting SMEs, particularly those that are 51% black-owned and 30% women-owned. Through various interventions, selected beneficiaries received support in order to achieve the following objectives:

- Enable the business to deliver on short-term contract requirements;
- Improve and or acquire business management skills;
- Grow and diversify the business;
- Improve compliance with all related business regulations; and
- Access the working capital required to diversify the customer base.

The ESD Programme has delivered tangible results, as shown by the following examples.

ESD funding

The amount in the ESD Fund stands at R3 million, which includes repayments made. The fund continued to provide funding support of between R50 000 and R500 000, of which the main portion used was for equipment and purchasing of stock. The approval of applications was based on the ability to repay the loan and the financial strength linked to the existing contract.

In the current financial year, the fund has been able to support 10 beneficiaries made up of existing and new suppliers, with this year's support mainly targeting those suppliers who have existing contracts with PetroSA. The current economic environment has made it difficult for some of the beneficiaries to honour their loan debt, while some continue to make repayments. These repayments have enabled them to be considered for further funding as they grow and/or diversify their businesses.

Business development support: Suppliers

The B-BBEE Department continues to provide business mentorship in the areas of business leadership and management, access to market, and contract management. The following are the beneficiaries incubated through the ESD Programme.

Other ESD initiatives

As part of the official launch of the 2019/2020 ESD Programme, PetroSA hosted an ESD Open Day Workshop, which was attended by 42 participants. The event was aimed at updating both selected and potential beneficiaries on the key objectives of the programme and the process to be followed as part of the roll-out plan. The programme also included the South African Bureau of Standards (SABS), represented by Business Development Manager Tony Fillmore who made a special presentation entitled, The SABS and SMME Development. The presentation reflected different types of accreditation support provided by the SABS and indicated how these can be accessed.

Strategic partnership with SEDA

PetroSA has a strategic partnership with the provincial Small Enterprise Development Agency (SEDA). This relationship has managed to assist both institutions to leverage additional business development resources and support for their beneficiaries. In the present financial year, several meetings were held in Cape Town, including a strategic planning session held at the Mossel Bay GTL Refinery attended by relevant managers of both institutions. The two parties discussed and agreed on specific focus areas for supporting local suppliers and enterprises, particularly those that have contracts with PetroSA.

The following activities were undertaken:

Pitch & Perfect Workshop

PetroSA provided its suppliers with the opportunity to attend the SEDA Pitch & Perfect Workshop in August 2019. The workshop was aimed at imparting skills and expertise to suppliers and enterprises. Its programme featured a range of topics such as how to pitch a business idea, where to find the right target market, how to source funding, and how to network. Participants were enthusiastic and requested that the workshop be hosted annually as part of the ESD Programme. It was repeated during the year.

Business export workshop

In March 2020, through SEDA, and together with Wesgro, the City of Cape Town and the Western Cape Provincial Government, PetroSA also enabled its suppliers to attend a workshop on exporting. The workshop was aimed at imparting skills and expertise on exporting and all related business requirements. Some of the PetroSA suppliers involved in exporting were active participants and managed to interact with some of the SEDA clients and SEDA business advisors.

Cooperative business development

- ***iZikafela Holdings Co-operative: Mossel Bay Kwa-Nonqaba***
  SEDA also provided PetroSA with initial advisory services and guidance on how local entities can establish a cooperative entity. Additional advisory services were provided for former employees of Siyakhona, a previous supplier providing PetroSA with scaffolding services. This led to the successful and official establishment of iZikafela Holdings Co-operative and brought in additional specialised cooperative support. Today, the company has its constitutions, a valid B-BBEE affidavit, and a savings bank account with a self-raised membership seed capital of R10 000.

- ***Qamata Integrated Energy Centre (IeC): Eastern Cape co-operative***
  Another intervention was to help with formalising a co-operative for the Qamata IeC in the Eastern Cape. The official Qamata co-operative now exists and has a board trained in operational governance and roles and responsibilities necessary to run the IeC as a business. The Kwick Store has received a dry stock funded as part of the ESD Programme in order to purchase its first stock. More work still needs to be done for the IeC to become fully functional.

- ***Women's economic empowerment***
  To encourage more women to participate in PetroSA's preferential procurement opportunities, the Company hosted a women's entrepreneurship masterclass in August as part of the Women's Month celebration. The celebratory event was themed, 25 Years of Democracy: Growing South Africa Together for Women's Emancipation. Attended by approximately 80 women, the guests received entrepreneurial tips focused on Surviving Strategies/Tactics for SA Women Entrepreneurs Today from Zaida Jackson, Branch Manager of SEDA (WC), and

on Experience/insights: Addressing Funding Opportunities or Challenges for Women from Nokwanele Qonde, Managing Director of WASAA Women. Suppliers always appreciate this event, as it continues to encourage and inspire them to succeed in their businesses.

- ***Smart Procurement Exhibition, Gallagher Convention Centre, Midrand, September 2019***
  As part of its ESD initiatives, PetroSA continues to facilitate access to the market for its suppliers. Once again, in September, 10 companies received support in attending the annual Smart Procurement World Indaba at Gallagher Estate in Midrand, Gauteng. PetroSA covered all exhibition-related costs, except travel and accommodation costs. Participants were afforded the exciting opportunity of accessing a national marketing platform to further promote and sell their goods and services to different customers. They were also able to network, exchange business ideas, and learn how to grow and diversify their businesses.

- ***ESKOM Business Exhibition, Emalahleni, February 2020***
  Through its Trading, Supply and Logistics (TSL) Division and B-BBEE Unit, PetroSA participated at the Eskom Exhibition in February. In addition to supporting one of its major corporate clients, this was another opportunity to promote PetroSA and its services and to meet and educate many potential suppliers on how to do business with the Company, and on how to access the ESD Programme.

Facilitating organised new entrants/suppliers

- ***Facilitating preferential procurement for new entrants***
  PetroSA's Procurement Committee held a workshop with National Treasury representatives from the Office of the Chief Procurement Officer. The workshop focused on how PetroSA can best identify, and in its Tender Plan facilitate entry for, 51% black-owned and 30% women-owned and managed entities.

  PetroSA's engagement with National Treasury served as an additional motivation to pursue the initiative of working with entities involved in the TSL business value chain as part of facilitating access to new entrants. The engagement was designed to intensify the work with established potential suppliers like the South African Black Bulk Transporters Association (SABBTA), the South African Farmers Development Association (SAFDA) and Women in Oil, Gas, and Marine (WOGAM).

- ***SABBTA***
  Meetings and workshops were facilitated this year with SABBTA. PetroSA has been working with this organisation to facilitate its organisational membership capacity. This includes conducting a business audit of its entire membership base to assess their compliance status, business readiness and business needs. Once completed, the entity can successfully engage with other public and private entities of their choice so as to pursue available business opportunities.

- ***WOGAM***
  Several meetings and workshops were held with representatives of WOGAM. The objective was to mobilise women into a solid group that PetroSA and the CEF could help to pursue available investment and business opportunities, and to mobilise women to increase their active participation in the oil and gas industry. To learn more about the benefits, and how this initiative can be strengthened, one of the founding members independently funded her business travel to Sweden in April 2019 to attend a conference on Empowering Women in the Maritime Community. Lessons learnt were incorporated and informed the establishment of this initiative. WOGAM is now a registered business entity with a leadership structure and a website. The organisation is currently consolidating its membership, despite its launch being interrupted by the arrival of the COVID-19 lockdown.

POLICY AND ADVOCACY

PetroSA and the DMRE
PetroSA continued to participate in the ongoing drafting of the Petroleum and Liquid Fuels Charter Code (PLFCC) with both the relevant government department and the Charter Council. The drafting process has now been concluded and the process of approval and gazetting is now in the hands of the Department of Mineral Resources and Energy (DMRE). Once finalised, PetroSA will participate in, and help the DMRE to host, provincial consultation sessions.

PetroSA and the South African Petroleum Industry Association (SAPIA)
PetroSA participated in a meeting with SAPIA. The meeting focused on the further development of the value-add proposal, which is aimed at making an additional contribution to the transformation process currently in progress by offering a trade-off to some of the proposals contained in the draft sector codes. This is work in progress.

EMPLOYMENT EQUITY

Transformation remains a cornerstone of the PetroSA business strategy. The Company continues to pursue its transformation objectives, despite the current business challenges. In terms of representation of women and people with disabilities, PetroSA's employment equity (EE) profile remained unchanged by the end of the reporting period. This was due to limited recruitment opportunities, given the Company's main focus on stabilising operations at the GTL Refinery. The EE dashboard is shown in Table 17.

TABLE 17: Employment equity dashboard for 2019/2020

EE category	Planned	Actual
People with disabilities as a % of the workforce	2%	1.7%
Women as a % of the workforce	30%	29%

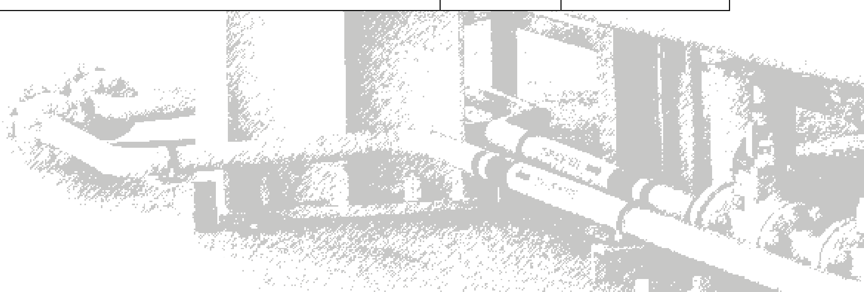


TABLE 18: PetroSA employment equity profile as at 31 March 2020

Occupational levels	Male				Female				Foreign nationals		Total
	A	C	1	W	A	C	1	W	Male	Female	
1. Top management	1	0	1	0	0	0	0	0	0	0	**2**
2. Senior management	6	0	2	5	1	0	0	0	0	0	**14**
3. Professionally qualified and experienced specialists and mid-management	88	45	9	48	58	16	4	12	0	0	**280**
4. Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	161	210	7	102	102	63	4	38	0	0	**687**
5. Semi-skilled and discretionary decision-making	108	67	0	10	54	18	0	2	0	0	**259**
6. Unskilled and defined decision-making	0	0	0	0	0	0	0	0	0	0	**0**
TOTAL PERMANENT	**364**	**322**	**19**	**165**	**215**	**97**	**8**	**52**	**0**	**0**	**1 242**
Fixed-term contract employees	31	29	0	8	12	4	1	2	2	0	**89**
Short-term contract employees	84	44	0	8	14	5	0	0	0	0	**155**
GRAND TOTAL	**395**	**351**	**19**	**173**	**227**	**101**	**9**	**54**	**2**	**0**	**1 486**

TABLE 19: Age profile by occupational equity levels

Occupational levels	Male					Female					Total
	<27	27–35	36–45	46–55	55+	<27	27–35	36–45	46–55	55+	
1. Top management	0	0	1	1	0	0	0	0	0	0	2
2. Senior management	0	0	1	5	7	0	0	0	1	0	14
3. Professionally qualified and experienced specialists and mid-management	0	11	58	63	58	0	13	46	25	6	280
4. Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	0	31	148	177	124	0	31	105	57	14	687
5. Semi-skilled and discretionary decision-making	9	33	59	63	21	2	18	33	18	3	259
6. Unskilled and defined decision-making	0	0	0	0	0	0	0	0	0	0	0
TOTAL PERMANENT	**9**	**75**	**267**	**309**	**210**	**2**	**62**	**184**	**101**	**23**	**1 242**
Fixed-term contract employees	4	9	21	14	22	9	6	2	0	2	89
Short-term contract employees	5	37	35	36	23	3	6	7	3	0	155
People living with disabilities	0	0	3	3	7	0	3	2	2	2	22
GRAND TOTAL	**18**	**121**	**323**	**359**	**255**	**14**	**74**	**193**	**104**	**25**	**1 486**

WORKFORCE MOVEMENTS

The optimisation of the workforce continued to be essential in order to ensure that key roles were resourced, especially those identified as critical to operations. These were the key highlights reported:

- Recruitment activities were mainly geared towards fixed-term and short-term resources for the work required in respect of maintenance-related projects at the GTL Refinery.

Figure 19 shows that the permanent employee movement rate as at the end of the reporting period was as follows:

- The hiring rate for the 2019–2020 period was 2% (19); and
- The termination rate for the 2019–2020 period was 3% (36).

SKILLS DEVELOPMENT

The Company remains committed to developing the skills of South Africans by providing training and skills development opportunities. Skills development expenditure for the year under review was R7.5 million. This total includes the cost of training and development programmes, travel and accommodation, study assistance and bursaries.

During the year under review, the focus was placed on the following as part of the Company's skills development objectives:

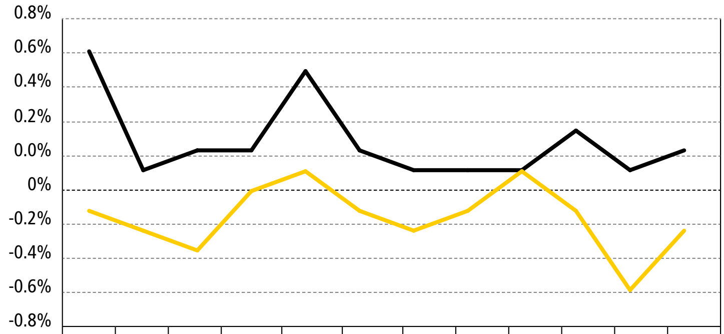
- Training programmes related to functional, supervisory and statutory matters;
- Recruitment of Centre of Excellence (CoE) learners for the apprenticeship programmes;
- CoE learners' course completions;
- Graduates-in-training and in-service student placements through the Company's bursary programme;
- Technogirls; and
- Access to discretionary and mandatory grants to the value of R7.4million.

YOUTH DEVELOPMENT

PetroSA continued to create opportunities for youth development via the following programmes:

- Apprenticeships;
- Graduate-in-training programmes;
- In-service training programmes;
- Bursaries; and
- The Technogirls (STEM) programme.

FIGURE 19 PetroSA employee movement rates per month



	APR	MAY	JUN	JULY	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MAR
Termination rate	-0.2%	-0.3%	-0.4%	-0.1%	0.0%	-0.2%	-0.3%	-0.2%	0.0%	-0.2%	-0.6%	-0.3%
Hiring rate	0.6%	0.0%	0.1%	0.1%	0.5%	0.1%	0.0%	0.0%	0.0%	0.2%	0.0%	0.1%

FIGURE 20 Youth development programmes status for 2019/2020

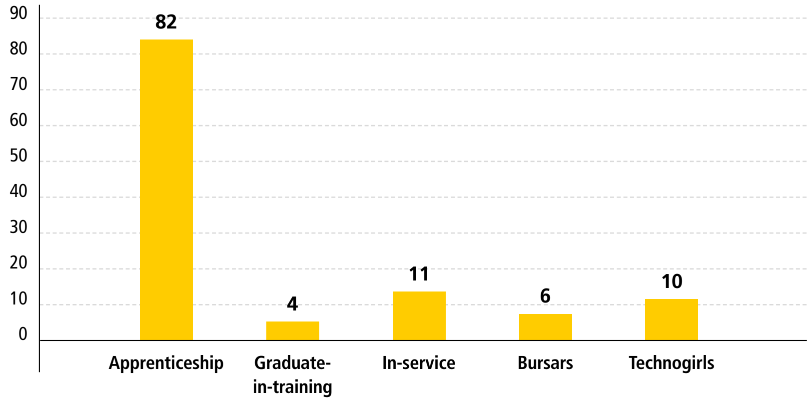


FIGURE 21 Participants on the Technogirl Programme

During the year under review, the Company performed as follows with regard to youth development:

- The number of PetroSA-sponsored apprenticeship students at the CoE increased from 59 to 82;
- The number of Technogirl (STEM) Programme participants increased from zero to 10;
- The number of participants in work-integrated learning increased from 2 to 11;
- The number of graduates-in-training increased from 2 to 4; and
- The number of bursaries decreased from 10 to 6.

EMPLOYEE DEVELOPMENT

As part of improving its workforce competencies, PetroSA spent R4.8 million on employee development programmes for the 2019/2020 period. The moratorium on training has been lifted.

GRANTS MANAGEMENT

Skills development continues to be a cornerstone of optimising the organisation's talent. Owing to current financial constraints, the grants accessed via the Chemical Industries Education and Training Authority (CHIETA) played a critical role in the implementation of training programmes. During the reporting period, a total of R7.4 million was received in the form of mandatory and discretionary grants.

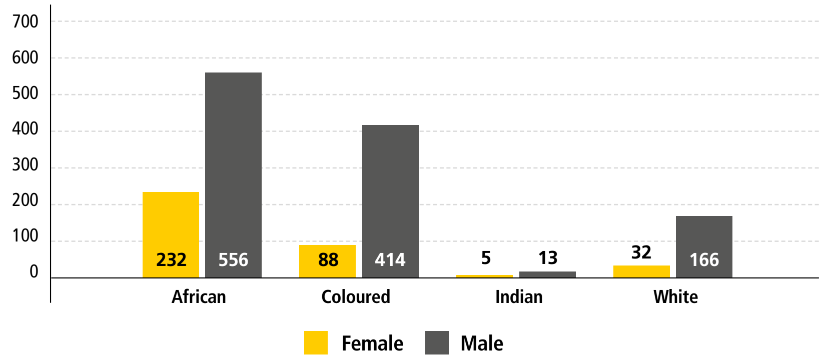
CORPORATE SOCIAL INVESTMENT

PetroSA's financial challenges and the need to continue assisting in the social upliftment of our surrounding communities have compelled the Company to constantly search for efficient and quality sustainable solutions. Over time, PetroSA has invested R471 million in many initiatives, including:

- The provision of shelter for the homeless;
- 21 early childhood centres;
- The building of clinics;
- The building of schools;
- The upgrading of ablution facilities;
- Building a community-owned garage (Integrated Energy Centre);
- A youth development centre;
- A school for children living with disabilities;
- Mathematics and science academies; and
- Providing much-needed smart classrooms.

"When PetroSA employees enjoy Christmas with their families, they [will] do so knowing that they made a difference in the lives of others."

FIGURE 22 Number of employees trained per race and gender



These solutions have been achieved through strategic partnerships with key stakeholders, including municipalities where PetroSA operates, provincial departments of health, education, public works and social development, progressive non-governmental organisations (NGOs), and non-profit organisations (NPOs) and communities. PetroSA focuses on the following key areas: community development, education, environment and health, and sustainable development.

EMPLOYEE VOLUNTEERING PROGRAMME (EVP)

In ensuring PetroSA employees connect with communities, the Company embarked on an EVP, called Bucket of Home, in partnership with a non-profit organisation, namely the Cape Town Association for the Physically Disabled (CTAPD). PetroSA employees collected 25 buckets of gifts, to the value of R300 per bucket, for the benefit of 25 homeless and disadvantaged families. When receiving the gifts, the NPO manager, Ms Fateema Martins had this to say: "When PetroSA employees enjoy Christmas with their families, they [will] do so knowing that they made a difference in the lives of others."

HEALTH

Completion of a community clinic in Kwa Nonqaba, Mossel Bay
In March 2019, PetroSA completed and handed over a community clinic in Asla Park, Mossel Bay. The clinic was the result of a partnership between: PetroSA, which provided R14.5 million for construction; the Mossel Bay municipality, which provided the land; and the Provincial Department of Health, which provided the post-construction operational budget. The project created over 40 jobs during construction, as well as opportunities for eight subcontractors. The clinic began operating in July 2019. By way of this project, PetroSA has enabled the community to access comprehensive, primary health care covering, most notably: paediatric, women's and maternal health care; treatment for minor illnesses; treatment of HIV/AIDS, tuberculosis and chronic diseases; disability; as well as occupational health and physiotherapy support.

Further projects
For projects to be completed in 2020/2021, see Table 20.

TABLE 20: Projects to be completed in 2020/2021

Project name	Spend	Status
Sporting facilities at Imekhaya School	R500 000	Tender-evaluation stage
Mathematics and Science Academy	R1.6 million	Draft MOU to be signed by Mossel Bay Municipality and Provincial Department of Education
Smart classrooms	R600 000	15 schools identified in the rural nodes of Eden District
Food gardening	R300 000	Consultations underway

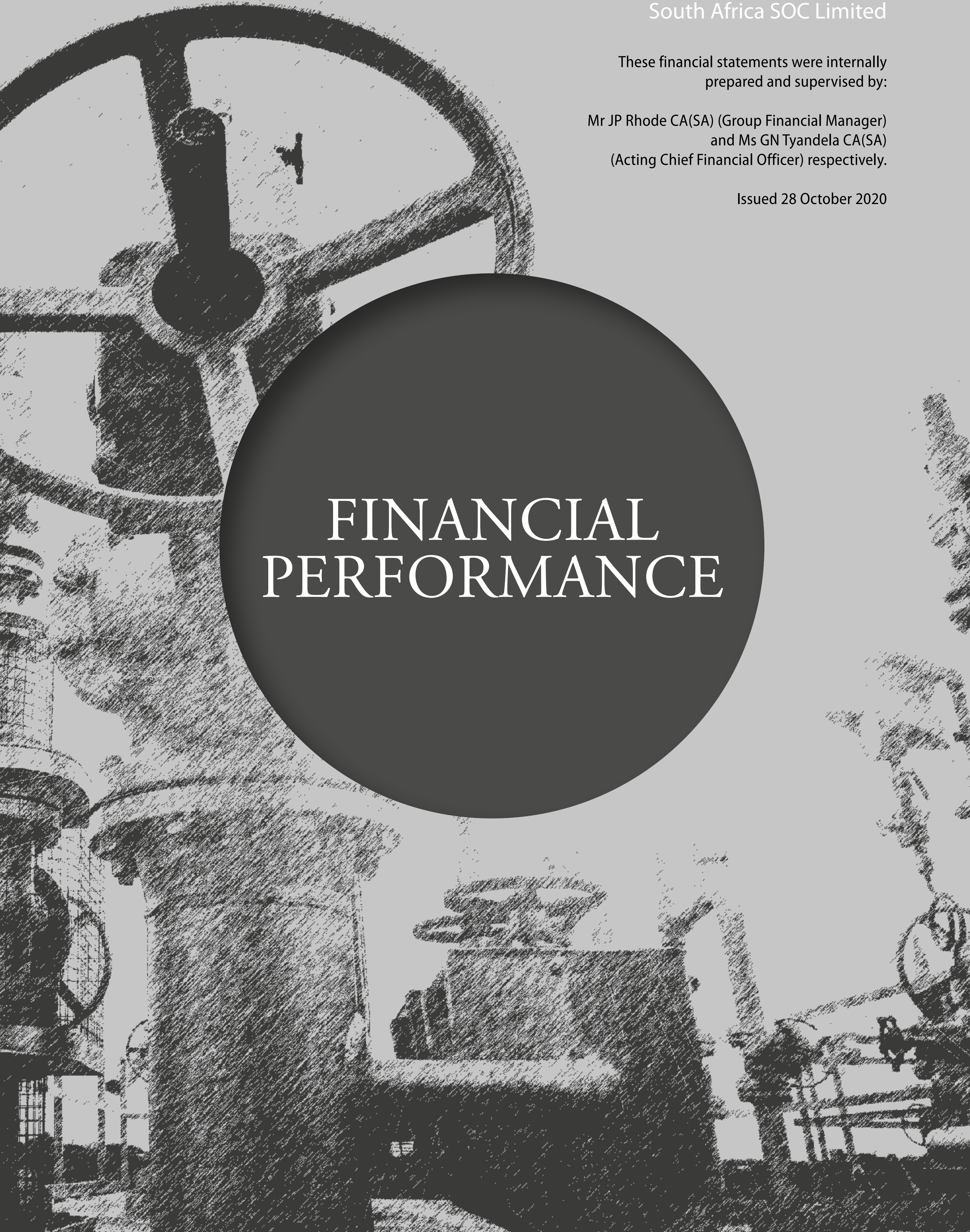
TABLE 21: Enterprise and supplier development beneficiaries during 2019/2020			
No.	**Company name**	**Services rendered**	**Key support provided**
1	J&M Cleaning	Cleaning services	• Reviewed marketing plan and improved marketing direction. • Assisted SME with ISO 2022 audit preparations. • Specialist project included ISO 2022 readiness project. (The audit was passed and certification was issued.)
2	TJ & H Fire Services	Service and maintenance of fire equipment at PetroSA	• Obtained the services of a new registered accountant for the business and backdated outstanding financials from 2018 to date. • Consulted with the SABS to reach an agreement to renew the business's certification in order for it to be able to continue with operations at PetroSA. • Specialist project included obtaining outstanding financials and a tax clearance certificate.
3	Orion Property	Project development from design phase to execution. Secondary services include property valuation	• Created a marketing plan and examined the growth strategy. • Mapped all internal processes in respect of operational functions. • Specialist projects included a new website and suggesting rebranding solutions.
4	Sibanye Office Solutions	Stationery and office supplies	• Developed a performance appraisal process for the business and a sales and marketing plan. Assisted with the business's financial literacy in order to enable it to conduct a better profit margin analysis. • Specialist project entailed developing an online retail shop for the business's customers. VAT and payroll specialist training was placed on hold due to COVID-19 lockdown.
5	Benem	Technical support and plant maintenance	• Reviewed the business model and developed a new one. • Reviewed customer segmentation and revamped the costing and pricing models of the business. • Specialist project included creating a safety file.
6	Dynamic Express	Logistics services in respect of industrial goods (metals, big packages, etc.)	• Reviewed employment contracts and developed KPIs for critical job roles.
7	Patrice Rope Work (PRW)	Providing inspection services, industrial painting, electrical and mechanical maintenance, as well as welding in areas that are not easily accessible. Using rope-climbing skills	• Mvelaphanda business development. • Assisted with developing welding procedures and explored opportunities for a rope-access training centre. • Specialist project included development of a new website for better marketing.
8	Sakiva Infrastructure Solutions	Advanced installations, maintenance and repair of infrastructure, facilities, plant and equipment	• Assisted with growing of clientele and finding a good financial system software package. • Assisted with marketing tools. Specialist project included developing a safety quality management process.
9	MDC Arendse Construction	Road repairs; building construction in respect of electrical motors and pumps	• Assisted with cost-cutting initiatives and considered growth opportunities for the business. • Specialist projects included new website development and a cost-optimisation project.
10	Mazikhule Projects	Gardening services	• Offered guidance on internal marketing assets and improved operations and processes. • Explored new markets. Specialist projects included a new website and rebranding.
11	Integrum	Masks, gloves, sanitisers, medical-grade products, gowns, hospital beds, etc.	• Reviewed marketing and sales collateral. • Assisted with the business development strategy. • Specialist project included helping finance the newly developed glove sample that was approved and will be supplied.
12	Izeze	Supply of engineering products to the oil and gas industry	• Developed a marketing strategy, reviewed all available products and services offered, and derived a business model. • Process-mapped all operational functions for better visibility. • Specialist project included development of an operational management dashboard system.
13	Chemtoll	Manufacture of chemical products	• Assisted the SME with developing a marketing plan. • Reviewed the operations within the business and created visibility. • Specialist project included website development.

The Petroleum Oil and Gas Corporation of South Africa SOC Limited

These financial statements were internally prepared and supervised by:

Mr JP Rhode CA(SA) (Group Financial Manager) and Ms GN Tyandela CA(SA) (Acting Chief Financial Officer) respectively.

Issued 28 October 2020



FINANCIAL PERFORMANCE

The Petroleum Oil and Gas Corporation of South Africa SOC Limited
Consolidated and separate annual financial statements for the year ended 31 March 2020

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	Mr M Xiphu Mr F Baleni Dr D Konar Mr L Delport Mr L Haywood Mr S Tshiki Ms L Mda Ms N Tsipa-Sipoyo Ms S Masinga Mr S Danana
Registered office	151 Frans Conradie Drive Parow 7500
Postal address	Private Bag X5 Parow 7499
Holding company	CEF SOC Limited Incorporated in South Africa
Ultimate holding company	South African Government
Auditors	Auditor-General of South Africa (AGSA) Registered Auditors
Secretary	Ms M Khumalo
Company registration number	1970/008130/30
Level of assurance	These consolidated and separate annual financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008.

Index

Report of the Auditor-General to Parliament on the Petroleum Oil and Gas Corporation of South Africa SOC Limited

Report on the audit of the consolidated and separate financial statements

Opinion

1. I have audited the consolidated and separate financial statements of the Petroleum Oil and Gas Corporation of South Africa SOC Limited (PetroSA) (the company) and its subsidiaries (the group) set out on pages 99 to 155, which comprise the consolidated and separate statement of financial position as at 31 March 2020, consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of PetroSA, the group and the company as at 31 March 2020, and their financial performance and cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA), and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (the Companies Act).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor-General's responsibilities for the audit of the consolidated and separate financial statements section of this auditor's report.
4. I am independent of the group in accordance with sections 290 and 291 of the *Code of Ethics for Professional Accountants* and Parts 1 and 3 of the *International Code of Ethics for Professional Accountants* (including International Independence Standards) of the International Ethics Standards Board for Accountants (IESBA codes), as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Material uncertainty relating to going concern

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. I draw attention to the statement of profit or loss and other comprehensive income in the consolidated and separate financial statements, which indicates that the group and the company incurred a loss of R5,6 billion (2019: R2,1 billion) and R4,9 billion (2019: R2,2 billion), respectively, during the year ended 31 March 2020 and, as of that date, the group and the company's total liabilities exceeded total assets by R4,5 billion and R6,0 billion (2019: R1,1 billion), respectively. As stated in note 35 to the consolidated and separate financial statements, these events or conditions, along with other matters as set forth in this note, indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern.

Emphasis of matters

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

Material impairments

9. As disclosed in notes 2 and 19 to the consolidated and separate financial statements, the group and the company had a material impairment loss of R4,9 billion (2019: R691 million) and R2,3 billion (2019: R2,0 billion), respectively, for property, plant and equipment.
10. As disclosed in notes 4 and 19 to the consolidated and separate financial statements, the company had a material impairment loss of R1,2 billion for investment in subsidiaries.

Contingencies

11. With reference to note 28 to the consolidated and separate financial statements, the company received a letter of demand from the South African Revenue Service (SARS) for R1 billion. The company is opposing the claim and has approached SARS and the High Court in this regard. The ultimate outcome of the matter could not be determined and no provision for any liability that may result was made in the financial statements.

Subsequent events

12. I draw attention to note 36 to the consolidated and separate financial statements, which deals with subsequent events of the group. The Ghana Revenue Authority (GRA) conducted an audit of PetroSA Ghana Limited (PetroSA Ghana) in respect of the 2014–2018 years of assessment and, on 9 May 2020, issued a draft assessment of R658 million in respect of corporate tax, withholding tax and branch profits tax. The ultimate outcome of the matter could not be determined and no provision for any liability that may result was made in the consolidated financial statements.
13. I draw attention to note 36 to the consolidated and separate financial statements, which deals with subsequent events of the group. Following the significant drop in the oil price, the borrowing base was again reduced to R414 million with effect from 1 July 2020, resulting in an additional mandatory capital repayment of R710 million, which was made by PetroSA Ghana on 10 July 2020.
14. I draw attention to note 36 to the consolidated and separate financial statements, which deals with subsequent events of the group and the possible effects of the future implications of COVID-19 on the group and the company's future prospects, performance and cash flows. Management has also described how it plans to deal with these events and circumstances.

Other matter

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

Funding of decommissioning provision

16. With reference to paragraph 11 of the Directors' report, the company has an obligation to rehabilitate and abandon its offshore and onshore operations valued at R12,4 billion, with cash set aside of R2,8 billion. Therefore, the provision is currently underfunded by approximately R9,6 billion. In terms of the financial provision, regulations which were promulgated under the National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA), the company is required to have the rehabilitation liability fully funded by 19 February 2024.

Responsibilities of the Board of Directors, which constitutes the accounting authority for the financial statements

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

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

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

Report on the audit of the annual performance report

Introduction and scope

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

Objectives	Pages in the annual performance report
Objective 2 – Improve profitability	13

Report of the Auditor-General to Parliament on the Petroleum Oil and Gas Corporation of South Africa SOC Limited (continued)

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

Objective 2 – improve profitability

25. I did not identify any material findings on the usefulness and reliability of the reported performance information for this objective.

Other matters

26. I draw attention to the matters below.

Achievement of planned targets

27. Refer to the annual performance report on pages 11 to 20 for information on the achievement of planned targets for the year.

Adjustment of material misstatements

28. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of objective 2 – improve profitability. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

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

Annual financial statements and annual report

31. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 55(1)(b) of the PFMA. Material misstatements of events after the reporting period, contingencies, going concern, deferred tax and cumulative misstatements to inventory identified by the auditors in the submitted financial statements were corrected, resulting in the financial statements receiving an unqualified audit opinion.

Strategic planning and performance management

32. An annual Shareholder's Compact was not concluded in consultation with the executive authority as required by treasury regulation 29.2.1. The accounting authority prepared a Shareholder's Compact for the PetroSA group and submitted it to the Central Energy Fund SOC Ltd (CEF), its holding company, for inclusion in CEF Shareholder's Compact. CEF submitted the combined Shareholder's Compact to the executive authority on 8 August 2019 but it was not signed. CEF's Shareholder's Compact incorporating the subsidiaries under the ownership and control of CEF was not concluded with the executive authority.

Other information

33. The Board of Directors, which constitutes the accounting authority, is responsible for the other information. The other information comprises the information included in the annual report, which includes the Directors' report, the Audit Committee's report and the Company Secretary's certificate as required by the Companies Act. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported on in this auditor's report.
34. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

35. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
36. The other information I obtained prior to the date of this auditor's report comprises the Directors' responsibilities and approval, Directors' report, the Audit Committee's report and the Statement of the Company Secretary, and other reports or statements forming part of the annual report, such as the statement of the Chairperson, King application, corporate governance statement, report from the group Chief Executive Officer and the report from the group Chief Financial Officer are expected to be made available to us after 19 October 2020.
37. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.
38. When I do receive and read the statement of the Chairperson, King application, corporate governance statement, report from the group Chief Executive Officer and the report from the group Chief Financial Officer, and if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and reissue an amended report as appropriate. However, if it is corrected, this will not be necessary.

Internal control deficiencies

39. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.
40. Leadership did not exercise oversight responsibility regarding compliance with Treasury Regulation 29.2.1 through ensuring that the Shareholder's Compact was appropriately concluded with the executive authority.
41. Management did not prepare regular, accurate and complete financial reports that are supported by adequate and reliable information, resulting in material misstatements in the financial statements submitted for auditing. Material corrections were made to the financial statements as a result of management not adequately reviewing the financial statements and ensuring there are sufficient controls implemented to ensure that financial information reported in the financial statements relating to inventory is in line with accounting standards.
42. Management and leadership as a collective did not consider all relevant information available at their disposal in respect of past trends and the economic reality of future forecasts when compiling their going concern assessment due to uncertainty regarding factors that were not prevalent at the time. Management did not submit all supporting calculations and assumptions for audit purposes due to the uncertainty around the approval of strategic plans and other operational initiatives.

Other reports

43. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the group and company's financial statements, reported performance information, compliance with applicable legislation, and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
44. As requested by the entity, agreed-upon procedures were conducted during the period concerning the accuracy of the illuminating paraffin (IP) tracer levy and the demand side management levy (DSML) quarterly payments to the Central Energy Fund. The reports covered 1 April 2019 to 31 March 2020 and 1 April 2018 to 31 March 2020, respectively.
45. Four investigations by the South African Police Service's Directorate for Priority Crime Investigation (HAWKS) into allegations relating to financial misconduct, fraud and improper conduct in supply chain management (SCM), which were ongoing during the current year ,were not finalised at year-end. The investigations relate to the following:

    - Allegations of irregularities in the corporate social investment (CSI) programme, which has progressed to the specialised commercial crimes court. The investigation is still in progress.
    - Alleged nepotism and corruption relating to the KwaNonqaba case. The investigation is still in progress.
    - Investigations relating to the matters around Project Ikhwezi. The investigation is still in progress.
    - Investigations relating to the matters around the acquisition of upstream assets in 2012. The investigation is still in progress.

Auditor-General

Cape Town
29 October 2020

AUDITOR-GENERAL
SOUTH AFRICA
Auditing to build public confidence

Report of the Auditor-General to Parliament on the Petroleum Oil and Gas Corporation of South Africa SOC Limited (continued)

Annexure – Auditor-General's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional skepticism throughout my audit of the consolidated and separate financial statements and the procedures performed on reported performance information for selected objectives and on the group and company's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this auditor's report, I also:

   - Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

   - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group and company's internal control.

   - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors, which constitutes the accounting authority.

   - Conclude on the appropriateness of the use, by the Board of Directors as the accounting authority, of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the Petroleum Oil and Gas Corporation of South Africa SOC Limited (PetroSA) (the company) and its subsidiaries (the group) to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a group and company to cease operating as a going concern.

   - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

   - Obtain sufficient, appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

Communication with those charged with governance

3. I communicate with the Board of Directors, which constitutes the accounting authority, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, actions taken to eliminate threats or implement safeguards applied.

Directors' responsibilities and approval

The Directors are required in terms of the Companies Act 71 of 2008 to maintain adequate accounting records and are responsible for the content and integrity of the consolidated and separate financial statements and related financial information included in this report. It is their responsibility to ensure that the consolidated and separate financial statements fairly present the state of affairs of the Group as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the consolidated and separate financial statements.

The consolidated and separate financial statements are prepared in accordance with International Financial Reporting Standards and are based on 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 that 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 consolidated and separate 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 2021 and, in the light of this review and the current financial position, they are satisfied that the Group has, or had access to, adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the Group's consolidated and separate financial statements. The consolidated and separate financial statements have been examined by the Group's external auditors and their report is presented on pages 84 to 88.

The consolidated and separate financial statements set out on pages 99 to 155 which have been prepared on the going concern basis, were approved by the Board of Directors on 28 October 2020 and were signed on their behalf by:

Approval of financial statements

F Baleni	**Dr D Konar**
28 October 2020	28 October 2020

Directors' report

The Directors present their report that forms part of the annual financial statements for the Group for the year ended 31 March 2020.

1. Directorate

The Directors of the Company from the approval of the previous report to the date of this report are as follows:

Directors		Appointment	Resignation/termination
Mr N Gumede	Non-executive (Chairperson)		17 October 2019
Mr QMN Eister	Non-executive		17 October 2019
Mr SS Masemola	Non-executive		17 October 2019
Mr M Xiphu	Non-executive		
Mr RG Degni	Non-executive		17 October 2019
Ms N Mashiane	Non-executive		17 October 2019
Mr N Mkhize	Non-executive		17 October 2019
Ms NM Mhlakaza	Non-executive		4 June 2019
Mr F Baleni	Non-executive (Chairperson)	17 October 2019	
Dr D Konar	Non-executive	17 October 2019	
Mr L Delport	Non-executive	17 October 2019	
Mr L Haywood	Non-executive	17 October 2019	
Mr S Tshiki	Non-executive	17 October 2019	
Ms L Mda	Non-executive	17 October 2019	
Ms N Tsipa-Sipoyo	Non-executive	17 October 2019	
Ms S Masinga	Non-executive	17 October 2019	
Mr S Danana	Non-executive	27 May 2020	
Ms B Ndamase	Non-executive	17 October 2019	10 March 2020
Mr P Naidoo	Executive – Group CEO	1 March 2020	

2. Nature of business

The core business activities of the Group are:

- The exploration for, and production of, oil and natural gas;
- The participation in, and acquisition of, local as well as international upstream petroleum ventures;
- The production of synthetic fuels from offshore gas at one of the world's largest gas-to-liquid (GTL) refineries in Mossel Bay, South Africa;
- The development of domestic refining and liquid fuels logistical infrastructure; and
- The marketing and trading of oil and petrochemicals.

There have been no material changes to the nature of the Group's business from the prior year.

3. Secretary

The Company Secretary is Ms M Khumalo. Her business and postal addresses are as follows:

Postal address:	Private Bag X5 Parow 7499	Business address:	151 Frans Conradie Drive Parow 7500

4. Holding company

The holding company is CEF SOC Ltd (CEF) 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 37 of 1977.

5. Review of financial results and activities

The Group reported a net loss after tax of R5.6 billion (2019: R2.1 billion) for the current financial year, an increase of R3.5 billion.

The gross loss of R180 million is significantly lower than the gross profit of the prior year of R269 million, a change of R449 million. The PetroSA Company notably reduced its gross loss from R402 million to only R287 million in the current year.

However, PetroSA Ghana's gross margin was affected negatively by:

- A reduction in revenue year-on-year of R212 million due to a decrease in oil sales volumes and a decline in the average crude oil price realised; and
- An increase in depletion year-on-year by R221 million due to the reduction in TEN 2P reserves since the prior year, which resulted in accelerated depletion rates.

The biggest expense contributing to the net loss was an increase in impairment losses of R4.1 billion. This was a combination of impairment of non-current assets in South Africa and those of PetroSA Ghana, the result of worsened economic conditions following the crash in the global crude oil price, and the effects of COVID-19.

Other operating expenses, investment income and finance costs remained relatively stable year-on-year, while other income declined by R196 million.

Full details of the financial position, results of operations and cash flows of the Group are set out in these consolidated and separate financial statements.

Impairments – property, plant and equipment

Due to the depleting gas reserves feeding the Mossel Bay GTL Refinery, as well as fluctuating oil prices, an impairment assessment was conducted as required by IAS 36, resulting in an impairment (refer to note 2 of the financial statements). In the light of current commodity prices and the significant reduction in reserves, the West Cape Three Points Block and the Deepwater Tano Block held by PetroSA Ghana Limited were assessed for impairment, also resulting in an impairment. The decommissioning provision (refer to note 16) increased significantly owing to the weakened rand against the USD. This resulted in a change in estimate and had a negative impact on performance. These significant items can be summarised as follows:

	2020 R'million	2019 R'million
Mossel Bay GTL Refinery	10	572
Ghana blocks	2 607	(1 282)
Increase in decommissioning provision	2 242	1 401
Impairment	**4 859**	**691**

6. Share capital

There have been no changes to the authorised or issued share capital during the year under review. Details of the share capital of the Company are set out in note 12 to the consolidated and separate financial statements.

7. Events after the reporting period

The Ghana Revenue Authority (GRA) conducted an audit of PetroSA Ghana in respect of the 2014–2018 years of assessment and, on 9 May 2020, issued a draft audit assessment of R658.4 million in respect of corporate tax, withholding tax and branch profits tax. However, by engaging with the GRA, it appears that clarification of the tax treatment and calculations in the tax computations may lead to the withdrawal of the findings before the final audit assessment is issued. PetroSA Ghana utilises the services of an independent tax specialist for the technical review and in-country submission of its returns pertaining to corporate tax and withholding tax returns.

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

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

Directors' report (continued)

7. Events after the reporting period (continued)

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

PetroSA Rehabilitation (NPC) has an investment with the Land and Agricultural Development Bank of South Africa (Land Bank). This investment will mature in September 2022. At the end of April 2020, Land Bank, citing liquidity constraints, defaulted on two of its Domestic Medium Term Note (DMTN) programmes, resulting in cross-defaults across other debt obligations. PetroSA Rehabilitation (NPC) does not hold any investments in the DMTN programmes. The Land Bank, in consultation with investors and National Treasury, is in the process of attempting to resolve the liquidity issues. The default does not have an immediate impact on PetroSA Rehabilitation (NPC), but the future impact will be assessed and adjustments made where necessary.

The Directors are not aware of any further material events which occurred after the reporting date and up to the date of this report.

8. Dividends

No dividends were declared to the Shareholder during the year.

9. 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 by section 54(2) of the Public Finance Management Act (PFMA) 1 of 1999 that require ministerial approval.

For details on irregular, fruitless and wasteful expenditure, refer to note 34 to the consolidated and separate annual financial statements.

10. Going concern

In determining the appropriate basis of preparation of the financial statements, the Directors are required to consider whether the Group can continue in operational existence for 12 months from approval of the financial statements. The Group's total liabilities exceed total assets. The Directors, on 3 July 2020, resolved that the Company would not proceed with voluntary business rescue nor liquidation of the Group. It was resolved to continue trading with the expectation that financial support would be forthcoming from the Shareholder upon approval of the Group Corporate Plan 2020–2024. Furthermore, on 10 June 2020, the merger of SFF, iGas and PetroSA to form a new National Petroleum Company (NPC) was announced. The process relating to the merger is currently underway. PetroSA is facing a number of key strategic challenges. Consequently, a material uncertainty exists regarding the entity's ability to continue as a going concern. These challenges are as follows:

- PetroSA has, over the last year, experienced negative cash flows and has suffered operating losses;
- Indigenous gas reserves are close to depletion and will reach the technical cut-off point for supply to the Gas-to-Liquids (GTL) refinery by December 2020;
- Non-approval of the 2020–2024 Corporate Plan at the reporting date;
- Insufficient and incorrect frequency of feedstock parcels delivery from April 2020;
- A precarious financial position impacting negatively on the organisation's credit-rating status;
- PetroSA remains vulnerable to exogenous factors such as fluctuations in the crude oil price (a decrease in the Brent price has resulted in an impairment of PetroSA Ghana Limited) and volatility in foreign exchange rates (a devaluation in the ZAR/USD has resulted in an increase in the ZAR value of the decommissioning liability);
- The demand for finished product (in South Africa) waned during the national lockdown in response to the global COVID-19 pandemic;
- At Company level, PetroSA's total liabilities exceeded its total assets by R6 billion (2019: R1.1 billion). The main contributor was the devaluation of the rand, which caused an increase in the rand value of its decommissioning liability to R12.4 billion (2019: R9.8 billion); and
- The declining financial strength of the balance sheet that has led to several suppliers no longer being prepared to offer unsecured, favourable credit terms but insisting on letters of credit.

10. Going concern (continued)

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet its obligations as they mature. The following mitigations are being implemented in response to the key strategic challenges and going concern issue:

The Group has recognised a net loss after tax of R5.6 billion for the year ended 31 March 2020, and, as at that date, total liabilities exceeded total assets by R4.5 billion. However, as described in note 16, the primary reason for total liabilities exceeding total assets is attributable to the Company decommissioning liability (R12.4 billion), which is linked to exchange rate fluctuations. The current production level and the high cost of feedstock are the main causes of the operational losses historically. The Company has allocated R65 million towards capital expenditure in order to increase the refinery throughput rate over the next two years to 21 000 bbls per day in 2021 and to 25 000 bbls per day by March 2022. The plant modifications will allow for greater processing capacity.

Whilst indigenous gas reserves are close to depletion and are expected to run out by December 2020, PetroSA has secured the utilisation of SFF to procure large parcels of feedstock (1 million barrels of very large crude carrier (VLCC) feedstock) to process through the GTL Refinery. The frequency of delivery of smaller parcel sizes to the refinery improves feedstock availability, thus increasing refinery throughput to 21000 bpd. The SFF feedstock procurement solution includes economies relating to logistics cost and the minimisation of excessive demurrage costs. PetroSA will, however, continue to be vulnerable to exogenous factors such as fluctuations in the crude oil price and volatility in foreign exchange rates in the intervening period. In the next two years, the receiving lines will be replaced so as to improve the feedstock receiving rates. Furthermore, plans to commercialise the tail gas from existing fields not suitable for GTL Refinery consumption will contribute to improved margins.

The demand for finished product (in South Africa) waned during the national lockdown commencing on 26 March 2020 in response to the global COVID-19 pandemic. Demand for finished product began recovering from 1 June 2020 and as a result of the move to Alert Level 1 announced on 21 September 2020. This increase in demand is expected to continue during the planning period and the economic forecast is that the South African economy will recover in full by December 2020. Furthermore, PetroSA continues to attract new business for the supply of finished products, which will further improve the downstream business and related margin.

In determining the appropriate basis of preparation of the financial statements, the Directors are required to consider whether the Group can continue in operational existence for 12 months from approval of the financial statements. The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis assumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The approved Corporate Plan supports the going concern assumption, as reported. PetroSA's cash balance remains low during the planning period, even with the cash injection and available credit facilities. The Shareholder cash injection and support allow PetroSA more flexibility with respect to the management of working capital.

Whilst a contingent liability has been reported in note 28 concerning a SARS DAS assessment of R1.1 billion, SARS issued a letter of demand for R1 billion with respect to exports from unlicensed depots for the period May 2015 to March 2017. PetroSA requested suspension of the payment amount. However, this was denied. PetroSA lodged a DA96 notice with SARS, notifying the Commissioner of its intention to approach the High Court for an urgent interim interdict preventing SARS from taking any enforcement and/or collection steps against PetroSA. PetroSA was successful in this regard.

The DA96 application to litigate was submitted to SARS. The next step is for SARS, to submit a replying affidavit and then PetroSA will do the same. The court will then determine when the matter will be argued. It is likely that, due to the COVID-19 outbreak, the matter will be heard only early next year.

The STIP payout is recognised as a provision in the financials and, in the event of an adverse award, PetroSA will initiate negotiations for a settlement with affected stakeholders.

Shareholder support

CEF SOC Ltd and the Department of Mineral Resources and Energy (DMRE) have been working closely with PetroSA in the formulation of the Corporate Plan, which was approved by both PetroSA and the CEF Boards in September 2020. The Shareholder's intervention listed below has been agreed within PetroSA and the CEF to be in the form of a Shareholder's loan payable at a future determined date when the organisation is in a profitable position.

Directors' report (continued)

10. Going concern (continued)

The preparation of the annual financial statements on the going concen basis, is based on the following substantive decisions:

Short-term initiatives

Disposal of non-core assets
Notification in respect of the disposal of non-core assets has been submitted to the DMRE, as the assets to be disposed of are within the management LOA and materiality framework that allows the Board of PetroSA to dispose of them without the concurrence of the Minister. PetroSA will receive funds/proceeds from the disposal of non-core assets, which include the ORCA (which ceased operations in March 2013), and the disposal of subsea equipment and materials left over from the Project Ikhwezi Drilling Campaign. The Parow head office will be leveraged for funding by March 2021 through various funding structures.

Cost optimisation
PetroSA continues to maintain stringent cost-containment measures with regard to the Group. PetroSA engaged all service providers, requesting rate reductions of 30% in respect of all existing contracts. Of the total number of service providers (344) engaged, 30% have provisionally agreed to reduce their rates, yielding a R7.5 million saving per month, and extension of payment terms by mutual agreement.

Provision of upstream logistics service for TEPSA drilling campaign
PetroSA secured a logistics service contract to support the Brulpadda drilling campaign for a period of nine months, with an estimated net profit of R38 million.

Funding of operational activities
The Shareholder will, with effect from October 2020 to March 2021, provide a cash injection towards salaries to the value of R660 million.

These short-term initiatives support the immediate working capital and liquidity requirements.

Financing instruments

Existing facility
PetroSA's current facility with Standard Bank stands at R350 million, which is supported by R350 million cash collateral posted with its transactional banker available to fund any operational activities. The current facility is utilised interchangeably with letter of credit (LC) instruments. Consequently, this facility was utilised for purposes of establishment of the LCs, which have not been issued in the past 18 months, as business operations no longer require the use of an LC. The facility has therefore been reduced over the years from R900 million to R350 million and will continue to be utilised by the business interchangeably. In addition, an R806.7 million guarantee has been provided by CEF SOC Ltd to finance working capital for finished product, which will allow the business to utilise other funds for operational business activities and the finished product to operate independently. The execution of the guarante with CEF SOC Ltd will be concluded and finalised during the ensuing financial year.

PetroSA Ghana Limited (PGL) dividend income stream
In the intervening period, PetroSA will leverage a stream of PGL dividends, aimed at supporting PetroSA operations. To date, dividends amounting to R354.2 million have been repatriated by PGL to PetroSA, as stated in note 7 above. PetroSA has expectations of a future stream of dividends in the ensuing year based on revenues from PGL. In addition, an assessment made in respect of PGL by the Ghana Revenue Authority (GRA) has not been considered a threat to the income stream on this asset. This is supported by the reduction of the originally assessed tax computation based on supplementary evidence provided. The GRA is further reviewing additional information provided regarding this claim. At each year-end, independent verifications are conducted with respect to both tax computations and actual tax returns due, with the authorities utilising external service tax specialists. PetroSA has applied a conservative approach to managing the asset, including the tax required.

PetroSA Europe B.V.
PetroSA Europe B.V. has R62.8 million in reserves and cash. The funds in PetroSA Europe B.V. will be repatriated to PetroSA to fund liquidity. This will continue in respect of both medium- and long-term initiatives.

10. Going concern (continued)

Rightsizing of the business
Upon approval of the Corporate Plan in September 2020, PetroSA will model the required staffing in line with the refinery, trading supply and logistics, and support services. CEF SOC Ltd has approved and made available funding to cover severance packages. The headcount reduction is targeted to be approximately 480, with the costs of severance packages funded by the Shareholder being approximately R118 million. The proposed headcount reduction will be subject to the section 189 process; hence these numbers may change as the engagement process unfolds.

Medium- to long-term initiatives

Cabinet approval of the merger
On 20 June 2020, Cabinet approved the planned appointment of a restructuring company to merge PetroSA, the Strategic Fuel Fund (SFF) and the South African Gas Development Company SOC Limited (iGas) into one National Petroleum Company. The merger will not affect the financial statements because:

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

Financing instruments

PetroSA Ghana securitisation
PetroSA will repay the Reserve-Based Lending Facility and use the PGL investment for securitisation. The finance raised will be utilised to fund capital and operational expenditures to support the Corporate Plan.

Approval of key interventions

Feedstock
PetroSA secured alternative, affordable feedstock from April 2020 as a result of SFF procurement of condensate on behalf of PetroSA (in large parcel sizes of 1 million barrels). This intervention will continue during the intervening period in order to support feedstock purchasing.

Capex deferment
PetroSA has deferred spending on non-essential capex until a long-term solution (enhanced condensate processing (ECP)/ liquefied natural gas (LNG)) has been selected. Cost-reduction measures will continue to be implemented in support of stringent cash flow management.

Increased refinery throughput
PetroSA will invest R65 million in interventions to increase refinery throughput from 18 kbpd to 21 kbpd and 25 kbpd, respectively, to support targeted production volumes.

ECP/LNG for the future
PetroSA will obtain and evaluate firm, binding offers regarding LNG as a sustainable feedstock solution for the GTL Refinery in order to enable a 3×3 operation by March 2021. Depending on LNG affordability, ECP front-end engineering and design (FEED) will be finalised in 2022.

Conclusion
Management acknowledges that material uncertainty remains regarding the Group's ability to continue to operate as a going concern. In considering the uncertainties described above and the approved interventions by the Shareholder, management is of the opinion that the Group has adequate resources to continue operations for the foreseeable future and, therefore, continues to adopt the going concern basis of accounting to prepare the financial statements.

11. Funding of decommissioning provision

At year-end, the Company obligation to provide for the rehabilitation and decommissioning of its offshore and onshore facilities was valued at R12 430 million. PetroSA has set aside R2 786 million for this and there is currently a shortfall of approximately R9 644 million. In terms of the financial provision regulations which were promulgated under the National Environmental Management Act 107 of 1998 (NEMA), PetroSA is required to review, assess and adjust its financial provision and associated plans in accordance with these regulations before 19 February 2024 – by which time the financial provision funds will need to be available. The provision calculation is based on comprehensive technical work conducted by an international decommissioning contractor and thereafter reviewed by an independent specialist.

PetroSA is working with all key stakeholders to ensure compliance with the requirements of the financial provision regulations before 19 February 2024. To this extent, the holding company has committed to assist PetroSA, through various support and oversight mechanisms, to close the funding gap. In addition, PetroSA is working closely with the Regulator (the Petroleum Agency of South Africa) to ensure that it discharges its responsibilities as required under the NEMA financial provision regulations. Other key stakeholders involved include the Department of Energy, the National Treasury, the Department of Mineral Resources and the Department of Environmental Affairs.

Directors' report (continued)

11. Funding of decommissioning provision (continued)

No funds have been set aside for the funding of international provisions valued at R471 million. In terms of the signed petroleum agreements, this will commence once 50% of the estimated reserves have been produced from the relevant fields. However, PetroSA has set aside funds towards the cost of decommissioning. These funds are not available for the general purposes of the Group and comprise the following investments:

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

12. Auditors

In terms of the Constitution of the Republic of South Africa, 1996, and the Public Audit Act 25 of 2004, the AGSA continued in office as auditors for the Company and its subsidiaries for 2020.

At the Annual General Meeting (AGM), the Company will be requested to reappoint AGSA as the independent external auditors of the Company and its subsidiaries.

The consolidated and separate financial statements set out on pages 99 to 155, which have been prepared on the going concern basis, were approved by the Board of Directors on 28 October 2020 and were signed on its behalf by:

Approval of consolidated and separate annual financial statements.

F Baleni
Non-executive, independent
28 October 2020

Dr D Konar
Non-executive, independent
28 October 2020

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 since discharged its responsibilities in compliance with its terms of reference and as required by the Companies Act 71 of 2008.

1. Responsibilities

The Committee performed the following duties during the year in accordance with section 94(7) of the Companies Act 71 of 2008:

- Reviewed matters, including the accounting policies, financial controls and reporting;
- Performed other oversight functions determined by the Board;
- Determined the nature and extent of any non-audit services;
- Concurred with regard to the quantum of fees to be paid to the auditors and the auditor's terms of engagement; and
- Prepared a report to be included in the annual financial statements for the financial year.

In addition, the Committee was engaged with the following important issues during the year under review:

- Assessment of the financial risks of the Group;
- Assessment of the decommissioning liability in line with NEMA;
- Reviewing the assumptions used by management in the preparation of the annual financial statements;
- Assessment of the adequacy and effectiveness of mitigations implemented by management to comply with legislation and regulations;
- Reviewing the budget to support the Corporate Plan;
- The review and assessment of fruitless, wasteful and irregular expenditure;
- Reviewing the going concern assessment and the related assumptions;
- Reviewing and approving the Internal Audit Plan;
- Reviewing and approving the internal audit reports; and
- Reviewing the assessment of internal financial controls and the assurance thereof.

The Committee therefore attests that the annual financial statements fairly represent the state of affairs of the Group, its business, its financial results, and its financial position as at the end of the financial year.

2. Legal and regulatory compliance

The Board Audit Committee recommended the adoption of the annual financial statements and the annual report by the Board of Directors at its meeting on 21 October 2020.

Dr D Konar
Chairperson: Board Audit Committee

Statement of the Company Secretary

In terms of section 88(2)(e) of the Companies Act 71 of 2008, as amended, I certify that the Group has lodged with the Commissioner all such returns as are required of a public company in terms of the Act and that all such returns are true, correct and up to date.

Ms M Khumalo
Company Secretary

28 October 2020

Statements of financial position as at 31 March 2020

	Note(s)	GROUP 2020 R'000	GROUP 2019 R'000	COMPANY 2020 R'000	COMPANY 2019 R'000
ASSETS					
Non-current assets					
Property, plant and equipment	2	4 036 806	6 698 005	457 938	457 625
Intangible assets	3	1 605 290	1 406 929	1 120 378	946 560
Investments in subsidiaries	4	–	–	1 810 608	2 989 950
Trade and other receivables	10	252 456	200 486	–	–
Financial assets	7	993 613	1 863 072	1 435 240	1 435 239
Amounts held by holding company	8	486 585	486 585	486 585	486 585
		7 374 750	**10 655 077**	**5 310 749**	**6 315 959**
Current assets					
Inventories	9	829 786	2 164 858	784 383	2 112 189
Trade and other receivables	10	2 074 098	2 684 069	1 783 931	2 332 560
Other financial assets	7	1 241 005	350 000	350 000	350 000
Current tax receivable		–	258	–	–
Cash and cash equivalents	11	2 873 915	2 657 234	955 964	1 878 520
		7 018 804	**7 856 419**	**3 874 278**	**6 673 269**
TOTAL ASSETS		**14 393 554**	**18 511 496**	**9 185 027**	**12 989 228**
EQUITY AND LIABILITIES					
Equity					
Share capital	12	2 755 936	2 755 936	2 755 936	2 755 936
Reserves		1 466 588	863 216	–	–
Retained loss		(8 687 366)	(3 120 898)	(8 711 862)	(3 845 484)
		(4 464 842)	**498 254**	**(5 955 926)**	**(1 089 548)**
Liabilities					
Non-current liabilities					
Financial liability	13	930 764	968 271	–	–
Lease liabilities	14	1 035 739	895 873	–	–
Deferred tax	15	749 506	1 489 033	–	–
Provisions	16	12 987 082	10 245 249	12 516 261	9 897 837
		15 703 091	**13 598 426**	**12 516 261**	**9 897 837**
Current liabilities					
Trade and other payables	17	2 765 872	4 339 363	2 484 275	4 162 109
Financial liability	13	161 813	–	–	–
Lease liabilities	14	71 740	53 254	507	–
Current tax payable		15 970	3 369	–	–
Provisions	16	139 910	18 830	139 910	18 830
		3 155 305	**4 414 816**	**2 624 692**	**4 180 939**
Total liabilities		**18 858 396**	**18 013 242**	**15 140 953**	**14 078 776**
TOTAL EQUITY AND LIABILITIES		**14 393 554**	**18 511 496**	**9 185 027**	**12 989 228**

Statements of profit or loss and other comprehensive income

		GROUP		COMPANY	
	Note(s)	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Revenue	18	13 690 659	12 138 953	12 178 490	10 531 477
Cost of sales		(13 870 477)	(11 870 421)	(12 465 622)	(10 933 168)
Gross (loss)/profit		**(179 818)**	**268 532**	**(287 132)**	**(401 691)**
Other operating income		202 003	397 965	122 054	171 825
Impairment losses	19	(4 824 848)	(696 014)	(3 370 825)	(877 757)
Other operating expenses		(1 261 236)	(1 246 992)	(1 179 975)	(1 208 959)
Operating loss	20	**(6 063 899)**	**(1 276 509)**	**(4 715 878)**	**(2 316 582)**
Investment income	21	334 259	376 715	226 837	477 772
Finance costs	22	(550 786)	(493 623)	(390 033)	(339 150)
Loss before taxation		**(6 280 426)**	**(1 393 417)**	**(4 879 074)**	**(2 177 960)**
Taxation	23	701 265	(689 009)	–	–
Loss for the year		**(5 579 161)**	**(2 082 426)**	**(4 879 074)**	**(2 177 960)**
Other comprehensive income:					
Items that will not be reclassified to profit or loss:					
Remeasurements on net defined benefit liability/asset		12 696	12 535	12 696	12 535
Items that may be reclassified to profit or loss:					
Exchange differences on translating foreign operations		603 372	495 072	–	318
Other comprehensive income for the year net of taxation		**616 068**	**507 607**	**12 696**	**12 853**
Total comprehensive loss for the year		**(4 963 093)**	**(1 574 819)**	**(4 866 378)**	**(2 165 107)**

Statements of changes in equity

	Share capital	Share premium	Total share capital	Foreign currency translation reserve	Accumulated loss	Total equity
	R'000	R'000	R'000	R'000	R'000	R'000
GROUP						
Balance at 01 April 2018	**2**	**2 755 934**	**2 755 936**	**368 144**	**(1 051 007)**	**2 073 073**
Loss for the year	–	–	–	–	(2 082 426)	(2 082 426)
Other comprehensive income	–	–	–	495 072	12 535	507 607
Total comprehensive loss for the year	**–**	**–**	**–**	**495 072**	**(2 069 891)**	**(1 574 819)**
Balance at 01 April 2019	**2**	**2 755 934**	**2 755 936**	**863 216**	**(3 120 901)**	**498 251**
Loss for the year	–	–	–	–	(5 579 161)	(5 579 161)
Other comprehensive income	–	–	–	603 372	12 696	616 068
Total comprehensive loss for the year	**–**	**–**	**–**	**603 372**	**(5 566 465)**	**(4 963 093)**
Balance at 31 March 2020	**2**	**2 755 934**	**2 755 936**	**1 466 588**	**(8 687 366)**	**(4 464 842)**
Note(s)	12	12	12			
COMPANY						
Balance at 01 April 2018	**2**	**2 755 934**	**2 755 936**	**(318)**	**(1 680 059)**	**1 075 559**
Loss for the year	–	–	–	–	(2 177 960)	(2 177 960)
Other comprehensive income	–	–	–	318	12 535	12 853
Total comprehensive loss for the year	**–**	**–**	**–**	**318**	**(2 165 425)**	**(2 165 107)**
Balance at 01 April 2019	**2**	**2 755 934**	**2 755 936**	**–**	**(3 845 484)**	**(1 089 548)**
Loss for the year	–	–	–	–	(4 879 074)	(4 879 074)
Other comprehensive income	–	–	–	–	12 696	12 696
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**(4 866 378)**	**(4 866 378)**
Balance at 31 March 2020	**2**	**2 755 934**	**2 755 936**	**–**	**(8 711 862)**	**(5 955 926)**
Note(s)	12	12	12			

The Petroleum Oil and Gas Corporation of South Africa SOC Limited
Consolidated and separate annual financial statements for the year ended 31 March 2020

Statements of cash flows

		GROUP		COMPANY	
	Note(s)	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Cash flows from operating activities					
Cash (used in)/generated from operations	24	403 022	355 380	(1 013 968)	(179 616)
Interest income		334 259	372 626	127 718	184 611
Dividend received		–	4 089	99 119	293 161
Finance costs		(148 143)	(141 774)	(2 702)	(564)
Tax paid	25	(25 403)	(32 242)	–	–
Net cash from operating activities		**563 735**	**558 079**	**(789 833)**	**297 592**
Cash flows from investing activities					
Purchase of property, plant and equipment	2	(315 018)	(988 876)	(30 896)	(651 988)
Sale of property, plant and equipment	2	1	–	1	–
Purchase of other intangible assets	3	(115 861)	(31 813)	(108 760)	(23 938)
Sale of other intangible assets	3	(204)	151	–	–
Other financial assets – increase/(decrease) in restricted cash		58 548	400 000	–	400 000
Other financial assets – increase/(decrease) in loans		(13 679)	(39 986)	(4 739)	90 234
Net cash from investing activities		**(386 213)**	**(660 524)**	**(144 394)**	**(185 692)**
Cash flows from financing activities					
Movement in financial liability		(100 594)	199 015	–	–
Movement in lease liabilities		(52 613)	136 544	507	–
Net cash from financing activities		**(153 207)**	**335 559**	**507**	**–**
Total cash movement for the year		**24 315**	**233 114**	**(933 720)**	**111 900**
Cash at the beginning of the year		2 657 234	2 295 221	1 878 520	1 758 432
Effect of exchange rate movement on cash balances		192 366	128 899	11 164	8 188
Total cash at end of the year	11	**2 873 915**	**2 657 234**	**955 964**	**1 878 520**

Accounting policies

1. Significant accounting policies

1.1 Basis of preparation

The consolidated and separate financial statements for PetroSA have been prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), the Public Finance Management Act (PFMA) 1 of 1999, and the Companies Act 71 of 2008.

The consolidated and separate financial statements for PetroSA have been prepared on a historical-cost basis. The consolidated and separate financial statements for PetroSA are presented in South African rand and all values are rounded to the nearest thousand (rand '000), except when otherwise indicated.

The consolidated and separate financial statements for PetroSA provide comparative information in respect of the previous period.

The Group has adopted new guidance in respect of the recognition of leases. The new standard has been applied using the modified retrospective approach. Comparative figures are not restated and the liability is calculated as the present value of future lease payments, discounted using the incremental borrowing rate at 1 April 2019. The asset is then set equal to the liability.

1.2 Consolidation

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 March each year.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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 subsidiaries are used, which are all within three months of the year-end of the Group. Audited adjustments are made to the financial results for significant transactions and events in the intervening period.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition 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. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values. The Group carries its investments in subsidiaries at cost less accumulated impairment.

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. 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

1.3 Joint arrangements

Joint ventures

The results and assets and liabilities of joint ventures are incorporated in the Group financial statements by using the equity method of accounting. The aggregate of the Group's share of profit or loss in respect 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.

Accounting policies (continued)

1.3 Joint arrangements (continued)

Under the equity method, investments 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 entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the entity.

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. 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.

Interest in 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; 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 the applicable IFRS.

1.4 Property, plant and equipment

1.4.1 Carrying amounts

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

1.4.2 Cost

Cost includes all costs directly attributable to bringing the assets to the working condition for their intended use by Management. 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 profit or loss.

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.

1.4.3 Derecognition

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

Gains or losses on disposal of property, plant and equipment are determined by reference to their carrying amount.

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

1.4.4 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 in order 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	Depreciation method	Average useful life
Land	Straight-line	Not depreciated
Buildings	Straight-line	40 years
Production assets	Units-of-production	Units-of-production
Furniture, fittings and office equipment	Straight-line	3–15 years
Motor vehicles	Straight-line	10–12 years
Shutdown costs	Straight-line	3–5 years
Restoration costs	Units-of-production	Units-of-production
Assets under construction	Straight-line	Not depreciated

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

1.4.5 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 from the date production commences, on a unit-of-production basis, which is the ratio of oil and gas production in the period to the estimated quantities of proved and probable reserves at the end of the period plus the production in the period, on a field-by-field basis. Costs used in the unit-of-production calculation comprise the carrying value of capitalised costs plus the estimated future field development costs required to recover the commercial reserves remaining. Units-of-production rates are based on the proved and probable developed reserves, which are oil, gas and other mineral reserves estimated to be recoverable from existing facilities using current operating methods. Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively.

Where there has been a change in economic conditions that indicates a possible impairment in a discovery field, the recoverability of the carrying value relating to that field is assessed by comparison with the estimated discounted future cash flows based on management's expectations of future oil and gas prices and future costs. Where there is evidence of economic interdependency between fields, such as common infrastructure, the fields are grouped as a single cash-generating unit for impairment purposes.

Any impairment identified is charged to profit or loss. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to profit or loss, net of any depreciation that would have been charged since the impairment.

1.4.6 Restoration costs

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

Accounting policies (continued)

1.5 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Subsequently, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

If an intangible asset is 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.

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
Exploration and evaluation assets	Not depreciated
Purchased software	3–5 years

Research and development costs (patents)

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- Its intention to complete and its ability and intention to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset; and
- The ability to measure reliably the expenditure during development.

Subsequently, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in other operating expenses. During the period of development, the asset is tested for impairment annually.

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 these criteria (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 costs

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

Exploration and evaluation costs

All costs relating to the acquisition of 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 are written off as exploration costs in profit or loss unless commercial reserves have been established or the determination process has not been completed and there are no indications of impairment.

Assets pending determination

Exploratory wells where potentially commercial reserves are discovered are capitalised pending a decision to further develop or when 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.

1.5 Intangible assets (continued)

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 according to the units-of-production method calculated using the estimated proved and probable reserves.

Dry wells

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

Software

Purchased software and the direct costs associated with the customisation and installation thereof are capitalised.

1.6 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 as the higher of fair value less costs of disposal and value-in-use.

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.

1.7 Leases

Accounting policy applicable from 1 April 2019

With regard to any new contracts entered into, the Group considers whether a contract is, or contains, a lease. To qualify as a lease, a contract must meet three key evaluation criteria, which are whether:

- The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- The Group has the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- The Group has the right to direct the use of the identified asset throughout the period of use. (The Group assesses whether it has the right to direct "how and for what purpose" the asset is used throughout the period of use.)

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment where such indicators exist.

The Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments, with the corresponding adjustment reflecting in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

Accounting policies (continued)

1.7 **Leases** (continued)

Accounting policy applicable before 1 April 2019

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss. A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

1.8 Translation of foreign currencies

1.8.1 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.

1.8.2 Statement of financial position

At each reporting date:

(a) Foreign currency monetary items are measured using the closing rate;
(b) 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
(c) Non-monetary items which are carried at fair value denominated in a foreign currency are reported using the exchange rates that existed when the fair values were determined.

1.8.3 Exchange differences

Foreign currency transactions are translated into the functional currency of the respective Group entity using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in profit or loss.

1.8.4 Foreign entities

In translating the financial statements of a foreign entity for incorporation in the Group financial statements, the following apply:

(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 other comprehensive income. On disposal the related amount in this reserve will be recognised in profit or loss; and
(d) Exchange differences arising from the translation of any net investment in foreign entities are recognised in other comprehensive income. When a foreign operation is sold, the associated exchange differences are reclassified to profit or loss as part of the gain or loss on sale.

1.9 Financial instruments

Financial assets

1.9.1 Initial recognition and measurement

Financial assets are classified, at initial recognition, as measured at amortised cost and fair value through profit or loss (FVTPL). Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

The classification is determined by both:

- The entity's business model for managing the financial asset; and
- The contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables, which is presented within other expenses.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

1.9.2 Subsequent measurement

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- They are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- The contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective-interest method and are subject to impairment. Discounting is omitted where the effect of discounting is immaterial. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets at amortised cost include trade and other receivables, financial assets and amounts held by the holding company.

1.9.3 Derecognition

A financial asset is primarily derecognised 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 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 or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

1.9.4 Impairment of financial assets

The impairment requirements of IFRS 9 use more forward-looking information to recognise expected credit losses – the "expected credit loss (ECL) model". The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

In applying this forward-looking approach, a distinction is made between:

- Financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1"); and
- Financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

"Twelve-month expected credit losses" are recognised for the first category, while "lifetime expected credit losses" are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument. For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

Accounting policies (continued)

1.9 Financial instruments (continued)

1.9.4 Impairment of financial assets (continued)

The Group considers a financial asset to be in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial liabilities

1.9.5 Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as measured at amortised cost and FVTPL. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at FVTPL.

1.9.6 Subsequent measurement

Financial liabilities at amortised cost

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. 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 EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

The Group's financial liabilities at amortised cost include financial liabilities and trade and other payables.

1.9.7 Derecognition

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.

1.9.8 Offsetting of financial instruments

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, and to realise the assets and settle the liabilities simultaneously.

1.9.9 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 the 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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. 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.

1.10 Inventories

Finished inventories and work-in-progress
Finished inventories and work-in-progress are measured at the lower of cost and net realisable value according to the standard costing method. Standard costs take into account normal levels of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of current conditions. Cost includes production expenditure, depreciation, and a proportion of shutdown expenses and replacement of catalysts, as well as transport and handling costs. Provision is made for obsolete, slow-moving and defective inventories.

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 accord with the definition of property, plant and equipment are reclassified accordingly.

1.11 Taxation

Current income tax
The tax expense in the statement of profit or loss for the period comprises current and deferred tax. Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities.

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. 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 substantially enacted at the reporting date.

Deferred tax assets and liabilities
Deferred tax is provided for 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 and at the tax rates that have been enacted or substantially enacted at 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 and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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.

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.

1.12 Provisions
Provisions represent liabilities of uncertain timing or amounts.

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 finance costs.

The decommissioning provision, which includes 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.

Accounting policies (continued)

1.12 Provisions (continued)

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

If the Group has a contract that is onerous, the present obligation under the contract is recognised and measured as a provision. However, before a separate provision for an onerous contract is established, the Group recognises any impairment loss that has occurred on assets dedicated to that contract. An onerous contract is a contract under which the unavoidable costs (i.e. the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

1.13 Post-employment benefit costs

Short-term obligations

Short-term employee benefits, including wages, salaries, non-monetary benefits and accumulating annual leave, are current liabilities included in pension and other employee obligations, measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

Defined contribution costs

The Group operates a defined-contribution retirement 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 health care benefits are provided for 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 is the present value of the defined-benefit obligation at the end of the reporting period less the fair value of plan assets.

Gains and losses resulting from remeasurements of the net defined-benefit liability are included in other comprehensive income and are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss.

The net interest cost is calculated by applying the discount rate to the net balance of the defined-benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the statement of profit or loss.

1.14 Revenue from contracts with customers

Revenue arises mainly from the sale of fuel, crude oil and gas products. Revenue from contracts with customers is recognised when control of the products is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled, net of discounts, returns and VAT, in exchange for those products.

To determine whether to recognise revenue, the Group follows the five-step process of:

1. Identifying the contract with a customer;
2. Identifying the performance obligations;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligations; and
5. Recognising revenue when/as performance obligation(s) are satisfied.

Sale of products

The sale of products includes, but is not limited to, diesel, petrol, crude oil and gas. Revenue from the sale of products is recognised when the Group transfers control of the product to the customer. Control is transferred at the point of delivery.

1.15 Investment income

Interest income is accrued on a time basis with reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life to the gross carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' right to receive payment has been established, when it is probable that the economic benefits associated with the dividend will flow to the entity, and when the amount of the dividend can be measured reliably.

1.16 Borrowing and 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.

Interest 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.

1.17 Government grants

Government grants are recognised at fair value 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.

1.18 Events after the reporting date

Recognised amounts in the consolidated and separate financial statements for PetroSA 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.

1.19 Irregular or 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 should 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 or fruitless and wasteful expenditure is disclosed as a note to the annual financial statements of the Company and Group.

1.20 Adoption of International Financial Reporting Standards (IFRS)

The following standards, and amendments to existing standards, have been published but are not yet effective, and the Group has not as yet adopted them.

1. **IFRS 3 'Business combinations'** (effective 1 January 2020). This amendment revises the definition of a business. The amendment confirmed that a business must include inputs and a process, and clarified that:

   - The process must be substantive; and
   - The inputs and process must together significantly contribute to creating outputs.

   It narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and on other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs, and added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

2. **Amendments to IAS 1 and IAS 8** (effective 1 January 2020). These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs:

   i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
   ii) clarify the explanation of the definition of "material"; and
   iii) incorporate some of the guidance in IAS 1 about immaterial information on the definition of "material".

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Accounting policies (continued)

1.21 Key accounting judgements and key sources of estimation uncertainty

Critical accounting estimates and judgement
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, as well as the reported amounts of revenues and expenses during the reported period and the related disclosures. As these estimates and assumptions concern future events, the actual results often vary from the estimates due to the inherent uncertainty involved in this process. These estimates and judgements are based on historical experience, current and expected future economic conditions, and other factors, including expectations in respect of the future events that are believed to be reasonable in 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 on costs that are reviewed annually, by internal and external experts, and adjusted as appropriate for new circumstances.

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

Recoverability of assets
The Group assesses its cash-generating units (CGUs) at each reporting period to determine whether any indication of impairment exists. Impairment tests are performed when there is an indication of impairment of assets or a reversal of previous impairments of assets. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs of disposal (FVLCD) and value-in-use (VIU).

Management has therefore 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 management's best estimate of the range of economic conditions that will exist over the remaining useful life of the assets, based on publicly available information. The discount rates used are pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the assets for which the future cash flow estimates have not been adjusted. These estimates and assumptions are subject to risk and uncertainty.

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

Contingent liabilities
Management considers the existence of possible obligations which may arise from legal action as well as possible non-compliance with 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 reserves and resource estimates
Hydrocarbon reserves are estimates of the amount of hydrocarbons that can be economically and legally extracted from the Company's oil properties. The Company 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 December 2019 is shown in note 2.

1.21 Key accounting judgements and key sources of estimation uncertainty (continued)

Hydrocarbon reserves and resource estimates (continued)
As the economic assumptions used may change, and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Company's reported financial position and results, for instance:

1. The carrying value of exploration and evaluation assets and production assets may be affected due to changes in estimated future cash flows.
2. Depreciation and amortisation charges in the statement of profit or loss may change where such charges are determined using the units-of-production method.
3. Provisions for decommissioning may change where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities.
4. The recognition and carrying value of deferred tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets.

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 an asset's historical performance as well as the Medium-Term Business Plan are taken into consideration.

Carrying value of intangible exploration and evaluation assets
The amount of intangible exploration and evaluation assets represents active exploration assets. These amounts will be written off to the statement of profit or loss 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 has applied judgement are as follows: the Group's intention to proceed with a future work programme for a prospect or licence; the likelihood of license renewal or extension; and the success of a well-result or geological or geophysical survey.

Units-of-production (UOP) depreciation of oil and gas assets
Oil and gas properties are depreciated using the UOP method. The actual production for the period is divided by the total proved developed and undeveloped hydrocarbon reserves. This results in a depreciation/amortisation charge (UOP rate) proportional to the depletion of the anticipated remaining production from the field.

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 are impacted by future capital expenditure (because the future estimated capex does not affect the UOP rate directly; it only affects the life and value of the assets to be depreciated).

Valuation assumptions
The following valuation assumptions were used in assessing critical accounting estimates and judgements and are regarded as the best estimates by the Board:

2020 assumptions	Unit	2020	2021	2022	2023	2024–2025
Brent crude	USD/barrel	32.00	47.00	60.00	60.00	63.00
US CPI	Year-on-year	2.10	2.00	2.00	2.00	2.20
RSA CPI	Year-on-year	3.00	4.20	4.70	4.40	4.40
USD risk-free rate	%	4.80	4.90	4.50	4.50	4.60
RSA risk-free rate	%	7.80	7.80	7.80	7.80	7.80
ZAR/USD	Rand/USD	17.98	15.62	15.91	16.11	16.45

2019 assumptions	Unit	2019	2020	2021	2022	2023–2024
Brent crude	USD/barrel	74.00	74.00	80.00	72.00	65.00
US CPI	Year-on-year	2.60	2.50	2.10	2.00	2.00
RSA CPI	Year-on-year	5.38	5.83	5.23	4.90	4.70
USD risk-free rate	%	2.41	2.41	2.41	2.41	2.41
RSA risk-free rate	%	9.00	9.00	9.00	9.00	9.00
ZAR/USD	Rand/USD	14.57	14.39	14.43	14.44	14.63

The Petroleum Oil and Gas Corporation of South Africa SOC Limited
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Notes to the consolidated and separate annual financial statements

2. Property, plant and equipment

Group	2020 R'000 Cost	2020 R'000 Accumulated depreciation and impairment	2020 R'000 Carrying value	2019 R'000 Cost	2019 R'000 Accumulated depreciation and impairment	2019 R'000 Carrying value
Land	43 587	–	43 587	43 587	–	43 587
Buildings	226 480	(40 249)	186 231	225 367	(39 136)	186 231
Production assets	41 054 669	(37 534 636)	3 520 033	39 833 217	(33 624 647)	6 208 570
Furniture, fittings and office equipment	752 591	(646 072)	106 519	727 892	(627 081)	100 811
Motor vehicles	95 138	(63 734)	31 404	91 874	(58 194)	33 680
Restoration costs	3 943 130	(3 794 363)	148 767	3 024 865	(2 900 004)	124 861
Shutdown costs capitalised	71 190	(71 190)	–	565 064	(565 063)	1
Assets under development	265	–	265	65 796	(65 532)	264
Total	**46 187 050**	**(42 150 244)**	**4 036 806**	**44 577 662**	**(37 879 657)**	**6 698 005**

Company	2020 R'000 Cost	2020 R'000 Accumulated depreciation and impairment	2020 R'000 Carrying value	2019 R'000 Cost	2019 R'000 Accumulated depreciation and impairment	2019 R'000 Carrying value
Land	43 587	–	43 587	43 587	–	43 587
Buildings	226 480	(40 249)	186 231	225 367	(39 136)	186 231
Production assets	29 892 421	(29 802 489)	89 932	29 895 638	(29 802 587)	93 051
Furniture, fittings and office equipment	752 406	(645 887)	106 519	727 739	(626 928)	100 811
Motor vehicles	95 138	(63 734)	31 404	91 874	(58 194)	33 680
Restoration costs	3 636 964	(3 636 964)	–	2 796 276	(2 796 276)	–
Shutdown costs capitalised	71 190	(71 190)	–	565 064	(565 063)	1
Assets under development	265	–	265	65 796	(65 532)	264
Total	**34 718 451**	**(34 260 513)**	**457 938**	**34 411 341**	**(33 953 716)**	**457 625**

2. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment – Group 2020

	Opening balance R'000	Additions R'000	Disposals R'000	Transfers R'000	Foreign exchange movements R'000	Change in estimate R'000	Depreciation R'000	Impairment loss R'000	Closing balance R'000
Land	43 587	–	–	–	–	–	–	–	43 587
Buildings	186 231	1 113	–	–	–	–	(643)	(470)	186 231
Production assets	6 208 570	235 504	–	4 198	786 554	645	(1 098 790)	(2 616 648)	3 520 033
Furniture, fittings and office equipment	100 811	25 116	–	–	–	–	(19 408)	–	106 519
Motor vehicles	33 680	3 733	–	–	–	–	(6 009)	–	31 404
Restoration costs	124 861	49 551	–	–	24 313	2 216 581	(24 400)	(2 242 139)	148 767
Shutdown costs capitalised	1	–	(1)	–	–	–	–	–	–
Assets under development	264	1	–	–	–	–	–	–	265
	6 698 005	**315 018**	**(1)**	**4 198**	**810 867**	**2 217 226**	**(1 149 250)**	**(4 859 257)**	**4 036 806**

Reconciliation of property, plant and equipment – Group 2019

	Opening balance R'000	Additions R'000	Transfers R'000	Foreign exchange movements R'000	Change in estimate R'000	Depreciation R'000	Impairment loss R'000	Closing balance R'000
Land	43 587	–	–	–	–	–	–	43 587
Buildings	184 501	1 755	–	–	–	(25)	–	186 231
Production assets	4 394 931	262 533	103 135	879 443	–	(701 090)	1 269 618	6 208 570
Furniture, fittings and office equipment	109 619	13 211	–	–	–	(22 019)	–	100 811
Motor vehicles	39 856	–	–	–	–	(6 176)	–	33 680
Restoration costs	75 471	78 664	–	16 695	1 371 313	(15 831)	(1 401 451)	124 861
Shutdown costs capitalised	–	48 463	509 341	–	–	(63 930)	(493 873)	1
Assets under development	265	584 250	(518 719)	–	–	–	(65 532)	264
	4 848 230	**988 876**	**93 757**	**896 138**	**1 371 313**	**(809 071)**	**(691 238)**	**6 698 005**

Notes to the consolidated and separate annual financial statements (continued)

2. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment – Company 2020

	Opening balance R'000	Additions R'000	Disposals R'000	Transfers R'000	Change in estimate R'000	Depreciation R'000	Impairment loss R'000	Closing balance R'000
Land	43 587	–	–	–	–	–	–	43 587
Buildings	186 231	1 113	–	–	–	(643)	(470)	186 231
Production assets	93 051	933	–	5 149	645	(243)	(9 603)	89 932
Furniture, fittings and office equipment	100 811	25 116	–	–	–	(19 408)	–	106 519
Motor vehicles	33 680	3 733	–	–	–	(6 009)	–	31 404
Restoration costs	–	–	–	–	2 242 139	–	(2 242 139)	–
Shutdown costs capitalised	1	–	(1)	–	–	–	–	–
Assets under development	264	1	–	–	–	–	–	265
	457 625	**30 896**	**(1)**	**5 149**	**2 242 784**	**(26 303)**	**(2 252 212)**	**457 938**

Reconciliation of property, plant and equipment – Company 2019

	Opening balance R'000	Additions R'000	Transfers R'000	Change in estimate R'000	Depreciation R'000	Impairment loss R'000	Closing balance R'000
Land	43 587	–	–	–	–	–	43 587
Buildings	184 501	1 755	–	–	(25)	–	186 231
Production assets	1	4 309	102 430	–	(1 409)	(12 280)	93 051
Furniture, fittings and office equipment	109 619	13 211	–	–	(22 019)	–	100 811
Motor vehicles	39 856	–	–	–	(6 176)	–	33 680
Restoration costs	–	–	–	1 401 451	–	(1 401 451)	–
Shutdown costs capitalised	–	48 463	509 341	–	(63 930)	(493 873)	1
Assets under development	265	584 250	(518 719)	–	–	(65 532)	264
	377 829	**651 988**	**93 052**	**1 401 451**	**(93 559)**	**(1 973 136)**	**457 625**

Buildings include the right-of-use assets of R1.1 million capitalised by PetroSA. These have been depreciated and fully impaired following the impairment assessment below. Production assets include the lease (note 14) entered into by PetroSA Ghana Limited, which was initially recognised at R850.3 million.

An amount of R93 million relating to catalysts has been reclassified from inventory to production assets in the prior period to correctly reflect the substance of the underlying assets.

2.1 Restoration expenditure

Restoration expenditure relates to the decommissioning provision (note 16) and is amortised on a units-of-production basis. The units-of-production method is also used in calculating depreciation on producing assets. Due to the nature of the business, the gas and oil reserves at the end of each financial year differ from the previous year. This necessitates a change in the estimated remaining useful lives of these assets at the end of each financial year. The effect on the current year will be zero, as there are no remaining reserves.

The PetroSA Group impairment for the year was R4.9 billion (2019: R691 million impairment).

2.2 Impairment assessment – oil and gas assets in South Africa

Oil and gas reserves are used in assessing oil- and gas-producing properties for impairment. A significant reduction in the oil and gas price and a downgrade of proved and probable reserves triggered an impairment review. When such indicators are identified, Management must exercise further judgement in making an estimate of the recoverable amount (value in use) of the asset against which to compare the carrying value. The outcome of the review resulted in an impairment of R10.1 million (2019: R572 million). The decommissioning provision (refer to note 16) increased significantly owing to the weakened rand against the USD. This resulted in a change in estimate and had a negative impact, increasing the impairment charge to R2.2 billion (2019: R1.4 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 fixed life of field approved by the Board of Directors. These cash flows are management's best estimate, taking into account past experience and future economic assumptions, such as forward curves for crude oil, product prices and exchange rates and discounted using the weighted average cost of capital (WACC) of 14% (2019: 14%). The impairment loss was recorded as part of operating expenses.

2.3 Impairment assessment– West Cape Three Points and Deepwater Tano blocks in Ghana

In the light of current commodity prices and a significant decline in reserves, the West Cape Three Points Block and the Deepwater Tano Block held by PetroSA Ghana Limited were assessed for impairment. This assessment resulted in an impairment of R2.6 billion based on a recoverable amount of R3.3 billion (2019: R1.2 billion impairment reversal).

The valuation assumptions are listed under key assumptions made by management (note 1.21 of "Accounting policies").

3. Intangible assets

	2020 R'000			2019 R'000		
Group	Cost	Accumulated amortisation and impairment	Carrying value	Cost	Accumulated amortisation and impairment	Carrying value
Patents	6 934	(3 584)	3 350	6 934	(3 307)	3 627
Exploration and evaluation assets	1 542 056	39 153	1 581 209	1 387 624	(745)	1 386 879
Software	52 140	(51 323)	817	51 191	(51 191)	–
Restoration costs	19 914	–	19 914	16 423	–	16 423
Total	**1 621 044**	**(15 754)**	**1 605 290**	**1 462 172**	**(55 243)**	**1 406 929**

	2020 R'000			2019 R'000		
Company	Cost	Accumulated amortisation and impairment	Carrying value	Cost	Accumulated amortisation and impairment	Carrying value
Patents	6 934	(3 584)	3 350	6 934	(3 307)	3 627
Exploration and evaluation assets	1 050 744	65 467	1 116 211	943 678	(745)	942 933
Software	52 140	(51 323)	817	51 191	(51 191)	–
Total	**1 109 818**	**10 560**	**1 120 378**	**1 001 803**	**(55 243)**	**946 560**

Notes to the consolidated and separate annual financial statements (continued)

3. Intangible assets (continued)

Reconciliation of intangible assets – Group 2020

	Opening balance R'000	Additions R'000	Disposals R'000	Transfers R'000	Foreign exchange movements R'000	Change in estimate R'000	Amortisation R'000	Impairment reversal R'000	Closing balance R'000
Patents	3 627	–	–	–	–	–	(277)	–	3 350
Exploration and evaluation assets	1 386 879	114 040	204	951	39 982	–	–	39 153	1 581 209
Software	–	949	–	–	–	–	(132)	–	817
Restoration costs	16 423	872	–	–	3 849	(1 230)	–	–	19 914
	1 406 929	**115 861**	**204**	**951**	**43 831**	**(1 230)**	**(409)**	**39 153**	**1 605 290**

Reconciliation of intangible assets – Group 2019

	Opening balance R'000	Additions R'000	Disposals R'000	Transfers R'000	Foreign exchange movements R'000	Change in estimate R'000	Amortisation R'000	Impairment loss R'000	Closing balance R'000
Patents	3 905	–	–	–	–	–	(278)	–	3 627
Exploration and evaluation assets	1 580 817	30 883	(258 964)	(705)	35 593	–	–	(745)	1 386 876
Restoration costs	14 761	930	–	–	3 417	(2 685)	–	–	16 423
	1 599 483	**31 813**	**(258 964)**	**(705)**	**39 010**	**(2 685)**	**(278)**	**(745)**	**1 406 929**

Reconciliation of intangible assets – Company 2020

	Opening balance R'000	Additions R'000	Amortisation R'000	Impairment reversal R'000	Closing balance R'000
Patents	3 627	–	(277)	–	3 350
Exploration and evaluation assets	942 933	107 811	–	65 467	1 116 211
Software	–	949	(132)	–	817
	946 560	**108 760**	**(409)**	**65 467**	**1 120 378**

Reconciliation of intangible assets – Company 2019

	Opening balance R'000	Additions R'000	Disposals R'000	Amortisation R'000	Impairment loss R'000	Closing balance R'000
Patents	3 905	–	–	(278)	–	3 627
Exploration and evaluation assets	1 178 553	23 938	(258 813)	–	(745)	942 933
	1 182 458	**23 938**	**(258 813)**	**(278)**	**(745)**	**946 560**

4. Investments in subsidiaries

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
PetroSA Synfuel International SOC Ltd (100%)				
Shares:				
Balance at the end of the year	–	–	501	501
Provision for impairment	–	–	(501)	(501)
Balance at the end of the year	**–**	**–**	**–**	**–**
PetroSA Sudan SOC Ltd (100%)				
Loans:				
Balance at the end of the year	–	–	(0.12)	(0.12)
Shares:				
Balance at the end of the year	–	–	0.12	0.12
Loans	–	–	(0.12)	(0.12)
Shares	–	–	0.12	0.12
Carrying amount of investment	**–**	**–**	**–**	**–**
Petroleum Oil & Gas Corporation of South Africa (Namibia) SOC Ltd (100%)				
Loans:				
Balance at the end of the year	–	–	(0.12)	(0.12)
Shares:				
Balance at the end of the year	–	–	0.12	0.12
Loans	–	–	(0.12)	(0.12)
Shares	–	–	0.12	0.12
Carrying amount of investment	**–**	**–**	**–**	**–**
PetroSA Egypt SOC Ltd (100%)				
Loans:				
Balance at the end of the year	–	–	(0.10)	(0.10)
Shares:				
Balance at the end 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 end of the year	–	–	166	166
Share premium:				
Balance at the end 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 Ltd (100%)				
Loans:				
Balance at the end of the year	–	–	(0.06)	(0.06)
Shares:				
Balance at the end of the year	–	–	0.06	0.06
Loans	–	–	(0.06)	(0.06)
Shares	–	–	0.06	0.06
Carrying amount of investment	**–**	**–**	**–**	**–**

Notes to the consolidated and separate annual financial statements (continued)

4. Investments in subsidiaries (continued)

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
PetroSA Gryphon Marin Permit SOC Ltd (100%)				
Loans:				
Balance at the end of the year	–	–	(0.06)	(0.06)
Shares:				
Balance at the end of the year	–	–	0.06	0.06
Loans	–	–	(0.06)	(0.06)
Shares	–	–	0.06	0.06
Carrying amount of investment	–	–	–	–
PetroSA Iris SOC Ltd (100%)				
Loans:				
Balance at the end of the year	–	–	(0.06)	(0.06)
Shares:				
Balance at the end of the year	–	–	0.06	0.06
Loans	–	–	(0.06)	(0.06)
Shares	–	–	0.06	0.06
Carrying amount of investment	–	–	–	–
PetroSA Themis SOC Ltd (100%)				
Loans:				
Balance at the end of the year	–	–	(0.12)	(0.12)
Shares:				
Balance at the end 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 Ltd (100%)				
Loans:				
Balance at the end of the year	–	–	(0.06)	(0.06)
Shares:				
Balance at the end of the year	–	–	0.06	0.06
Loans	–	–	(0.06)	(0.06)
Shares	–	–	0.06	0.06
Carrying amount of investment	–	–	–	–
PetroSA Ghana Ltd (100%)				
Shares:				
Balance at the end of the year	–	–	3 880 651	3 880 651
Provision for impairment	–	–	(2 073 174)	(893 832)
Carrying amount of investment	–	–	**1 807 477**	**2 986 819**

The recoverable amount of R1.8 billion (2019: R3 billion) for the PetroSA Ghana Limited CGU was calculated on the basis of fair value less cost to sell and takes into consideration a WACC of 11% (2019: 11%) and an inflation rate of 2.2% (2019: 2.2%).

4. Investments in subsidiaries (continued)

PetroSA has provided its shares in PetroSA Ghana Limited as security to the lenders for the Reserve-Based Lending Facility. Refer to note 14.

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Total				
Loans	–	–	(1)	(1)
Shares	–	–	3 881 319	3 881 319
Share premium	–	–	2 965	2 965
Provision for impairment	–	–	(2 073 675)	(894 333)
Carrying amount of investments	**–**	**–**	**1 810 608**	**2 989 950**

5. Joint arrangements

Joint ventures (JV)
The following table lists all of the joint ventures in the Group:

Group

Name of company	Held by	% ownership interest	% ownership interest	Carrying amount	Carrying amount
		2020	2019	2020 R'000	2019 R'000
GTL.F1 AG	PetroSA	50.00%	50.00%	–	–

Company

Name of company	Held by	% ownership interest	% ownership interest	Carrying amount	Carrying amount
		2020	2019	2020 R'000	2019 R'000
GTL.F1 AG	PetroSA	50.00%	50.00%	29 625	29 625
Impairment of investments in joint ventures		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. Management assessed the investment in GTL.F1 AG for impairment and, in the light of current conditions, including oil and gas prices, raised a provision for impairment of R29.6 million.

Reporting period
GTL.F1 AG's year-end is 31 December 2019.

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 R nil and the Group has no obligation in respect of any losses of the joint venture. The total unrecognised losses for the current period amount to R3.5 million (2019: R3.3 million). The accumulated unrecognised losses to date amount to R176.9 million (2019: R173.5 million).

6. 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, as well as the enhancement of the education and literacy levels in these communities, in particular those within which PetroSA operates, such as the Mossel Bay region and other deserving communities.

Gannet Trust
The Gannet Trust group of companies was created to underwrite insurance risks for PetroSA and other companies with similar risk profiles. Gannet Trust enables PetroSA to access the reinsurance markets that would not otherwise be available to it. Gannet Trust is also available to accept risks that are uninsured, uninsurable or that bridge the gap between the underwriter-imposed risk retentions and PetroSA's preferred risk retentions.

Notes to the consolidated and separate annual financial statements (continued)

7. Financial assets

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Restricted cash – bank credit facilities Restricted cash at bank is interest-bearing and its use is restricted as a condition for providing credit facilities.	350 000	350 000	350 000	350 000
Loan to PetroSA Rehabilitation The loan to PetroSA Rehabilitation NPC (non-profit company) is PetroSA's contribution towards the funding of its abandonment provision as detailed below.	–	–	1 435 239	1 435 239
Restricted cash – PetroSA Rehabilitation NPC PetroSA utilises PetroSA Rehabilitation NPC as a funding vehicle to ring-fence funds for PetroSA's abandonment/environmental liability. Funds are invested in fixed-term and Jibar-linked deposits with various counterparties and earn a weighted interest rate of 9.62% per annum. Investments will mature between September 2020 and 2022. These funds are not available for the general purposes of the Group.	1 791 005	1 751 042	–	–
	2 141 005	**2 101 042**	**1 785 239**	**1 785 239**
Loans and receivables				
Ghana National Petroleum Corporation (GNPC) The loan in respect of TEN Development capital expenditure bears interest at LIBOR plus a margin percentage of 1.5% per annum, and the loan in respect of the TEN Development gas export pipeline expenditure bears interest at 15 % per annum. There is currently no signed agreement in place between the GNPC and the joint venture (JV) partners regarding the repayment terms. However, repayment proposals are currently being considered and evaluated by the JV partners.	114 620	114 454	–	–
GTL.F1 AG The subordinated loan accrues interest at EURIBOR + 0.75%. This loan is not repayable within the next 12 months. Should settlement not be possible at this time, a new instalment plan may be agreed on the same day.	278 132	226 424	278 132	226 424
Lurgi The amount owing by Lurgi is in respect of a purchase of a 12.5% share in the GTL.F1 AG Joint Venture. The loan accrues interest at EURIBOR + 0.75%. The loan is repayable based on dividends receivable by Lurgi from the GTL.F1 AG technology company.	237 256	195 858	237 256	195 858
	630 008	536 736	515 388	422 282
Expected credit loss	(536 395)	(424 706)	(515 387)	(422 282)
	93 613	**112 030**	**1**	**–**
Total other financial assets	**2 234 618**	**2 213 072**	**1 785 240**	**1 785 239**
Non-current assets				
At amortised cost	993 613	1 863 072	1 435 240	1 435 239
Current assets				
At amortised cost	1 241 005	350 000	350 000	350 000
	2 234 618	**2 213 072**	**1 785 240**	**1 785 239**

7. Financial assets (continued)

Financial assets inherently expose the Group to credit risk, being the risk that the Group will incur financial losses if counterparties fail to make payments as they fall due.

Restricted cash was assessed for credit impairment based on a credit risk model. This credit risk model is an intuitive and robust default prediction model that provides a view of a counterparty's credit condition and financial health by analysing a wide array of accounting ratios which includes, but is not limited to, profitability, liquidity and leverage. An expected credit loss of R21 million (2019: R2.4 million) was recognised.

The GTL.F1 AG and Lurgi loans have been assessed for credit impairment based on an independent valuation. The free cash flow model indicates that repayment of the loans will only take place subsequent to their due dates. The loans continue to be fully impaired based on the prospect of no revenue being generated in the foreseeable future.

8. Amounts held by holding company

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
CEF SOC Ltd	486 585	486 585	486 585	486 585

This deposit is held by CEF SOC Ltd 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.

9. Inventories

The amounts attributable to the different categories are as follows:

Petroleum fuels	722 353	1 852 300	722 353	1 852 300
Crude oil	45 403	52 669	–	–
Consumable stores, spares and catalysts	62 030	259 889	62 030	259 889
	829 786	**2 164 858**	**784 383**	**2 112 189**

10. Trade and other receivables

Financial instruments:				
Trade receivables	1 924 208	2 601 253	1 536 082	2 136 882
Loss allowance	(66 013)	(48 383)	(57 995)	(48 118)
Trade receivables at amortised cost	1 858 195	2 552 870	1 478 087	2 088 764
Deposits	62	51	–	–
Other receivables	189 284	132 908	32 978	48 709
Non-financial instruments:				
VAT	21 622	21 475	20 225	20 356
Statutory receivables	104 949	100 268	104 949	100 268
Underlift	4 332	2 348	–	–
Prepayments	148 110	74 635	147 692	74 463
Total trade and other receivables	**2 326 554**	**2 884 555**	**1 783 931**	**2 332 560**
Split between non-current and current portions				
Non-current assets	252 456	200 486	–	–
Current assets	2 074 098	2 684 069	1 783 931	2 332 560
	2 326 554	**2 884 555**	**1 783 931**	**2 332 560**

Categorisation of trade and other receivables
Trade and other receivables are categorised as follows in accordance with IFRS 9 'Financial instruments':

At amortised cost	2 047 541	2 685 829	1 511 065	2 137 473
Non-financial instruments	279 013	198 726	272 866	195 087
	2 326 554	**2 884 555**	**1 783 931**	**2 332 560**

Notes to the consolidated and separate annual financial statements (continued)

10. Trade and other receivables (continued)

Exposure to credit risk
Trade receivables inherently expose the Group to credit risk, being the risk that the Group will incur financial loss if customers fail to make payments as they fall due. Trade receivables arise mainly from fuel-production sales.

In order to mitigate the risk of financial loss from defaults, the Group deals only with reputable customers with consistent payment histories. Sufficient collateral or guarantees are also obtained when appropriate. Each customer is analysed individually for creditworthiness before terms and conditions are offered. Based on the credit information from external bureaus (where available) and previous payment history, credit may be granted. Customer credit limits are in place and are reviewed and approved by Credit Management. The exposure to credit risk and the creditworthiness of customers are continuously monitored.

There have been no significant changes in credit risk management policies and processes since the prior reporting period.

A loss allowance is recognised for all trade and other receivables, in accordance with IFRS 9 "Financial instruments", and is monitored at the end of each reporting period. In addition to the loss allowance, trade and other receivables are written off when there is no reasonable expectation of recovery, for example, when a debtor has been placed under liquidation.

The Group measures the loss allowance for trade and other receivables by applying the simplified approach which is prescribed by IFRS 9. In accordance with this approach, the loss allowance is determined as the "lifetime expected credit losses". These losses are estimated using a provision matrix, which is presented below. The provision matrix has been developed by making use of past default experience in respect of debtors, but also incorporates forward-looking information and general economic conditions of the industry as at the reporting date.

The Group's historical credit loss experience does not show significantly different loss patterns for different customer segments. The provision for credit losses is therefore based on past-due status without disaggregating into further risk profiles. The loss allowance provision is determined as follows:

Group	2020 R'000 Estimated gross carrying amount at default	2020 R'000 Loss allowance (lifetime expected credit loss)	2019 R'000 Estimated gross carrying amount at default	2019 R'000 Loss allowance (lifetime expected credit loss)
Expected credit loss rate:				
Not past due	1 778 094	(19 339)	2 419 348	(3 599)
Less than 30 days past due	57 126	(103)	140	–
31–60 days past due	5 545	(11)	82 470	(834)
61–90 days past due	578	(1)	–	–
91–120 days past due	201	(19)	54 224	(714)
More than 120 days past due	82 664	(46 540)	45 163	(43 163)
Other receivables	–	–	129 096	(73)
Total	**1 924 208**	**(66 013)**	**2 730 441**	**(48 383)**

10. Trade and other receivables (continued)

Exposure to credit risk (continued)

Company	2020 R'000 Estimated gross carrying amount at default	2020 R'000 Loss allowance (lifetime expected credit loss)	2019 R'000 Estimated gross carrying amount at default	2019 R'000 Loss allowance (lifetime expected credit loss)
Expected credit loss rate:				
Not past due	1 389 968	(11 321)	1 954 827	(3 334)
Less than 30 days past due	57 126	(103)	140	–
31–60 days past due	5 545	(11)	82 470	(834)
61–90 days past due	578	(1)	–	–
91–120 days past due	201	(19)	54 224	(714)
More than 120 days past due	82 664	(46 540)	45 163	(43 163)
Other receivables	–	–	48 709	(73)
Total	**1 536 082**	**(57 995)**	**2 185 533**	**(48 118)**
Reconciliation of loss allowances:				
Opening balance	48 383	50 602	48 118	50 509
Expected credit losses recognised	21 329	6 290	13 576	6 025
Amounts recovered during the year	(3 699)	(8 509)	(3 699)	(8 416)
	66 013	**48 383**	**57 995**	**48 118**

Fair value of trade and other receivables
The fair value of trade and other receivables approximates their carrying amounts.

Statutory receivables are net of provision for doubtful debt of R31.1 million (2019: R31.1 million).

11. Cash and cash equivalents

Cash and cash equivalents consist of:

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Cash on hand	2 573 440	1 622 395	883 430	1 622 430
Bank balances	300 475	1 034 839	72 534	256 090
	2 873 915	**2 657 234**	**955 964**	**1 878 520**

Notes to the consolidated and separate annual financial statements (continued)

11. Cash and cash equivalents (continued)

Credit quality of cash at bank and short-term deposits, excluding cash on hand

The credit quality of cash at bank and short-term deposits, excluding cash on hand that is neither past due nor impaired, can be assessed with reference to external credit ratings (if available) or historical information about counterparty default rates:

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Credit rating				
Aaa-mf	970 877	–	–	–
Aaa	832 164	1 313 900	832 164	1 313 900
Aa1	123 800	–	123 800	–
Aa2	–	316 312	–	316 312
A1	947 067	–	–	–
A2	–	780 648	–	1 900
Baa3	–	246 374	–	246 408
B3	7	–	–	–
	2 873 915	**2 657 234**	**955 964**	**1 878 520**

12. 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**

13. Financial liability

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2018 R'000
At amortised cost				
Reserve-based lending facility 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, and is calculated on the basis of the actual number of days elapsed and a 360-day year.	1 168 648	1 048 680	–	–
Transaction costs incurred	(76 071)	(80 409)	–	–
	1 092 577	**968 271**	–	–

13. Financial liability (continued)

The facility is a revolving-credit facility secured against the producing asset of PetroSA Ghana. The security package comprises a share pledge and subordination of future loans to PetroSA Ghana. Additional security includes an offshore debenture comprising security over a contemplated hedging agreement, intercompany loans granted by PetroSA Ghana to its subsidiaries, and certain project accounts into which transaction funds are deposited. The available facility amount/borrowing base is redetermined six-monthly at the end of June and December and is a function of the present value of future cash flows generated by producing/developing assets. The available facility amount is most sensitive to economic assumptions such as the Brent crude oil price and changes to independently audited oil reserves. The loan covenants applicable are the field life cover ratio of 1.3 and a loan life cover ratio of 1.1. All loan covenants relating to this facility have been satisfied.

Split between non-current and current portions

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2018 R'000
Non-current liabilities	930 764	968 271	–	–
Current liabilities	161 813	–	–	–
	1 092 577	**968 271**	**–**	**–**

14. Lease liabilities

The Group leases several assets, including buildings, storage and a floating production storage and offloading unit (FPSO) in the TEN Field in Ghana. With the exception of short-term leases and leases of low-value underlying assets, leases are reflected on the balance sheet as a right-of-use asset in property, plant and equipment and a corresponding lease liability.

Until the 2019 financial year, leases were classified as either finance leases or operating leases. From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. The liability was calculated as the present value of future lease payments, discounted using the incremental borrowing rate at 1 April 2019. The asset was then set equal to the liability with no adjustment taken to retained earnings. Comparative figures have been accounted for in accordance with IAS 17. The information presented in this note for right-of-use assets therefore only includes the current period.

At 31 March 2019, the Group had total operating lease commitments of R22.3 million. These agreements have been assessed in terms of IFRS 16 and the current business environment and do not meet the definition of a lease; hence they have not been capitalised as right-of-use assets. The new right-of-use assets identified by PetroSA have been capitalised, depreciated and fully impaired following the annual impairment assessment.

PetroSA Ghana Ltd, together with its joint venture partners, entered into a lease with MODEC for the leasing of a FPSO in the TEN Field. The lease was initially recognised at R850.3 million in the 2018 financial year. The present value of the lease liability unwinds over the expected life of the lease and is reported within finance costs as finance leases. The initial lease period is 10 years with an option for an additional 10 years, until end of life of field. The imputed interest rate is 8.4%. The Company's obligations are secured by the lessor's charge over the leased assets.

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. The majority of contracts entered into include a one-month non-cancellable period and a penalty-free cancellation clause to allow the Group to act swiftly should any material uncertainties materialise. The Group is prohibited from selling or pledging the underlying assets as security, unless stated otherwise.

Net carrying amounts of right-of-use assets
The net carrying amount of right-of-use assets are included in the following line items:

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Production assets	844 466	827 809	–	–

Notes to the consolidated and separate annual financial statements (continued)

14. Lease liabilities (continued)

Depreciation recognised on right-of-use assets
Depreciation recognised on each class of right-of-use assets is presented below. It includes depreciation which has been expensed in the total depreciation charge in profit or loss (note 20), as well as depreciation which has been capitalised to the cost of other assets.

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Buildings	643	–	643	–
Production assets	145 786	103 998	–	–
	146 429	**103 998**	**643**	**–**
Other disclosures				
Interest expense on lease liabilities	81 463	79 449	87	–
Lease liabilities				
The maturity analysis of lease liabilities is as follows:				
Within one year	162 488	131 992	535	–
Two to five years	650 396	526 887	–	–
More than five years	1 000 148	941 856	–	–
	1 813 567	1 600 735	535	–
Less finance charge component	(706 088)	(651 608)	(28)	–
	1 107 479	**949 127**	**507**	**–**
Non-current liabilities	1 035 739	895 873	–	–
Current liabilities	71 740	53 254	507	–
	1 107 479	**949 127**	**507**	**–**

15. Deferred tax

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Deferred tax liability				
Property, plant and equipment	(1 485 341)	(2 038 726)	–	–
Tax losses available for set-off against future taxable income	244 162	145 354	–	–
Provisions	105 749	72 145	–	–
Finance lease	387 440	332 194	–	–
Underlift	(1 516)	–	–	–
Total deferred tax liability	**(749 506)**	**(1 489 033)**	**–**	**–**

15. Deferred tax (continued)

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:

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Deferred tax liability	(1 486 857)	(2 038 726)	–	–
Deferred tax asset	737 351	549 693	–	–
Total net deferred tax liability	**(749 506)**	**(1 489 033)**	**–**	**–**
Reconciliation of deferred tax asset/(liability)				
At beginning of the year	(1 489 033)	(808 166)	–	–
Reversing temporary difference on assets	508 827	(685 723)	–	–
Decrease in tax losses available for set-off against future taxable income	98 808	(79 483)	–	–
Originating temporary difference on finance lease	55 246	47 790	–	–
Originating temporary difference on underlift	(1 516)	6 037	–	–
Reversing temporary difference on fair value adjustment	78 162	30 512	–	–
Balance at end of year	**(749 506)**	**(1 489 033)**	**–**	**–**

Recognition of deferred tax asset
PetroSA is an oil and gas company as defined in the Tenth Schedule to the Income Tax Act. As an oil and gas company, PetroSA qualifies for additional tax deductions in respect of its capital expenditure on exploration and production activities. This assessed loss position is directly attributable to PetroSA's oil and gas activities.

As it is unlikely that the assessed loss will be utilised in the foreseeable future, no deferred tax asset has been recognised. The current unrecognised deferred tax asset is R10.3 billion (2019: R8.9 billion). The unused estimated/assessed tax loss at year-end is R23.2 billion (2019: R21.8 billion).

16. Provisions

Reconciliation of provisions – Group 2020

	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
Decommissioning	10 147 456	50 423	80 627	406 478	2 215 997	12 900 981
Post-retirement medical aid benefits	97 793	1 599	(5 087)	9 429	(17 633)	86 101
Rehabilitation	12 314	–	(9)	–	–	12 305
Social investment	6 516	–	(1 911)	–	–	4 605
Bonus	–	123 000	–	–	–	123 000
	10 264 079	**175 022**	**73 620**	**415 907**	**2 198 364**	**13 126 992**

Reconciliation of provisions – Group 2019

	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
Decommissioning	8 292 863	79 594	53 362	353 009	1 368 628	10 147 456
Post-retirement medical aid benefits	106 966	2 207	(4 734)	8 054	(14 700)	97 793
Rehabilitation	12 318	–	(4)	–	–	12 314
Social investment	16 551	–	(10 035)	–	–	6 516
	8 428 698	**81 801**	**38 589**	**361 063**	**1 353 928**	**10 264 079**

Notes to the consolidated and separate annual financial statements (continued)

16. Provisions (continued)

Reconciliation of provisions – Company 2020

	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
Decommissioning	9 800 044	–	–	387 331	2 242 785	12 430 460
Post-retirement medical aid benefits	97 793	1 599	(5 087)	9 429	(17 633)	86 101
Rehabilitation	12 314	–	(9)	–	–	12 305
Social investment	6 516	–	(1 911)	–	–	4 605
Bonus	–	123 000	–	–	–	123 000
	9 916 667	**124 599**	**(7 007)**	**396 760**	**2 225 152**	**12 656 171**

Reconciliation of provisions – Company 2019

	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
Decommissioning	8 060 007	–	–	338 586	1 401 451	9 800 044
Post-retirement medical aid benefits	106 966	2 207	(4 734)	8 054	(14 700)	97 793
Rehabilitation	12 318	–	(4)	–	–	12 314
Social investment	16 551	–	(10 035)	–	–	6 516
	8 195 842	**2 207**	**(14 773)**	**346 640**	**1 386 751**	**9 916 667**

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Non-current liabilities	12 987 082	10 245 249	12 516 261	9 897 837
Current liabilities	139 910	18 830	139 910	18 830
	13 126 992	**10 264 079**	**12 656 171**	**9 916 667**

Rehabilitation
This amount is for the rehabilitation of the land at the Voorbaai terminal and Bloemfontein depot.

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.

Social investment
This provision is for commitments to community investment projects as a precondition for the issuing of exploration licences.

Bonus
In the prior year, the provision included retention bonuses for PetroSA employees who qualify in terms of their employment contracts.

Decommissioning
The decommissioning provision represents the present value of decommissioning costs relating to oil and gas interests, the majority of which are expected to be incurred up to 2027. Assumptions, based on the current economic environment, have been made which Management believes are a reasonable basis on which to estimate the future liability. These estimates are reviewed annually to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend on future market prices for the necessary decommissioning works required, which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This, in turn, will depend on future oil and gas prices, which are inherently uncertain.

16. Provisions (continued)

PetroSA has commissioned an external expert to assess the quantum and scope of the abandonment provision. The current year assessment includes additional research into the requirements to fully close or decommission all PetroSA wells. No provision has been made for the plugged and abandoned wells.

Major assumptions included in the calculation of local provisions is a discount rate of 3.94% (2019: 4.2%). A sensitivity analysis indicates that a R1 weakening of the Rand against the USD translates into a R568 million (2019: R515 million) increase in the provision. The programme also assumes the decommissioning will be executed in one campaign in order to aid in managing logistical costs. It is assumed that each well will take an average of 15 days to abandon.

For international provisions, the discount rate used is 4.02% (2019: 4.02%) with an expected realisation date of 2036. Changes in cost estimates are driven by revisions to the operator's cost assumptions and estimates.

Change in estimate breakdown for PetroSA
The 2020 change in estimate resulting from changes in assumptions can be broken down as follows:

	R'million	%
Weakening in ZAR against USD	1 944	86
Discount rate (USD)	610	27
Discount rate (ZAR)	(190)	(8)
Drop in inflation	(121)	(5)
	2 243	**100**

17. Trade and other payables

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Financial instruments:				
Trade payables	1 281 630	2 947 534	1 286 350	2 948 640
Accrued leave pay	61 751	56 147	60 731	56 033
Accrued expenses	527 369	285 964	242 072	107 718
Other payables	1 447	677	1 447	677
Non-financial instruments:				
Statutory payables	893 675	1 049 041	893 675	1 049 041
	2 765 872	**4 339 363**	**2 484 275**	**4 162 109**

18. Revenue

Revenue from contracts with customers				
Fuel production sales	12 178 490	10 531 477	12 178 490	10 531 477
Crude oil sales	1 512 169	1 607 476	–	–
	13 690 659	**12 138 953**	**12 178 490**	**10 531 477**

19. Impairment (losses)/reversals

Property, plant and equipment		(4 859 257)	(1 973 135)	(2 252 212)	(1 973 135)
Reversal of property, plant and equipment	2	–	1 281 898	–	–
Intangible assets	3	39 153	(745)	65 467	(745)
Investments in subsidiaries		–	–	(1 179 342)	1 100 155
Inventory classified as property, plant and equipment		–	(3 195)	–	(3 195)
Other financial assets	7	(4 738)	(837)	(4 738)	(837)
		(4 824 842)	**(696 014)**	**(3 370 825)**	**(877 757)**

Notes to the consolidated and separate annual financial statements (continued)

20. Operating loss

Operating loss for the year is stated after charging (crediting) the following, among others:

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Auditor's remuneration – external				
Audit fees	13 386	9 981	11 982	9 299
Expenses	160	277	160	277
	13 546	**10 258**	**12 142**	**9 576**
Income from subsidiaries (other than investment income)				
Administration and management fees	52	93	19 398	14 857
Employee costs				
Salaries and wages	1 032 276	964 456	1 030 037	962 589
Pension and medical aid	215 642	184 013	215 642	184 013
Total employee costs	**1 247 918**	**1 148 469**	**1 245 679**	**1 146 602**
Depreciation and amortisation				
Depreciation of property, plant and equipment	1 149 250	809 071	26 303	93 559
Amortisation of intangible assets	409	277	409	277
Other				
Research and development costs	4 500	4 500	4 500	4 500
Exploration and evaluation costs	51 088	58 277	51 088	58 277

21. Investment income

Dividend income				
Group entities:				
Subsidiaries – Foreign	–	4 089	99 119	293 161
Interest income				
Investments in financial assets:				
Financial assets	334 259	372 626	127 718	184 611
Total investment income	**334 259**	**376 715**	**226 837**	**477 772**

22. Finance costs

Finance leases	81 463	79 449	87	–
Bank overdraft	2 615	564	2 615	564
Reserve-Based Facility liability	64 065	61 761	–	–
Interest on abandonment provision	402 643	351 849	387 331	338 586
Total finance costs	**550 786**	**493 623**	**390 033**	**339 150**

23. Taxation

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Major components of the tax (income) expense				
Current				
Local income tax – current period	179 343	143 742	–	–
Foreign income tax or withholding tax – current period	3 152	1 026	–	–
	182 495	**144 768**	**–**	**–**
Deferred				
Originating and reversing temporary differences	(830 557)	157 200	–	–
Benefit of unrecognised tax loss	(53 203)	387 041	–	–
	(883 760)	**544 241**	**–**	**–**
Total	**(701 265)**	**689 009**	**–**	**–**

Reconciliation of the tax expense
Reconciliation between applicable tax rate and average effective tax rate.

Applicable tax rate	28.00%	28.00%	28.00%	28.00%
Non-deductible expenses	0.75%	0.02%	0.97%	0.02%
Unrecognised deferred tax asset	(15.23)%	(87.35)%	(28.97)%	(28.02)%
Effect of different tax rates operating in different jurisdictions	(2.26)%	9.87%	–%	–%
	11.26%	**(49.46)%**	**–%**	**–%**

24. Cash (used in)/generated from operations

Loss before taxation	(6 280 426)	(1 393 417)	(4 879 074)	(2 177 960)
Adjustments for:				
Depreciation and amortisation	1 149 659	809 348	26 712	93 836
Dividend income	–	(4 089)	(99 119)	(293 161)
Interest income	(334 259)	(372 626)	(127 718)	(184 611)
Finance costs	550 786	493 623	390 033	339 150
Impairment losses	4 824 848	696 014	3 370 825	877 757
Movements in provisions	256 971	127 435	122 084	(6 676)
Write off of intangible assets	–	258 813	–	258 813
Unrealised foreign exchange loss	(80 273)	(568 974)	(11 162)	(7 868)
Other non-cash items	1 285	–	–	–
Changes in working capital:				
Inventories	1 329 924	(515 987)	1 322 658	(524 655)
Trade and other receivables	558 001	(968 274)	548 629	(511 641)
Trade and other payables	(1 573 494)	1 793 514	(1 677 836)	1 957 400
	403 022	**355 380**	**(1 013 968)**	**(179 616)**

25. Tax paid

Charge to profit or loss	701 265	(689 009)	–	–
Movement in deferred tax	(739 527)	680 867	–	–
Movement in taxation balance	12 859	(24 100)	–	–
	(25 403)	**(32 242)**	**–**	**–**

Notes to the consolidated and separate annual financial statements (continued)

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		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Grants received	7 490	4 329	7 490	4 329

27. Employee benefits

Defined-benefit plan

Post-employment medical benefits

The Group has provided for an amount of R164.9 million, of which R78.8 million was funded (2019: R190.9 million, of which R93.2 million was funded). The commitment is actuarially valued annually, with the most recent valuation performed as at 31 March 2020.

The post-employment medical arrangement provides health benefits for 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 R78.8 million (2019: R93.2 million).

The net defined-benefit obligation in respect of promised post-retirement medical scheme costs as at 31 March 2020 is R86.1 million (2019: R97.8 million). The obligation is partially funded and was valued using the "projected unit credit method".

A sensitivity analysis was performed on key assumptions.

A 1% or 1-year downward rating change in assumptions will increase or (decrease) the net obligation as follows:

- Discount rate – R17.5 million and (R14.7 million), respectively (2019: R24.7 million and (R20.2 million), respectively)
- Mortality rate – (R3.9 million) and R3.9 million, respectively (2019: (R5.3 million) and R5.3 million, respectively)
- Health care cost inflation – R18.1 million and (R15.4 million), respectively (2019: R25.1 million and (R20.8 million), respectively)

A 1% or 1-year downward rating change in assumptions will increase or (decrease) combined interest and service cost as follows:

- Discount rate – R0.7 million and (R0.6 million), respectively (2019: R0.6 million and (R0.6 million), respectively)
- Mortality rate – (R0.5 million) and R0.5 million, respectively (2019: (R0.6 million) and R0.6 million, respectively)
- Health care cost inflation – R2.5 million and (R2.1 million), respectively (2019: R2.75 million and (R2.27 million), respectively)

27. Employee benefits

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Carrying value				
Present value of funded obligations	164 885	190 953	164 885	190 953
Fair value of plan assets	(78 784)	(93 160)	(78 784)	(93 160)
	86 101	**97 793**	**86 101**	**97 793**
The fair value of plan assets includes:				
The movement in the defined-benefit obligation was as follows:				
Defined-benefit obligation at beginning of year	190 953	213 938	190 953	213 938
Current service cost	1 599	2 207	1 599	2 207
Interest cost	18 094	18 484	18 094	18 484
Benefit payments	(15 014)	(13 991)	(15 014)	(13 991)
Actuarial gain	(30 747)	(29 685)	(30 747)	(29 685)
	164 885	**190 953**	**164 885**	**190 953**
The movement in plan assets was as follows:				
Market value of assets at beginning of year	93 160	106 972	93 160	106 972
Return on plan assets	8 665	9 039	8 665	9 039
Actuarial loss	(13 114)	(12 275)	(13 114)	(12 275)
Benefit payments	(9 927)	(10 576)	(9 927)	(10 576)
	78 784	**93 160**	**78 784**	**93 160**
Key assumptions used at last valuation:				
Discount rate	12.81%	9.81%	12.81%	9.81%
Health care cost inflation	8.45%	7.29%	8.45%	7.29%
Mortality rate	PA(90)-2	PA(90)-2	PA(90)-2	PA(90)-2

The plan asset is unquoted and is an insurance policy. Therefore, the split of the underlying investments is not readily available and is most likely to be predominantly invested in CPI-linked bonds.

Defined-contribution plan

PetroSA Retirement Fund

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 of 1956.

The Company operates the plan, administered by Alexander Forbes, 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 R103 million (2019: R93 million) for the retirement fund.

28. Contingencies

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Guarantees				
1. The Group has issued guarantees for the rehabilitation of land disturbed by mining in 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).	9 870	8 178	9 870	8 178
	194 870	**193 178**	**194 870**	**193 178**

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.

Notes to the consolidated and separate annual financial statements (continued)

28. Contingencies (continued)

Claim against third party
In September 2005, a vessel owned by a shipping company (the defendant) snagged and damaged a carrier and product pipeline owned by PetroSA. The matter is currently before the Western Cape High Court exercising its admiralty jurisdiction. Based on the feedback from external legal counsel, PetroSA is likely to succeed in its claim against the defendant. The expected amount cannot be determined at this time.

DAS audit assessment
On 18 February 2020, SARS issued a letter of demand for R1 billion with respect to exports from unlicensed depots for the period May 2015 to March 2017. On 28 February 2020, PetroSA requested a suspension of the payment amount, but the application for suspension was denied and, as a result, the final demand is still pending. On 17 April 2020, PetroSA lodged a DA96 notice with SARS, notifying the Commissioner of its intention to approach the High Court for an urgent interim interdict, interdicting SARS from taking any enforcement and/or collection steps against PetroSA. PetroSA was successful in this regard.

On 30 June 2020, the DA96 application to litigate was submitted to SARS. The next step is for SARS to submit a replying affidavit and then PetroSA will do the same. The court will then decide when the matter will be argued. It is likely that, due to the COVID-19 outbreak, the matter will be heard only early next year.

29. Commitments

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Authorised capital expenditure				
Approved by the directors				
Contracted for	200 805	297 795	33 472	63 263

30. Financial instruments and risk management

Categories of financial instruments
Categories of financial assets

Group – 2020	Note(s)	Amortised cost R'000	Total R'000
Financial assets		2 234 618	2 234 618
Amounts held by holding company		486 585	486 585
Trade and other receivables	10	2 047 541	2 047 541
Cash and cash equivalents	11	2 873 915	2 873 915
		7 642 659	**7 642 659**

Group – 2019	Note(s)	Amortised cost R'000	Total R'000
Financial assets		2 213 072	2 213 072
Amounts held by holding company		486 585	486 585
Trade and other receivables	10	2 685 829	2 685 829
Cash and cash equivalents	11	2 657 234	2 657 234
		8 042 720	**8 042 720**

30. Financial instruments and risk management (continued)

Company – 2020	Note(s)	Amortised cost R'000	Total R'000
Financial assets		1 785 240	1 785 240
Amounts held by holding company		486 585	486 585
Trade and other receivables	10	1 511 065	1 511 065
Cash and cash equivalents	11	955 964	955 964
		4 738 854	**4 738 854**
Company – 2019			
Financial assets		1 785 239	1 785 239
Amounts held by holding company		486 585	486 585
Trade and other receivables	10	2 137 473	2 137 473
Cash and cash equivalents	11	1 878 520	1 878 520
		6 287 817	**6 287 817**

Categories of financial liabilities

Group – 2020	Note(s)	Amortised cost R'000	Total R'000
Trade and other payables	17	1 872 195	1 872 195
Financial liability	13	1 092 577	1 092 577
		2 964 772	**2 964 772**
Group – 2019			
Trade and other payables	17	3 290 319	3 290 319
Financial liability	13	968 271	968 271
		4 258 590	**4 258 590**
Company – 2020			
Trade and other payables	17	1 590 599	1 590 599
Company – 2019			
Trade and other payables	17	3 113 065	3 113 065

Pre-tax gains and losses on financial instruments
Gains and losses on financial assets

Group – 2020	Note(s)	Amortised cost R'000	Total R'000
Recognised in profit or loss:			
Interest income	21	334 259	334 259
Group – 2019			
Recognised in profit or loss:			
Interest income	21	372 626	372 626
Company – 2020			
Recognised in profit or loss:			
Interest income	21	127 718	127 718
Company – 2019			
Recognised in profit or loss:			
Interest income	21	184 611	184 611

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Notes to the consolidated and separate annual financial statements (continued)

30. Financial instruments and risk management (continued)

Gains and losses on financial liabilities

Group – 2020	Note(s)	Amortised cost R'000	Total R'000
Recognised in profit or loss:			
Finance costs	22	66 680	66 680
Group – 2019			
Recognised in profit or loss:			
Finance costs	22	62 352	62 352
Company – 2020			
Recognised in profit or loss:			
Finance costs	22	2 615	2 615
Company – 2019			
Recognised in profit or loss:			
Finance costs	22	564	564

Capital risk management
The Group's objective when managing capital (which includes share capital, borrowings, working capital, and cash and cash equivalents) is to maintain a flexible capital structure that reduces the cost of capital to an acceptable level of risk, and to safeguard the Group's ability to continue as a going concern while taking advantage of strategic opportunities in order to maximise stakeholder returns sustainably.

The Group manages capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

Financial risk management

Overview
The Group is exposed to the following risks as a result of its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk (currency risk, interest rate risk and price risk).

The Group has a risk management and central treasury function that manages the financial risks relating to the Group's operations. The Group's liquidity, credit, foreign exchange, interest rate and crude oil price risks are monitored continually. Approved policies exist for managing these risks.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group'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.

30. Financial instruments and risk management (continued)

Financial risk management (continued)

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Financial assets, which potentially subject the Group to concentrations of credit risk, pertain principally to financial assets, trade and other receivables, and cash and cash equivalents.

Credit risk exposure arising from cash and cash equivalents is managed by the Group through dealing with well-established financial institutions with high credit ratings. Credit limits with financial institutions are revised and approved by the Board annually.

The exposure to credit risk with respect to trade receivables is not concentrated due to a large customer base. The Group manages counterparty exposures arising from money market and derivative financial instruments by dealing only with well-established financial institutions of a high credit rating. Losses are not expected as a result of non-performance by these counterparties.

Credit loss allowances for expected credit losses are recognised for all debt instruments, but excluding those measured at fair value through profit or loss.

The maximum exposure to credit risk is presented in the table below:

		2020			2019		
Group	Note(s)	Gross carrying amount R'000	Credit loss allowance R'000	Amortised cost/fair value R'000	Gross carrying amount R'000	Credit loss allowance R'000	Amortised cost/fair value R'000
Financial assets	7	2 771 013	(536 395)	2 234 618	2 637 778	(424 706)	2 213 072
Trade and other receivables	10	1 924 208	(66 013)	1 858 195	2 601 253	(48 383)	2 552 870
		4 695 221	**(602 408)**	**4 092 813**	**5 239 031**	**(473 089)**	**4 765 942**

		2020			2019		
Company	Note(s)	Gross carrying amount R'000	Credit loss allowance R'000	Amortised cost/fair value R'000	Gross carrying amount R'000	Credit loss allowance R'000	Amortised cost/fair value R'000
Financial assets	7	2 300 627	(515 387)	1 785 240	2 207 521	(422 282)	1 785 239
Trade and other receivables	10	1 536 082	(57 995)	1 478 087	2 185 591	(48 118)	2 137 473
		3 836 709	**(573 382)**	**3 263 327**	**4 393 112**	**(470 400)**	**3 922 712**

Notes to the consolidated and separate annual financial statements (continued)

30. Financial instruments and risk management (continued)

Liquidity risk

The maturity profile of contractual cash flows of non-derivative financial liabilities, and financial assets held to mitigate the risk, are presented in the following table. The cash flows are undiscounted contractual amounts.

Group – 2020	Note(s)	Less than 1 year R'000	2 to 5 years R'000	Total R'000	Carrying amount R'000
Non-current liabilities					
Financial liabilities	13	–	930 764	930 764	930 764
Current liabilities					
Trade and other payables	17	1 872 195	–	1 872 195	1 872 195
Financial liability	13	161 813	–	161 813	161 813
		2 034 008	**930 764**	**2 964 772**	**2 964 772**
Non-current assets					
Trade and other receivables		–	252 456	252 456	252 456
Current assets					
Trade and other receivables		1 795 085	–	1 795 085	1 795 085
Cash and cash equivalents		2 873 915	–	2 873 915	2 873 915
		4 669 000	**252 456**	**4 921 456**	**4 921 456**
		2 634 992	**(678 308)**	**1 956 684**	**1 956 684**

Group – 2019	Note(s)	Less than 1 year R'000	2 to 5 years R'000	Total R'000	Carrying amount R'000
Non-current liabilities					
Financial liabilities	13	–	968 271	968 271	968 271
Current liabilities					
Trade and other payables		3 290 319	–	3 290 319	3 290 319
		3 290 319	**968 271**	**4 258 590**	**4 258 590**
Current assets					
Trade and other receivables		2 485 343	200 486	2 685 829	2 685 829
Cash and cash equivalents		2 657 234	–	2 657 234	2 657 234
		5 142 577	**200 486**	**5 343 063**	**5 343 063**
		1 852 258	**(767 785)**	**1 084 473**	**1 084 473**

Company – 2020	Less than 1 year R'000	Total R'000	Carrying amount R'000
Current liabilities			
Trade and other payables	1 590 599	1 590 599	1 590 599
Current assets			
Trade and other receivables	1 511 386	1 511 386	1 511 386
Cash and cash equivalents	955 964	955 964	955 964
	2 467 350	**2 467 350**	**2 467 350**
	876 751	**876 751**	**876 751**

30. Financial instruments and risk management (continued)

***Liquidity risk** (continued)*

Company – 2019	Note(s)	Less than 1 year R'000	Total R'000	Carrying amount R'000
Current liabilities				
Trade and other payables	17	3 113 065	3 113 065	3 113 065
Current assets				
Trade and other receivables		2 137 473	2 137 473	2 137 473
Cash and cash equivalents		1 878 520	1 878 520	1 878 520
		4 015 993	**4 015 993**	**4 015 993**
		902 928	**902 928**	**902 928**

Foreign currency risk

The Group is exposed to foreign currency fluctuations, as it raises funding on offshore financial markets, imports raw material and spares, and furthermore exports finished product and crude oil. 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. The Group is mainly exposed to fluctuations in the EUR and USD.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

There have been no significant changes in the foreign currency risk management policies and processes since the prior reporting period.

		GROUP		COMPANY	
Exposure in rand	Note(s)	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Currency risk					
US dollar exposure:					
Non-current assets:					
Financial assets		114 620	114 454	–	–
Current assets:					
Trade and other receivables	10	215 459	354 639	4 449	3 663
Cash and cash equivalents	11	1 884 132	735 341	28 961	5 263
Non-current liabilities:					
Financial liability	13	(930 764)	(968 271)	–	–
Current liabilities:					
Trade and other payables	17	(287 346)	(1 022 627)	(2 794)	(845 012)
Financial liability	13	(161 813)	–	–	–
Net US dollar exposure		**834 288**	**(786 464)**	**30 616**	**(836 086)**
Euro exposure					
Current assets:					
Trade and other receivables	10	6 594	1 030	6 532	827
Cash and cash equivalents	11	100 678	96 633	37 899	47 998
Current liabilities:					
Trade and other payables	17	(5 408)	(43 961)	(2 581)	(42 547)
Net Euro exposure		**101 864**	**53 702**	**41 850**	**6 278**
Net exposure to foreign currency in rand		**936 152**	**(732 762)**	**72 466**	**(829 808)**

Exchange rates

The following closing exchange rates were applied at reporting date:

Rand per unit of foreign currency:

US dollar	17.98	14.57	17.98	14.57
Euro	19.74	16.36	19.74	16.36

Notes to the consolidated and separate annual financial statements (continued)

30. Financial instruments and risk management (continued)

Forward exchange contracts
Certain forward exchange contracts have been entered into for the purpose of managing foreign currency risk. The net market value of all forward exchange contracts at the reporting date is calculated by comparing the forward exchange contracted rates with the equivalent market foreign exchange rates at the reporting date. The present value of these net market values is then calculated using the appropriate currency-specific discount curve.

For foreign exchange contracts as at 31 March 2020, a 10% relative change in the USD to the ZAR would have impacted profit or loss for the year by R0 million (2019: R100.2 million).

Company – 2020	Contract rate	Market rate	Contract foreign currency amount R'000	Contract rand amount R'000	Estimated fair value profit/(loss) R'000
Imports – goods					
Forward exchange contracts	–	–	–	–	–
Company – 2019					
Imports – goods					
Forward exchange contracts	14.438	14.587	68 670	991 457	10 441

Foreign currency sensitivity analysis
The Group measures its market risk exposure by running various sensitivity analyses, including 10% favourable and adverse changes in the key variables. The sensitivity analyses include only outstanding foreign currency-denominated monetary items and adjust their translation at the period end for a 10% change in foreign currency rates.

The following information presents the sensitivity of the Group to an increase or decrease in the respective currencies it is exposed to. The sensitivity rate is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. No changes were made to the methods and assumptions used in the preparation of the sensitivity analysis compared with the previous reporting period.

For financial assets as at 31 March 2020, a 10% strengthening in the ZAR against the relevant currencies would have resulted in a decrease in foreign currency-denominated assets of R57.7 million (2019: R42.7 million) and a 10% weakening in the ZAR against the relevant currencies would have resulted in an increase in foreign currency-denominated assets of R57.7 million (2019: R42.7 million).

For financial liabilities as at 31 March 2020, a 10% strengthening in the ZAR against the relevant currencies would have resulted in a decrease in foreign currency-denominated liabilities of R0.5 million (2019: R86.3 million) and a 10% weakening in the ZAR against the USD would have resulted in an increase in foreign currency-denominated liabilities of R0.5 million (2019: R86.3 million).

Interest rate risk
Fluctuations in interest rates impact on the value of investments and financing activities, giving rise to 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.

30. Financial instruments and risk management (continued)

Interest rate profile
The interest rate profile of interest-bearing financial instruments at the end of the reporting period was as follows:

		Average effective interest rate		Carrying amount	
Group	Note	2020	2019	2020 R'000	2019 R'000
Variable rate instruments:					
Assets					
Financial assets		6.98%	7.80%	949 581	953 962
Amounts held by holding company		7.02%	7.76%	486 585	486 585
Cash and cash equivalents	11	3.68%	6.62%	2 873 915	2 657 234
				4 310 081	**4 097 781**
Fixed-rate instruments:					
Assets					
Financial assets		10.67%	10.77%	1 285 037	1 259 110
Company					
Variable rate instruments:					
Assets					
Financial assets		7.43%	7.93%	350 000	350 000
Amounts held by holding company		7.02%	7.76%	486 585	486 585
Cash and cash equivalents	11	6.25%	7.51%	955 964	1 878 520
				1 792 549	**2 715 105**

Interest rate sensitivity analysis
The following sensitivity analysis has been prepared using a sensitivity rate employed when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. All other variables remain constant. The sensitivity analysis includes only financial instruments exposed to interest rate risk which were recognised at the reporting date. No changes were made to the methods and assumptions used in the preparation of the sensitivity analysis compared with the previous reporting period.

As at 31 March 2020, a 10% relative change in the:

- ZAR interest rate would have impacted profit or loss for the year by R11 million (2019: R20.6 million); and
- EURIBOR interest rate would have impacted profit or loss for the year by R0.22 million (2019: R0.23 million).

Price risk

Price risk sensitivity analysis
The following sensitivity analysis has been prepared using a sensitivity rate which is employed when reporting price risk internally to key management personnel and represents management's assessment of the reasonably possible change in relevant prices. All other variables remain constant. The sensitivity analysis includes only investments held at the reporting date. No changes were made to the methods and assumptions used in the preparation of the sensitivity analysis compared with the previous reporting period.

A sensitivity analysis was performed 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 R76 million (2019: R335 million), respectively.

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 R76 million (2019: R78 million), respectively, based on the 2019/2020 financial results.

Notes to the consolidated and separate annual financial statements (continued)

31. Fair value information

Fair value hierarchy
The table below analyses assets and liabilities carried at fair value.

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Levels of fair value measurements				
Level 2				
Financial assets and liabilities at fair value through profit/(loss)				
Foreign exchange contracts – asset	–	10 579	–	10 579
Foreign exchange contracts – liability	–	(138)	–	(138)
Total financial assets designated at fair value through profit/(loss)	**–**	**10 441**	**–**	**10 441**
Total	**–**	**10 441**	**–**	**10 441**

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 that 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.

32. Directors' emoluments

Year ended 31 March 2020

Non–executive Directors	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
N Gumede	1 169	–	–	–	247	–	–	**1 416**
QMN Eister	684	–	–	–	152	–	–	**836**
SS Masemola	547	–	–	–	67	–	–	**614**
M Xiphu	923	–	–	–	196	–	–	**1 119**
RG Degni	642	–	–	–	4	–	–	**646**
N Mashiane	431	–	–	–	94	–	–	**525**
N Mkhize	321	–	–	–	–	–	–	**321**
NM Mhlakaza	196	–	–	–	–	–	–	**196**
BM Ngubo	42	–	–	–	5	–	–	**47**
F Baleni	547	–	–	–	71	–	–	**618**
D Konar	314	–	–	–	32	–	–	**346**
L Delport	250	–	–	–	70	–	–	**320**
L Haywood	235	–	–	–	85	–	–	**320**
S Tshiki	266	–	–	–	58	–	–	**324**
L Mda	–	–	–	–	12	–	–	**12**
M Tsipa-Sipoyo	243	–	–	–	35	–	–	**278**
S Masinga	145	–	–	–	16	–	–	**161**
B Ndamase	213	–	–	–	45	–	–	**258**
Total	**7 168**	**–**	**–**	**–**	**1 189**	**–**	**–**	**8 357**

Executive Management	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	Other R'000	Total R'000
B Sayadini (2)	2 574	–	185	165	372	–	–	**3 296**
K Zono	3 801	–	646	282	277	–	–	**5 006**
O Mohapanele (2)	141	–	21	13	–	–	–	**175**
M Nene (2)	1 996	–	417	193	435	–	–	**3 041**
O Chibambo (2)	2 061	–	149	329	396	–	–	**2 935**
A Zokufa (2)	1 364	–	318	126	270	134	–	**2 212**
T Manne (2)	2 294	–	326	159	369	–	–	**3 148**
A Futter (2)	1 769	–	204	107	126	–	–	**2 206**
S Soobader (2)	1 874	–	217	128	112	–	–	**2 331**
P Naidoo	451	–	40	16	–	–	–	**507**
Total	**18 325**	**–**	**2 523**	**1 518**	**2 357**	**134**	**–**	**24 857**

1 – Resigned
2 – Acting Vice-Presidents appointed during the year

Notes to the consolidated and separate annual financial statements (continued)

32. Directors' emoluments (continued)

Year ended 31 March 2019

Non–executive Directors	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
N Gumede	1 495	–	–	–	411	–	–	**1 906**
QMN Eister	1 008	–	–	–	348	–	–	**1 356**
SS Masemola	757	–	–	–	154	–	–	**911**
M Xiphu	855	–	–	–	228	–	–	**1 083**
BM Ngubo	770	–	–	–	201	–	–	**971**
RG Degni	1 008	–	–	–	126	–	–	**1 134**
N Mashiane	657	–	–	–	255	–	–	**912**
N Mkhize	654	–	–	–	75	–	–	**729**
NM Mhlakaza	617	–	–	–	68	–	–	**685**
Total	**7 821**	–	–	–	**1 866**	–	–	**9 687**

Executive Management	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	Other R'000	Total R'000
B Sayadini (2)	2 092	–	51	93	373	–	–	**2 609**
K Zono	3 816	–	646	198	361	–	–	**5 021**
W Fanadzo (1)	69	–	–	–	–	–	–	**69**
O Mohapanele (2)	1 108	–	163	96	217	–	–	**1 584**
M Nene (2)	2 185	–	375	138	428	261	–	**3 387**
O Chibambo (2)	2 048	–	146	265	353	–	–	**2 812**
M Ngwane (2)	439	–	77	55	73	–	–	**644**
H Motau	1 500	–	–	–	–	–	–	**1 500**
A Zokufa (2)	328	–	77	29	15	–	–	**449**
M Sebothoma (2)	1 691	–	284	70	259	–	–	**2 304**
T Manne (2)	360	–	51	20	–	–	–	**431**
A Futter (2)	551	–	106	44	126	–	–	**827**
S Soobader (2)	627	–	71	30	112	–	–	**840**
Total	**16 814**	–	**2 047**	**1 038**	**2 317**	**261**	–	**22 477**

1 – Resigned
2 – Acting Vice-Presidents appointed during the year

33. Related parties

Relationships

Ultimate shareholder	Department of Energy
Holding company	CEF SOC Limited
Subsidiaries	Refer to notes 4, 7
Joint arrangements	Refer to notes 5, 7
Key management personnel (Director of CEF)	Ms P Hassen

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Related party transactions				
CEF SOC Ltd				
Cash on call	486 585	486 585	486 585	486 585
Trade receivables	5 851	3 125	5 851	3 125
Trade payables	66	168	66	168
Accrued interest	2 855	3 159	2 855	3 159
Management fee accrual	47	45	47	45
Services rendered	7 627	1 890	7 627	1 890
Interest received	35 794	36 167	35 794	36 167
Management fee paid	488	487	488	487
Recoveries paid	308	304	308	304
Rental paid	782	766	782	766
Purchases from key management personnel	68 878	–	68 878	–
PASA (subsidiary of CEF SOC Ltd)				
Services received	2	3	2	3
Royalties paid	–	2	–	2
Rentals paid	–	592	–	592
Recoveries made	10	–	10	–
Trade payable	–	5	–	5
Trade receivable	11	–	11	–
SFF (subsidiary of CEF SOC Ltd)				
Trade receivable	445	4 149	445	4 149
Recoveries	22 805	3 653	22 805	3 653
Rentals	1 512	1 264	1 512	1 264
Subsidiaries				
Loans owing	–	–	1	1
Management fee	–	–	19 450	14 763
Recoveries made	–	–	1 242	1 512
Interest received	–	–	–	3 961
Commission paid	–	–	18 453	11 202
Dividend received	–	–	99 119	289 072
Trade receivable	–	–	4 483	3 388
Trade payable	–	–	5 688	1 776

Contributions to restricted cash held by PetroSA Rehabilitation (NPC) for the purposes of abandonment amounted to R1 435 million (2019: R1 435 million).

Notes to the consolidated and separate annual financial statements (continued)

33. Related parties (continued)

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Joint arrangements				
Accrued interest	3 070	2 348	3 070	2 348
Interest received	488	1 027	488	1 027
Services received	–	2 341	–	2 341
	3 558	**5 716**	**3 558**	**5 716**

Between May 2019 and March 2020, PetroSA stored 5 000 solar geysers on behalf of the Department of Minerals Resources and Energy at no cost. A similar transaction at arm's length would have amounted to R2.7 million.

All other transactions were carried out on commercial terms and conditions. Outstanding balances are payable in cash.

34. Public Finance Management Act (PFMA)

Fruitless and wasteful expenditure				
Items individually < R50 000	18	47	18	47
Payroll fraud	145	–	145	–
Penalties and interest due to SARS	52 268	209	52 268	209
	52 431	**256**	**52 431**	**256**

Refer to the "Directors' report", note 9, for further details. The appropriate corrective and/or disciplinary actions have been taken (where necessary).

An unknown individual created a fraudulent email address using the PetroSA domain and requested the Payroll Department to amend the banking details of an existing employee, with the unknown individual purporting to be a PetroSA employee.

On two separate occasions, SARS issued letters of demand for overland exports for customers. SARS alleged that the goods were not duly exported. The amounts were paid in full and the matters will be considered at the SARS ADR.

Fruitless and wasteful expenditure movement				
Incurred during the year	52 431	256	52 431	256
Recognised as expense during the year	(52 431)	(256)	(52 431)	(256)
Closing balance	–	–	–	–

Contravention of company policy
There were no contraventions of company policy during the 2020 financial year.

Contravention of legislation
There were no contraventions of legislation during the 2020 financial year.

Irregular expenditure movement				
Opening balance	273 601	2 463 862	273 601	2 463 862
Removal (s62 of Treasury Instruction 1 of 2018/19)	–	(2 190 261)	–	(2 190 261)
	273 601	**273 601**	**273 601**	**273 601**

35. Going concern

In determining the appropriate basis of preparation of the financial statements, the Directors are required to consider whether the Group can continue in operational existence for 12 months from approval of the financial statements. The Group's total liabilities exceed total assets. The Directors, on 3 July 2020, resolved that the Company would not proceed with voluntary business rescue nor liquidation of the Group. It was resolved to continue trading with the expectation that financial support would be forthcoming from the Shareholder upon approval of the Group Corporate Plan 2020–2024. Furthermore, on 10 June 2020, the merger of SFF, iGas and PetroSA to form a new National Petroleum Company (NPC) was announced. The process relating to the merger is currently underway. PetroSA is facing a number of key strategic challenges. Consequently, a material uncertainty exists regarding the entity's ability to continue as a going concern. These challenges are as follows:

- PetroSA has, over the last year, experienced negative cash flows and has suffered operating losses;
- Indigenous gas reserves are close to depletion and will reach the technical cut-off point for supply to the Gas-to-Liquid (GTL) Refinery by December 2020;
- Non-approval of the 2020–2024 Corporate Plan at the reporting date;
- Insufficient and incorrect frequency of feedstock parcels delivery from April 2020;
- A precarious financial position impacting negatively on the organisation's credit-rating status;
- PetroSA remains vulnerable to exogenous factors such as fluctuations in the crude oil price (a decrease in the Brent price has resulted in an impairment of PetroSA Ghana Limited) and volatility in foreign exchange rates (a devaluation in the ZAR/USD has resulted in an increase in the ZAR value of the decommissioning liability);
- The demand for finished product (in South Africa) waned during the national lockdown in response to the global COVID-19 pandemic;
- At Company level, PetroSA's total liabilities exceeded its total assets by R6 billion (2019: R1.1 billion). The main contributor was the devaluation of the rand, which caused an increase in the rand value of its decommissioning liability to R12.4 billion (2019: R9.8 billion); and
- The declining financial strength of the balance sheet that has led to several suppliers no longer being prepared to offer unsecured, favourable credit terms but insisting on letters of credit.

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet its obligations as they mature. The following mitigations are being implemented in response to the key strategic challenges and going concern issue:

The Group has recognised a net loss after tax of R5.6 billion for the year ended 31 March 2020, and, as at that date, total liabilities exceeded total assets by R4.5 billion. However, as described in note 16, the primary reason for total liabilities exceeding total assets is attributable to the Company decommissioning liability (R12.4 billion), which is linked to exchange rate fluctuations. The current production level and the high cost of feedstock are the main causes of the operational losses historically. The Company has allocated R65 million towards capital expenditure in order to increase the refinery throughput rate over the next two years to 21 000 bbls per day in 2021 and to 25 000 bbls per day by March 2022. The plant modifications will allow for greater processing capacity.

Whilst indigenous gas reserves are close to depletion and are expected to run out by December 2020, PetroSA has secured the utilisation of SFF to procure large parcels of feedstock (1 million barrels of very large crude carrier (VLCC) feedstock) to process through the GTL Refinery. The frequency of delivery of smaller parcel sizes to the refinery improves feedstock availability, thus increasing refinery throughput to 21000 bpd. The SFF feedstock procurement solution includes economies relating to logistics cost and the minimisation of excessive demurrage costs. PetroSA will, however, continue to be vulnerable to exogenous factors such as fluctuations in the crude oil price and volatility in foreign exchange rates in the intervening period. In the next two years, the receiving lines will be replaced so as to improve the feedstock receiving rates. Furthermore, plans to commercialise the tail gas from existing fields not suitable for GTL Refinery consumption will contribute to improved margins.

The demand for finished product (in South Africa) waned during the national lockdown commencing on 26 March 2020 in response to the global COVID-19 pandemic. Demand for finished product began recovering from 1 June 2020 and as a result of the move to Alert Level 1 announced on 21 September 2020. This increase in demand is expected to continue during the planning period and the economic forecast is that the South African economy will recover in full by December 2020. Furthermore, PetroSA continues to attract new business for the supply of finished products, which will further improve the downstream business and related margin.

In determining the appropriate basis of preparation of the financial statements, the Directors are required to consider whether the Group can continue in operational existence for 12 months from approval of the financial statements. The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis assumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The approved Corporate Plan supports the going concern assumption, as reported. PetroSA's cash balance remains low during the planning period, even with the cash injection and available credit facilities. The Shareholder cash injection and support allow PetroSA more flexibility with respect to the management of working capital.

Notes to the consolidated and separate annual financial statements (continued)

35. Going concern (continued)

Whilst a contingent liability has been reported in note 28 concerning a SARS DAS assessment of R1.1 billion, SARS issued a letter of demand for R1 billion with respect to exports from unlicensed depots for the period May 2015 to March 2017. PetroSA requested suspension of the payment amount. However, this was denied. PetroSA lodged a DA96 notice with SARS, notifying the Commissioner of its intention to approach the High Court for an urgent interim interdict preventing SARS from taking any enforcement and/or collection steps against PetroSA. PetroSA was successful in this regard.

The DA96 application to litigate was submitted to SARS. The next step is for SARS, to submit a replying affidavit and then PetroSA will do the same. The court will then determine when the matter will be argued. It is likely that, due to the COVID-19 outbreak, the matter will be heard only early next year.

The STIP payout is recognised as a provision in the financials and, in the event of an adverse award, PetroSA will initiate negotiations for a with affected stakeholders.

Shareholder support
CEF SOC Ltd and the Department of Mineral Resources and Energy (DMRE) have been working closely with PetroSA in the formulation of the Corporate Plan, which was approved by both PetroSA and the CEF Boards in September 2020. The Shareholder's intervention listed below has been agreed within PetroSA and the CEF to be in the form of a Shareholder's loan payable at a future determined date when the organisation is in a profitable position.

The preparation of the annual financial statements on the going concen basis, is based on the following substantive decisions:

Short-term initiatives

Disposal of non-core assets
Notification in respect of the disposal of non-core assets has been submitted to the DMRE, as the assets to be disposed of are within the management LOA and materiality framework that allows the Board of PetroSA to dispose of them without the concurrence of the Minister. PetroSA will receive funds/proceeds from the disposal of non-core assets, which include the ORCA (which ceased operations in March 2013), and the disposal of subsea equipment and materials left over from the Project Ikhwezi Drilling Campaign. The Parow head office will be leveraged for funding by March 2021 through various funding structures.

Cost optimisation
PetroSA continues to maintain stringent cost-containment measures with regard to the Group. PetroSA engaged all service providers, requesting rate reductions of 30% in respect of all existing contracts. Of the total number of service providers (344) engaged, 30% have provisionally agreed to reduce their rates, yielding a R7.5 million saving per month, and extension of payment terms by mutual agreement.

Provision of upstream logistics service for TEPSA drilling campaign
PetroSA secured a logistics service contract to support the Brulpadda drilling campaign for a period of nine months, with an estimated net profit of R38 million.

Funding of operational activities
The Shareholder will, with effect from October 2020 to March 2021, provide a cash injection towards salaries to the value of R660 million.

These short-term initiatives support the immediate working capital and liquidity requirements.

35. Going concern (continued)

Financing instruments

Existing facility
PetroSA's current facility with Standard Bank stands at R350 million, which is supported by R350 million cash collateral posted with its transactional banker available to fund any operational activities. The current facility is utilised interchangeably with letter of credit (LC) instruments. Consequently, this facility was utilised for purposes of establishment of the LCs, which have not been issued in the past 18 months, as business operations no longer require the use of an LC. The facility has therefore been reduced over the years from R900 million to R350 million and will continue to be utilised by the business interchangeably. In addition, an R806.7 million guarantee has been provided by CEF SOC Ltd to finance working capital for finished product, which will allow the business to utilise other funds for operational business activities and the finished product to operate independently. The execution of the guarante with CEF SOC Ltd will be concluded and finalised during the ensuing financial year.

PetroSA Ghana Limited (PGL) dividend income stream
In the intervening period, PetroSA will leverage a stream of PGL dividends, aimed at supporting PetroSA operations. To date, dividends amounting to R354.2 million have been repatriated by PGL to PetroSA, as stated in note 7 above. PetroSA has expectations of a future stream of dividends in the ensuing year based on revenues from PGL. In addition, an assessment made in respect of PGL by the Ghana Revenue Authority (GRA) has not been considered a threat to the income stream on this asset. This is supported by the reduction of the originally assessed tax computation based on supplementary evidence provided. The GRA is further reviewing additional information provided regarding this claim. At each year-end, independent verifications are conducted with respect to both tax computations and actual tax returns due, with the authorities utilising external service tax specialists. PetroSA has applied a conservative approach to managing the asset, including the tax required.

PetroSA Europe B.V.
PetroSA Europe B.V. has R62.8 million in reserves and cash. The funds in PetroSA Europe B.V. will be repatriated to PetroSA to fund liquidity. This will continue in respect of both medium- and long-term initiatives.

Rightsizing of the business
Upon approval of the Corporate Plan in September 2020, PetroSA will model the required staffing in line with the refinery, trading supply and logistics, and support services. CEF SOC Ltd has approved and made available funding to cover severance packages. The headcount reduction is targeted to be approximately 480, with the costs of severance packages funded by the Shareholder being approximately R118 million. The proposed headcount reduction will be subject to the section 189 process; hence these numbers may change as the engagement process unfolds.

Medium- to long-term initiatives

Cabinet approval of the merger
On 20 June 2020, Cabinet approved the planned appointment of a restructuring company to merge PetroSA, the Strategic Fuel Fund (SFF) and the South African Gas Development Company SOC Limited (iGas) into one National Petroleum Company. The merger will not affect the financial statements because:

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

Financing instruments

PetroSA Ghana securitisation
PetroSA will repay the Reserve-Based Lending Facility and use the PGL investment for securitisation. The finance raised will be utilised to fund capital and operational expenditures to support the Corporate Plan.

Approval of key interventions

Feedstock
PetroSA secured alternative, affordable feedstock from April 2020 as a result of SFF procurement of condensate on behalf of PetroSA (in large parcel sizes of 1 million barrels). This intervention will continue during the intervening period in order to support feedstock purchasing.

Capex deferment
PetroSA has deferred spending on non-essential capex until a long-term solution (enhanced condensate processing (ECP)/ liquefied natural gas (LNG)) has been selected. Cost-reduction measures will continue to be implemented in support of stringent cash flow management.

Increased refinery throughput
PetroSA will invest R65 million in interventions to increase refinery throughput from 18 kbpd to 21 kbpd and 25 kbpd, respectively, to support targeted production volumes.

Notes to the consolidated and separate annual financial statements (continued)

35. Going concern (continued)

ECP/LNG for the future

PetroSA will obtain and evaluate firm, binding offers regarding LNG as a sustainable feedstock solution for the Gas-to-Liquid (GTL) Refinery in order to enable a 3×3 operation by March 2021. Depending on LNG affordability, ECP front-end engineering and design (FEED) will be finalised in 2022.

Conclusion

Management acknowledges that material uncertainty remains regarding the Group's ability to continue to operate as a going concern. In considering the uncertainties described above and the approved interventions by the Shareholder, management is of the opinion that the Group has adequate resources to continue operations for the foreseeable future and therefore, continues to adopt the going concern basis of accounting to prepare the financial statements.

36. Subsequent events

The Ghana Revenue Authority (GRA) conducted an audit of PetroSA Ghana in respect of the 2014–2018 years of assessment and, on 9 May 2020, issued a draft audit assessment of R658.4 million in respect of corporate tax, withholding tax and branch profits tax. However, by engaging with the GRA, it appears that clarification of the tax treatment and calculations in the tax computations may lead to the withdrawal of the findings before the final audit assessment is issued. PetroSA Ghana utilises the services of an independent tax specialist for the technical review and in-country submission of its returns pertaining to corporate tax and withholding tax returns.

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

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

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

PetroSA Rehabilitation (NPC) has an investment with the Land and Agricultural Development Bank of South Africa (Land Bank). This investment will mature in September 2022. At the end of April 2020, Land Bank, citing liquidity constraints, defaulted on two of its Domestic Medium Term Note (DMTN) programmes, resulting in cross-defaults across other debt obligations. PetroSA Rehabilitation (NPC) does not hold any investments in the DMTN programmes. The Land Bank, in consultation with investors and National Treasury, is in the process of attempting to resolve the liquidity issues. The default does not have an immediate impact on PetroSA Rehabilitation (NPC), but the future impact will be assessed and adjustments made where necessary.

The Directors are not aware of any further matters or circumstances arising since the end of the financial year not otherwise dealt with in the financial statements which significantly affect the financial position of the Group or the results of the operations.

37. 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:

2020	Percentage Holding/Tracts	
	24% Block 2A	20% Block 5/6/7
Partners	Sunbird 76%	Anadarko 80%
Nature of project	Exploration	Exploration

2019	Percentage Holding/Tracts				
	24% Block 2A	35% Block 2C	50% Block 3A/4A	20% Block 5/6/7	40% Block 1
Partners	Sunbird 76%	Anadarko 65%	Sasol 50%	Anadarko 80%	Cairn 60%
Nature of project	Exploration	Exploration	Exploration	Exploration	Exploration

Fields in production and under development

1. Movement in net remaining proved and probable reserves

	2020	2020	2019	2019
	Crude oil/ condensate MMbbls	Gas Bscf	Crude oil/ condensate MMbbls	Gas Bscf
At beginning of the year	16.80	64.10	18.60	76.90
Revisions of previous estimates	(3.60)	(4.60)	0.30	8.60
Production	(2.20)	(27.10)	(2.10)	(22.20)
Additions	1.80	1.40	–	0.80
At end of the year	**12.80**	**33.80**	**16.80**	**64.10**

2. Proved and probable reserves by type of field

Fields in production	12.80	33.80	16.80	64.10

3. Reserves by category

Proved	6.50	14.90	9.50	40.30
Proved and probable	12.80	33.80	16.80	64.10

Oil
Fields in production and under development comprise the Jubilee (2.73%), Oribi (100%) and Oryx (100%) oil fields.

Gas
Fields in production and under development comprise the F-A and F-A Satellite, E-M and E-M Satellite, and FO gas fields.

Fields under appraisal comprise discoveries. The reserves shown are either all oil or all gas, excluding gas liquids. Oil includes condensate and LPG.

Reserves and production are shown on a working-interest basis (100%). Reserves were generated using a reservoir simulator that incorporated PetroSA's production philosophy. Oil and gas reserves cannot be measured exactly, since the estimation of reserves involves subjective judgement and arbitrary determinations, and therefore all estimations are subject to revision. The gas and oil reserves reflected above have been determined by independent reservoir engineers.

The supplementary information presented does not form part of the consolidated and separate annual financial statements and is unaudited.

Definition 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
The date on which the acquirer obtains control of the acquiree.

Active market
A market in which transactions relating to an 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 has actually occurred), as well as the effects of changes in actuarial assumptions.

Amortisation (depreciation)
The systematic allocation of the depreciable amount of an asset over its useful life.

Amortised cost
The amount at which a financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective-interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

Asset
A resource controlled by the entity as a result of a past event from which future economic benefits are expected to flow.

Assets under construction
A non-current asset which includes expenditure capitalised for work-in-progress in respect of activities to develop, expand or enhance items of property, plant and equipment, intangible assets and exploration assets.

Borrowing costs
Interest and other costs incurred in connection with the borrowing of funds.

Business
An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members or participants.

Business combination
A transaction or other event in which an acquirer obtains control of one or more businesses. Transactions sometimes referred to as "true mergers" or "mergers of equals" are also business combinations as that term is used in the IFRS.

Carrying amount
The amount at which an asset is recognised after deducting any accumulated depreciation or amortisation and accumulated impairment losses.

The supplementary information presented does not form part of the consolidated and separate annual financial statements and is unaudited.

Definition of financial terms (continued)

Cash and cash equivalents
Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

Cash flows
Inflows and outflows of cash and cash equivalents.

Cash-generating unit
The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Change in accounting estimate
An adjustment to the carrying amount of an asset, liability or the amount of the periodic consumption of an asset that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

Commencement of the lease term
The date on which a lessor makes an underlying asset available for use by a lessee.

Consolidated annual financial statements
The annual financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.

Constructive obligation
An obligation that derives from an entity's actions where:

(a) By an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
(b) As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Contingent asset
A possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non- occurrence of one or more uncertain future events not wholly within the control of the entity.

Contingent liability
A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

Contract
An agreement between two or more parties that creates enforceable rights and obligations.

Control
An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Corporate assets
Assets other than goodwill that contribute to the future cash flows of both the cash-generating unit under review and other cash-generating units.

Cost
The amount of cash or cash equivalents paid, or the fair value of the other consideration given, to acquire an asset at the time of its acquisition or construction, or, when applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other IFRS.

The supplementary information presented does not form part of the consolidated and separate annual financial statements and is unaudited.

Costs to sell
The incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expense.

Credit-impaired financial asset
A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- The significant financial difficulty of the issuer or the borrower;
- A breach of contract, such as a default or past due event;
- The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, has granted a concession(s) to the borrower that the lender(s) would not otherwise consider;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event. Instead, the combined effect of several events may have caused financial assets to become credit-impaired.

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.

Current
An entity shall classify an item as " current" when:

- It expects to realise/settle the item in its normal operating cycle;
- It holds the item primarily for the purpose of trading;
- It expects to realise/settle the item within 12 months after the reporting period;
- The asset is cash or a cash equivalent (as defined in IAS 7), unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

An entity shall classify all other assets as "non-current".

Customer
A party that has contracted with an entity to obtain goods or services, that are an output of the entity's ordinary activities, in exchange for consideration.

Date of transaction
The date on which the transaction first qualifies for recognition in accordance with IFRS.

Deferred tax assets
The amounts of income taxes recoverable in future periods in respect of deductible temporary differences, the carry forward of unused tax losses, and the carry forward of unused tax credits.

Deferred tax liabilities
The amounts of income taxes payable in future periods in respect of taxable temporary differences.

Defined-benefit plans
Retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' earnings and/or years of service.

Defined-contribution plan
Post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in current and prior periods.

Depreciation (or amortisation)
The systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount of an asset is the cost of an asset, or other amount substituted for cost, less its residual value.

Derecognition
The removal of a previously recognised asset or liability from the statement of financial position.

Definition of financial terms (continued)

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.

Economic life
Either the period over which an asset is expected to be economically usable by one or more users or the number of production or similar units expected to be obtained from an asset by one or more users.

Effective-interest rate 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 asset or financial liability to the gross carrying amount of the financial asset or to the amortised cost of a financial liability. When calculating the effective interest rate, an entity shall estimate the expected cash flows by considering all the contractual terms of the financial instrument but shall not consider the expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Employee benefits
All forms of consideration (excluding share options granted to employees) given in exchange for services rendered by employees or for the termination of employment.

Equity instrument
A contract or certificate that evidences a residual interest in the total assets after deducting the total liabilities.

Equity method
A method in which the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the share of net assets of the investee. Profit or loss includes the investor's share of the profit or loss and other comprehensive income of the investee.

Events after the reporting period (subsequent events)
Those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

(a) Those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and
(b) Those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

Exchange difference
The difference resulting from translating a given number of units of one currency into another currency at different exchange rates.

Expenses
The decreases in economic benefits in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

Fair value
The amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Fair value less costs to sell
The amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Financial asset
Any asset that is:

- Cash;
- An equity instrument of another entity;
- 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
- 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 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
- a contract that will or may be settled in the entity's own equity instruments and is (i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Also, for these purposes, the entity's own equity instruments do not include puttable financial instruments that are classified as equity instruments in accordance with paragraphs 16A and 16B of IAS 32, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 16C and 16D of IAS 32, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.

As an exception, an instrument that meets the definition of a financial liability is classified as an equity instrument if it has all the features and meets the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D of IAS 32.

Financial risk
The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided that, in the case of a non-financial variable, that the variable is not specific to a party to the contract.

Floating production storage and offloading (FPSO) unit
A floating vessel used by the offshore oil and gas industry for the production and processing of hydrocarbons and for the storage of oil.

Foreign operation
An entity that is a subsidiary, joint arrangement or branch of the reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

Functional currency
The currency of the primary economic environment in which the Group operates.

Definition of financial terms (continued)

Future economic benefits
The potential to contribute, directly or indirectly, to the inflow of cash and cash equivalents to the entity. The potential may be a productive one that is part of the operating activities of the entity. It may also take the form of convertibility into cash or cash equivalents or a capability to reduce cash outflows, such as when as alternative manufacturing process lowers the costs of production.

Going concern basis
The assumption that the entity will continue in operation for the foreseeable future. The financial statements are prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

Government grants
Assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed on them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.

Gross investment in the lease
The aggregate of:

- The minimum lease payments receivable by the lessor under a finance lease; and
- Any unguaranteed residual value accruing to the lessor.

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.

Impairment loss
The amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.

Impracticable
Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

Inception date of a lease
The earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease.

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.

Initial direct cost
Incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturer or dealer lessors.

Interest in other entity
For the purpose of IFRS 12, an interest in another entity refers to contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees. It includes the means by which an entity has control or joint control of, or significant influence over, another entity. An entity does not necessarily have an interest in another entity solely because of a typical customer–supplier relationship.

Interest rate implicit in the lease
The discount rate that, at the inception of the lease, causes the aggregate present value of (a) the minimum lease payments and (b) the unguaranteed residual value to be equal to the sum of (i) the fair value of the leased asset and (ii) any initial direct costs of the lessor.

Interest rate risk
The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Joint arrangement
An arrangement in terms 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.

Lease payments
Payments made by a lessee to a lessor relating to the right to use an underlying asset during the lease term, comprising the following:

- Fixed payments (including in-substance fixed payments), less any lease incentives;
- Variable lease payments that depend on an index or a rate;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payment of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

For the lessee, lease payments also include amounts expected to be payable by the lessee under residual-value guarantees. Lease payments do not include payments allocated to non-lease components of a contract, unless the lessee elects to combine non-lease components with a lease component and to account for them as a single lease component.

For the lessor, lease payments also include any residual-value guarantees provided 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. Lease payments do not include payments allocated to non-lease components.

Lease term
The non-cancellable period for which the lessee has contracted to lease the asset, together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Legal obligation
An obligation that derives from a contract, legislation or other operation of law.

Liability
A present obligation of the entity arising from a past event, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

Liquidity risk
The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

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.

Definition of financial terms (continued)

Material
Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

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.

Other comprehensive income
Comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss and includes the effect of translation of foreign operations, cash flow hedges, available-for-sale financial assets and changes in revaluation reserves.

Owner-occupied property
Property held by the owner or by the lessee under a finance lease for use in the production or supply of goods or services or for administrative purposes.

Parent
An entity that controls one or more entities.

Past service cost
The change in the present value of the defined-benefit obligation for employee service in prior periods resulting from a plan amendment (introduction or withdrawal of, or changes to, a defined-benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by the plan).

Performance obligation
A promise in a contract with a customer to transfer to the customer either:

- A good or service (or a bundle of goods or services) that is distinct; or
- A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Post-employment benefits
Employee benefits (other than termination benefits) that are payable after the completion of employment.

Presentation currency
The currency in which the annual financial statements are presented.

Prior-period error
An omission from or misstatement in the annual financial statements for one or more prior periods arising from a failure to use, or misuse 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 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.

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.

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); or
- The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Research

The original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

Reserves under appraisal

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

Residual value

The estimated amount which an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Restructuring

A programme that is planned and controlled by management, and materially changes either the scope of a business undertaken by an entity or the manner in which that business is conducted.

Definition of financial terms (continued)

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.

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